Asian Corporate Governance Association (ACGA)

"Indonesia's Corporate Governance Standing"

Presentation by
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Agenda

Focus on corporate governance:

1. Elements of sound corporate governance
2. Rating corporate governance in Asia
3. Assessment of Indonesia
4. Recent developments
5. Some recommendations

Introducing ACGA

- The Asian Corporate Governance Association (ACGA) was formed in 1999 following the Asian Financial Crisis. Our goal is to help promote the implementation of effective corporate governance in Asia. Our scope of work covers research, advocacy and educational events in 11 Asian countries. We work with regulators, companies and investors.

- ACGA is incorporated in Hong Kong as a non-profit limited liability company. It is an independent association funded by a membership base of 85 mostly private-sector corporations, including financial institutions, listed & unlisted companies, law and accounting firms, and tertiary institutions based in Asia and around the world. Assets under management of our institutional investor members is US$10 trillion.

1. Elements of sound corporate governance

Classical criteria (in Asia circa early 2000s):

- A culture of integrity and ethical practices
- Transparent financial reporting
- A balanced board with independent directors
- Board committees for audit, nomination, and remuneration
- Adoption of international accounting standards
- A clean audit
- Fair treatment of shareholders
- (Variable) Awareness of stakeholder issues and "corporate social responsibility" (CSR)

Expectations and needs evolve

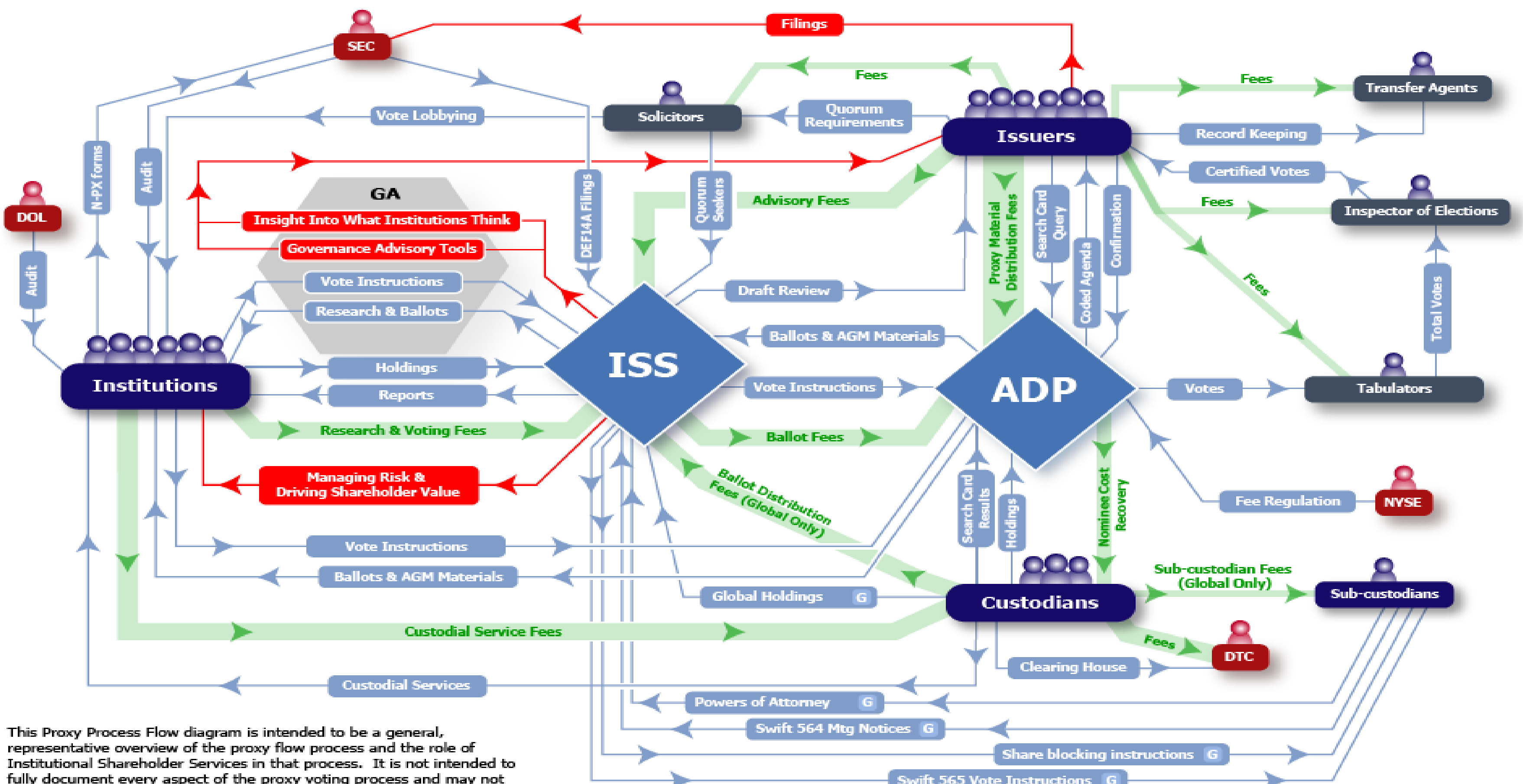
New and additional criteria (in recent years):

