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Asian Corporate Governance Association (ACGA)

"Trends in Corporate Governance and Executive Remuneration Disclosure in Asia"

Presentation by
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Hewitt Seminar

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Agenda

1. A decade of CG reform in Asia: Convergence towards global standards
2. Reality check: "CG Watch 2007" country rankings & scores
3. Tomorrow's corporate governance issues
4. Executive & director remuneration disclosure

1. "Convergence" towards global standards

National codes of corporate governance

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	Japan (JCGF)* India (CII)*	Korea Thailand India	M'sia	JCGF (revised) Indonesia Singapore	China Phils Taiwan	Korea (revised)	HK (revised) (Japan)	India & Sing'pore (revised)	Indonesia & Thailand (revised)

Related guidelines (selected)

				China INEDs	Phils INEDs China banks			China banks (revised)	Indonesia banks

*Private-sector codes:
JCGF = Japan Corporate Governance Forum
CII = Confederation of Indian Industries

What global standards?

- Audit + other board committees
- Independent directors
- Quarterly reporting
- Faster reporting of annual and interim results
- Continuous disclosure of price-sensitive (material) information
- International accounting and auditing standards
- Focus on improving internal controls
- New shareholder rights (eg, AGM proposals)
- Disclosure of director pay

A barren landscape of best practices (1997)

Country/market	Was there an official code of best practice?	Did the idea of the "independent director" exist?	Did the idea of the audit c'tee exist?
China			
Hong Kong	Yes (but very short)	Yes	Yes
India			
Indonesia			
Japan			
Korea			
Malaysia		Yes	Yes
Philippines			
Singapore		Yes	Yes
Taiwan			
Thailand			

Source: ACGA research

A lush forest of rules & guidelines (2008)

Country	Date of main code(s)	Are independent directors required?	Are audit committees required?
China	2002/2005	Yes	Yes
Hong Kong	1993/2004	Yes	Yes
India	1999/2005/2007	Yes	Yes
Indonesia	2001/2006	Yes	Yes
Japan	(2003)/2004	Optional	Optional
Korea	1999/2003	Yes	Yes (large firms)
Malaysia	2001	Yes	Yes
Philippines	2002	Yes	Yes
Singapore	2001/2005	Yes	Yes
Taiwan	2002	Yes (certain firms)	Yes (certain firms)
Thailand	1999/2006	Yes	Yes

Source: ACGA research

2. "CG Watch 2007": Country rankings & scores

Market	2004[1]	2005[2]	2007[3]
1. Hong Kong	67	69	67 ↓
2. Singapore	75	70 ↓	65 ↓
3. India	62	61 ↓	56 ↓
4. Taiwan	55	52 ↓	54
5. Japan	-	-	51
=6. Korea	58	50 ↓	49 ↓
=6. Malaysia	60	56 ↓	49 ↓
8. Thailand	53	50 ↓	47 ↓
9. China	48	44 ↓	45
10. Philippines	50	48 ↓	41 ↓
11. Indonesia	40	37 ↓	37

1. Introduced a detailed survey and scoring methodology in 2004.
2. Made the methodology more regorous in 2005.
3. Enhanced the methodology further in 2007. (No survey in 2006.)

Source: "CG Watch", a joint report by ACGA and CLSA Asia-Pacific Markets

Why the lower scores?

1. Methodology has become more rigorous
2. "The more you look, the less you find"
3. Varying degrees of regulator, issuer and investor complacency in booming markets
   - "The job is done, we now just need to refine the rules"
4. Political paralysis (eg, Korea) or upheaval (eg, Thailand)
5. Accounting + auditing standards & practices lag international norms more than expected (in many markets)

Category scores

Market	CG Rules & Practices	Enforcement	Political/ Regulatory	IGAAP	CG Culture	TOTAL
1. Hong Kong	60	56	73	83	61	67
2. Singapore	70	50	65	88	53	65
3. India	59	38	58	75	50	56
4. Taiwan	49	47	60	70	46	54
5. Japan	43	46	52	72	49	52
=6. Korea	45	39	48	68	43	49
=6. Malaysia	44	35	56	78	33	49
8. Thailand	58	36	31	70	39	47
9. China	43	33	52	73	25	45
10. Philippines	39	19	38	75	36	41
11. Indonesia	39	22	35	65	25	37

