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# Asian Corporate Governance Association (ACGA)

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## “The Corporate Governance Landscape in Asia”

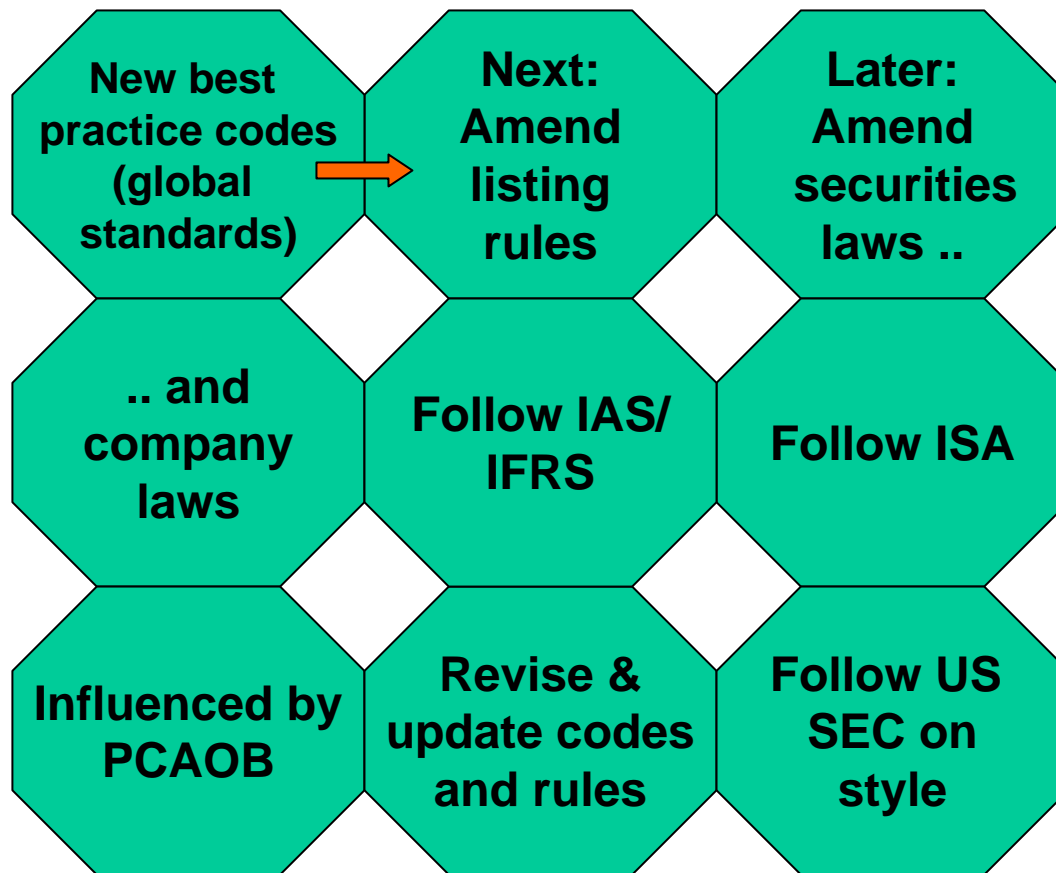
Presentation by  
Jamie Allen, Secretary General, ACGA  
at the  
SPARX Value Creation Roundtable 2005  
Tokyo, December 1, 2005

# Agenda

1. The view from above
  - A convergence of laws and standards
2. The view from the ground
  - Country ratings
  - Disparate standards
3. Hills to climb
  - Priority issues for regulators, investors and companies

# 1. The view from above

## Convergence in Asian CG reform since 1998-99



# New codes: A timeline of implementation

## National codes

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

## Related guidelines (selected)

China  
INEDs

Phil  
INEDs

India  
IPOs

China  
bank  
boards

China  
bank  
boards  
(revised)

\*Private-sector codes:

JCGF = Japan Corporate Governance Forum

CII = Confederation of Indian Industries

# Matching rules and regulations

Question	CHINA	HK	INDIA	INDON	KOREA	MALAY	PHIL	SING	TAI	THAI
Is quarterly reporting mandatory?	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Are audit committees mandatory?	Yes	Yes	Yes	Yes	Some	Yes	Yes	Yes	No	Yes
Must ownership stakes above 5% be disclosed?	Yes	Yes	Yes	Some	Yes	Yes	Yes	Yes	Some	Yes
Detailed disclosure of material transactions?	Some	Yes	Yes	Some	Yes	Yes	Yes	Yes	Yes	Yes
Is the national code of CG based largely on international standards?	Yes	Yes	Yes	Some	Yes	Yes	Yes	Yes	Yes	Yes
Is there a national policy to converge with IAS/IFRS?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Some = Somewhat

## 2. The view from the ground

- A definite—although uneven—improvement over the past eight years.
- Greatest improvements among large-cap stocks that are operating internationally, plus some open-minded mid-caps and firms with active private-equity owners.
- Wide range in governance quality among listed companies, even within top 20-40 (by market cap).
- Wide range in corporate governance quality at the country level.

# Country ratings (%): “CG Watch”

Country <sup>1</sup>	2000	2001	2002	2003 <sup>2</sup>	2004 <sup>3</sup>	2005 <sup>4</sup>
Singapore	75	74	74	77	75 ↓	70 ↓
Hong Kong	71	68	72	73	67 ↓	69
India	56	54	59	66	62 ↓	61 ↓
Malaysia	32	37	47	55	60	56 ↓
Taiwan	57	53	58	58	55	52 ↓
Korea	52	38	47	55	58	50 ↓
Thailand	28	37	38	46	53	50 ↓
Philippines	29	33	36	37	50	48 ↓
China	36	34	39	43	48	44 ↓
Indonesia	29	32	29	32	40	37 ↓

1. Ranked in descending order according to 2005 score.
2. First year in which ACGA collaborated with CLSA.
3. Introduced more rigorous scoring methodology in 2004.
4. Enhanced methodology further in 2005.

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

# Why country ratings are lower this year

- Country ratings are trending downwards in 2005 not because of any decline in their corporate governance standards or less effort on the part of regulators.
- Rather, it is a result a more rigorous survey methodology, which has brought to light:
  - Weaknesses in the detail of laws and regulations.
  - Poor implementation of key corporate governance regulations (eg, audit committees).
  - Poor regulatory track record against insider trading and market manipulation.
  - Gap between national accounting and auditing policies and practices.
  - Major CG best practices not gaining traction among listed companies.



# CG Watch 2005: Category scores

(2004 scores in brackets)

Country	CG Rules <sup>1</sup>	Enforcement <sup>2</sup>	Political/ Regulatory	IGAAP <sup>3</sup>	CG Culture
Singapore	74 (79)	56 (65) ↓	73 (81) ↓	95 (95)	57 (58)
Hong Kong	64 (66)	58 (58)	78 (75)	91 (90)	54 (46)
India	66 (66)	56 (58)	65 (63)	75 (75)	43 (50) ↓
Malaysia	59 (71) ↓	49 (50)	60 (50)	75 (90) ↓	38 (46) ↓
Taiwan	53 (63) ↓	49 (46)	65 (63)	59 (70) ↓	33 (35)
Korea	51 (61) ↓	40 (50) ↓	43 (50) ↓	82 (80)	39 (50) ↓
Thailand	58 (61)	40 (38)	50 (50)	73 (85) ↓	35 (35)
Philippines	53 (58)	22 (31) ↓	50 (50)	82 (85)	31 (31)
China	43 (53) ↓	40 (42)	50 (50)	68 (75) ↓	22 (23)
Indonesia	33 (53) ↓	29 (27)	30 (38) ↓	68 (60)	28 (27)

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1. Rules and their implementation by companies.
2. Regulatory and “private” enforcement by the market.
3. International accounting and auditing standards

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# Disparate standards

Question	CHINA	HK	INDIA	INDO	KOREA	MALAY	PHIL	SING	TAI	THAI
Do companies report annual results in 60 days?	Marg	Marg	Yes	Some	Marg	Some	No	Yes	Marg	Yes
Quarterly reporting: mandatory and adequate?	Some	No	Some	Yes	Some	Yes	Some	Yes	Some	Yes
Audit committees: mandatory and implemented?	Some	Yes	Yes	Some	Some	Yes	Yes	Yes	Marg	Yes
Are audit c'tees functioning independently?	No	Some	Some	Marg	Marg	Some	No	Some	Marg	Marg
Do companies release detailed AGM notices at least 28 days before?	Some	Some	Some	Some	Marg	Some	Yes	Some	Yes	Marg

Some = Somewhat  
Marg = Marginally

### 3. Hills to climb—priority issues

- For regulators:
  - Enhanced enforcement against insider trading, market manipulation and fraud; quicker enforcement; managing cross-border issues (eg, PRC companies listed outside China); facilitating “market discipline”; improved IPOs; greater disclosure.
- For institutional investors:
  - Implementation and strengthening of basic shareholder rights (eg, pre-emption rights, meeting attendance, proxy voting); being seen as fiduciaries; pension fund governance.
- For listed companies:
  - Getting the basics right—effectiveness of the board, internal checks and balances, efficient information systems (rather than bells and whistles + PR). A more sophisticated understanding of investor rights and needs (especially re voting and meetings).

# Regulators: Facilitating “market discipline”

- Asian regulators are gradually starting to tackle the areas of reform that will allow minority shareholders to exercise their rights more fully:
  - Legal-system reform
  - Fairer and more open shareholder meetings: the right to ask questions & receive adequate information
  - Removal of roadblocks to efficient proxy voting
  - Voting by poll
  - Electronic voting

# Investors: Proxy voting problems in Asia

1. Late notification of AGMs and other meetings
2. Insufficient information on agenda items (making an informed vote impossible)
3. Meeting notices and agenda not translated quickly
4. "Vote netting"
5. Voting by hand, rather than by poll
6. "Split voting" not permitted
7. Meeting dates clustered or overlapping
8. (A related problem) Limited number of proxy cards provided to "legal owners" of shares in Singapore

# Companies: Getting the basics right

- Boards of directors: Is your board cohesive, efficient and effective?
  - Do you have the right combination of skills for the needs of the company?
  - Is the board being refreshed in line with your changing business?
  - Do you invest in director selection? In director training?
  - Do your directors have sufficient information to make informed decisions?
  - Are your board meetings active and vigorous?
  - Did you form board committees for a specific reason?
  - Do you know why you are paying your directors XXX\$ per year?

# Conclusion: Lessons learned

- Regulatory reform:
  - Changing rules has only a limited effect (“form over substance”). Enforcement is critical. But enforcement or implementation of weak rules can be counter-productive. Hence, designing sensible rules has to be step one (eg, definitions of “independent director”).
- Market involvement:
  - A wide range of legal, procedural and sometimes political obstacles to market engagement.
  - Considerable conflicts of interest within financial institutions.
- Corporate implementation of best practices:
  - Sound “form” reinforces and engenders substance. Not “form vs substance”. Rather “form and substance”.
  - Companies will improve their governance if there are clear incentives from the market.
  - Governance in Asia can be world-class.

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