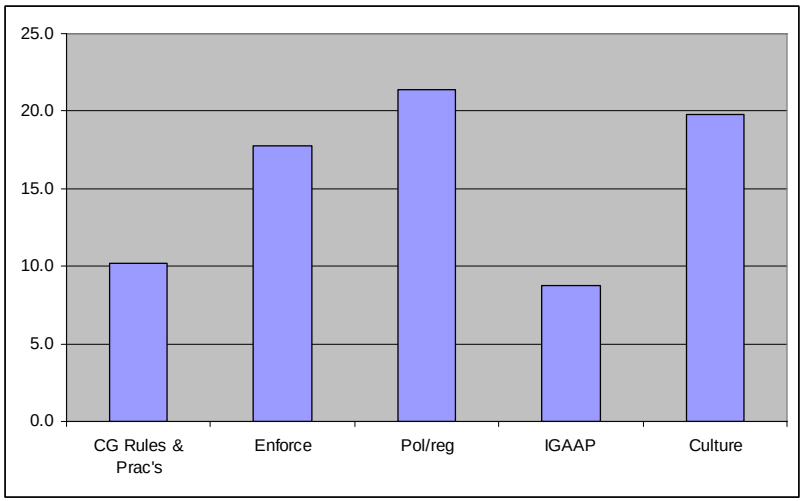
Source: "CG Watch 2007", ACGA & CLSA Asia-Pacific Markets

Figures in %

Hong Kong vs Singapore

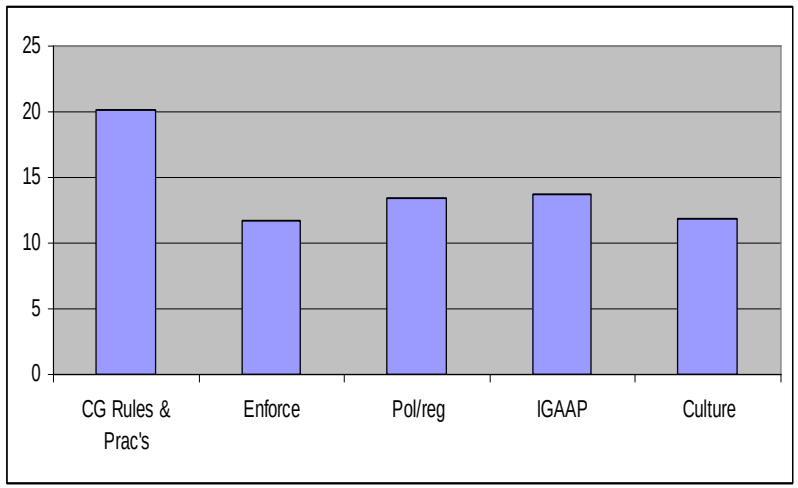
Deviation of CG category scores from regional average (%)

HONG KONG (67%)



- Weaker reporting rules than Singapore, but stronger shareholder rights.
- Stronger private enforcement, better disclosure of public enforcement.
- High media freedom and more robust CG culture.

SINGAPORE (65%)



- Stringent financial reporting regime, but companies and regulators less responsive on shareholder rights.
- Disclosure of public enforcement improving, but still quite limited.
- More robust than HK on regulation of auditing.

3. Tomorrow's corporate governance issues

- Improved financial reporting
- Strengthened shareholder rights
- More effective enforcement
- Better board practices
- Focus on ESG

Improved financial reporting

- What investors & regulators are looking for:
  - **Consolidation of accounts:** Korea, Taiwan (quarterlies)
  - **More detailed/quicker translation of reports**: Japan, Korea, Taiwan
  - **Faster reporting deadlines:** Hong Kong (moving from 120 days to 90 days for audited annuals)
  - **Quarterly reporting:** Hong Kong?
  - **Quick disclosure of stock-option grants**: Singapore recently tightened its listing rules. HK plans to do so.
  - **Continuous disclosure:** more regular disclosure sought of price-sensitive information.

Strengthened shareholder rights

- What investors are looking for:
  - **Proxy voting:** earlier release of final agendas/circulars; full voting by poll; publication of full voting results.
  - **Shareholder meetings:** easier access for fund managers to meetings in Singapore (the "two-proxy problem").
  - **Fairer "general mandates":** tighter rules on dilutive private placements sought in Hong Kong.
  - **Shareholder proposals:** some fund managers exploring the option of putting forward proposals to AGMs; this is possible, but subject to restrictions.
  - **Privatisations/delistings:** protections for minority shareholders are weak in much of Asia.

More effective enforcement

- What the market expects:
  - **Regulatory spine and focus:** a clear and consistent signal to the market on how they will enforce.
  - **Securities law:** a faster, fairer approach to dealing with insider trading and fraud. Cases drag on for years.
  - **Listing rules:** most exchanges have weak powers to enforce their own rules; investors want to see more rigorous efforts made.
  - **CG Codes:** these are rarely "enforced"; exchanges could be more active in promoting them (eg, in IPOs)
  - **Transparency:** regulators could be much more active in disclosing their enforcement actions and processes.

Better board practices

- What investors are looking for:
  - **Genuinely independent directors:** yes please!
  - **Independent chairman:** if possible, but hard to achieve given large family & state blockholders.
  - **Board composition:** should reflect the business needs of the company.
  - **Board structure/committees:** less box-ticking and more thought as to how board committees are structured and operated, and the types of committees formed.
  - **Audit committees:** could be greatly improved; Singapore's Audit Committee Guidance Committee formed in Jan 08.
  - **Director training:** a conundrum—if mandatory, often ineffective; if voluntary, limited take-up. Focus on pre-IPO.

Focus on ESG

- What global institutional investors are doing:
  - **Policy focus:** signing up to the UN Principles of Responsible Investment; some are writing internal guidelines on ESG criteria for investment and voting.
  - **IPO focus:** starting to ask questions about whether IPOs meet all requisite environmental and labour standards.
  - **Execution ability:** starting to look for fund managers who can invest along ESG lines.

Question: Should it be E, S + G? Or G, then E &S?

4. Executive remuneration disclosure

- Over the past decade, a trend in Asia towards greater disclosure of executive and director remuneration.
- A contentious subject: privacy vs transparency.
- Rules and practices still vary considerably by country.
  - Disclosure levels governed by both listing rules of stock exchanges and codes of best practice (which may be "complain or explain")

Regional comparison ("CG Watch 2007")

Market	Must companies disclose the exact remuneration of individual directors and senior executives (top 5) by name (or do they)?
China	Somewhat
Hong Kong	Yes
India	Yes
Indonesia	No
Japan	No
Korea	No
Malaysia	Marginally
Philippines	No
Singapore	Somewhat
Taiwan	No
Thailand	Somewhat

Bank of China (Hong Kong)

For the year 2007	Directors' fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contributions to pension schemes HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors					
He Guangbei	100	5,326	–	3,000	8,426
Lee Raymond Wing Hung	259	3,044	112	1,339	4,754
Gao Yingxin	100	2,278	–	1,120	3,498
	459	10,648	112	5,459	16,678
Non-executive Directors					
Xiao Gang	–	–	–	–	–
Sun Changji	300	–	–	–	300
Hua Qingshan	137	–	–	–	137
Li Zaohang	250	–	–	–	250
Zhou Zaiqun	300	–	–	–	300
Zhang Yanling	250	–	–	–	250
Fung Victor Kwok King*	300	–	–	–	300
Koh Beng Seng*	350	–	–	–	350
Shan Weijian*	350	–	–	–	350
Tung Chee Chen*	300	–	–	–	300
Tung Savio Wai-Hok*	350	–	–	–	350
Yang Linda Tsao*	400	–	–	–	400
	3,287	–	–	–	3,287
	3,746	10,648	112	5,459	19,965

Note: Disclosure governed by Par 24, Appendix 16, SEHK Listing Rules.

Ping An Insurance (A & H shares)

For the year ended December 31, (In RMB thousand)	2007					
	Fees before tax	Salaries, allowances and other benefits before tax	Bonus before tax (including annual bonus and first payment of the share appreciation rights granted at the first time)	Contributions to pension schemes	Total before tax	Total after tax
Current directors						
MA Mingzhe	–	4,819	41,320	22	46,161	25,794
CHEUNG Chi Yan Louis	–	10,005	37,698	1	47,704	26,648
SUN Jianyi	–	2,427	22,988	22	25,437	14,410

Note: Same data available in Chinese language version of Ping An's annual report (ie, for A-share holders), though rules in China are less stringent.

DBS Bank (Singapore)

BREAKDOWN OF DBSH DIRECTORS' REMUNERATION FOR PERFORMANCE YEAR 2007[1]
(1 JAN 2007 – 31 DEC 2007)

Name of Director	Salary Remuneration %	Cash Bonus[2] %	Share Plan[3] %	Directors' Fees %	Others %	Total Remuneration %
$7,000,000 – $7,249,999						
Jackson Tai (resigned 31 Dec 2007)[5]	27	68	-	1[4]	4	100
Frank Wong Kwong Shing	16	36	43	1[4]	4	100
$1,000,000 – $1,249,999						
Koh Boon Hwee[6]	-	41	41	17	1	100
Below $250,000						
Ang Kong Hua	-	-	-	100	-	100
Andrew Buxton	-	-	-	100	-	100
Goh Geok Ling	-	-	-	100	-	100
Kwa Chong Seng	-	-	-	100	-	100
Leung Chun Ying	-	-	-	100	-	100
Narayana Murthy	-	-	-	100	-	100
Peter Ong Boon Kwee	-	-	-	100	-	100
John Alan Ross	-	-	-	100	-	100
Wong Ngit Liong	-	-	-	100	-	100

DBS director fees

Annual fees for the Board

	Current	New
Board Chairman:	$105,000	$115,000
Director:	$70,000	$80,000

Additional fees for membership in board committees

Committee	Chairman (Current)	Chairman (New)	Committee Member (Current)	Committee Member (New)
Audit Committee				
Board Risk Management Committee	$50,000	No change	$35,000	No change
Board Credit Committee	$35,000	No change	$20,000	No change
Board Strategy and Planning Committee	$35,000	No change	$20,000	No change
Compensation and Management Development Committee	$35,000	No change	$20,000	No change
Nominating Committee	$17,500	$35,000	$10,000	$20,000

Is too much disclosure a bad thing?

- Agree:

  "Although the Code recommends that at least the top five key executives' remuneration be disclosed within bands of $250,000, the Board believes such disclosure would be disadvantageous to the Group's business interests, given the highly competitive conditions in the banking industry where poaching of executives is commonplace." (DBS Bank, Annual Report, 2007)

- Disagree:

  Headhunters already have detailed data on executive pay. Poaching and job hopping were around before disclosure of pay became a corporate governance issue. If poaching has become worse, are other economic and cultural factors at play?

  (Note: Bank of China (HK) does not provide full disclosure on the pay of its top five executives—only on two of them. The HK Code only makes such disclosure a "recommended best practice".)

Other trends

- Rising fees for independent and non-executive directors, especially among larger issuers
  - The workload and responsibilities of directors have increased exponentially, hence incentives needed to attract high-quality people.
- Greater use of share-option schemes and other share-based payments
- Expensing of share-based payments now required in most Asian markets
- Remuneration committees being established by larger issuers (even though not mandatory)

Voting against ESOPs

Singapore Airlines AGM, July 29, 2008:

Results of proxy votes received before the meeting

Resolution No.	For	Against	At Proxies' Discretion	Abstain
AGM Resolution 7 Approval of Directors' Fees for the financial year ending 31 March 2009	217,093,426	619,160	9,663,700	0
AGM Resolution 8 Re-appointment of Auditors	202,856,962	799,325	9,663,700	0
AGM Resolution 9.1 Authority for Directors to issue shares and instruments convertible into shares pursuant to Section 161 of the Companies Act , Cap 50	180,464,754	23,287,333	9,667,900	0
AGM Resolution 9.2 Authority for Directors to offer and grant options and/or grant awards, and to allot and issue shares, pursuant to the SIA ESOP, the SIA PSP and the SIA RSP	79,838,096	123,908,821	9,667,900	0

Conclusion

- Considerable growth in rules and guidelines on corporate governance in Asia, with a convergence towards global standards. Yet rules and practices still vary greatly.
- A growing focus on shareholder rights and stakeholder issues, with increased voting by institutional investors.
- Much greater disclosure of executive and director remuneration required, with some controls being put in place. Yet disquiet remains about the stock-option policies of some issuers. This could become a bigger issue in future.

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