- Faster, more frequent financial reporting
- Greater emphasis on "non-financial reporting"
- Independent directors with business nous and understanding of minority shareholders
- More specific focus on shareholder rights, especially regarding: shareholder meetings and proxy voting; pre-emption rights; takeovers; voluntary delistings; cross-shareholdings; related-party transactions; etc
- Deeper focus on stakeholder issues ("ESG")

Theme

- Corporate governance reform continues to be a dynamic process, not yet complete.
- Standards steadily evolving in response to changing: global economic pressures and opportunities, market news and scandals, investor behaviour and expectations, and political pressure on regulators.
  - A function of complex economic and regulatory structures
- Listed companies find this frustrating, yet all aspects of business are dynamic. Corporate governance is no different.

Complexity: The Global Proxy Voting Process



This Proxy Process Flow diagram is intended to be a general, representative overview of the proxy flow process and the role of Institutional Shareholder Services in that process. It is not intended to fully document every aspect of the proxy voting process and may not be representative of the process in every market or jurisdiction or for every situation.

Source: International Shareholders Services Inc. 2006 (courtesy of PGGM)

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2. Rating corporate governance in Asia: "CG Watch"

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 scores in “CG Watch 2007” were lower

- Methodology became more rigorous
- “The more we looked, the less we found”
- Varying degrees of regulator, issuer and investor complacency in booming markets
  - “The job is done, we now just need to refine the rules”
- Political paralysis (eg, Korea) or upheaval (eg, Thailand)
- Accounting + auditing standards & practices lagged international norms more than expected (in many markets)

“CG Watch 2007” 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 %

3. Assessment of Indonesia (in 2007)

- No shortage of rules and codes, but many standards were not comparable to regional or global norms
- Regulatory enforcement seen as weak; limited private enforcement by investors
- Political and regulatory institutions less robust than other countries; corruption a big issue
- Accounting/auditing standards closer to international norms
- Culture of governance within listed companies also seen as weak (some blue chips excepted)

Rules and standards

- Where Indonesia scored relatively well:
  - Speed of releasing audited annual accounts (3 months)
  - Mandatory quarterly reporting
  - Content of code of corporate governance (ie, key principles addressed)
  - Strict controls on pre-emption rights and private placements

Rules and standards

- Where Indonesia scored less well:
  - Overall quality of financial and non-financial reporting
  - Speed of disclosure of substantial ownership stakes (5%)
  - Speed of disclosure of director and commissioner share dealings
  - Effectiveness of controls on insider trading
  - Disclosure of detailed agendas for AGMs and method of vote counting
  - Disclosure of executive compensation

4. Recent developments

- Note: ACGA is now working on “CG Watch 2010”
- On the positive side of the ledger:
  - Bapepam has improved rules relating to internal audit in listed companies, and conflicts of interest in related-party transactions.
  - Bapepam has sought to enhance its enforcement capabilities.
  - Governance institutions seem more open in recent years to discussing corporate governance and changing perceptions of Indonesia’s standing.
  - Continued training of directors and commissioners.

Recent developments

- On the negative side of the ledger:
  - Revised takeover rule (June 2008): caused consternation among global investors; little apparent consultation by Bapepam.
  - New rules on share buybacks in a "market crisis": overriding of shareholder rights without apparent consultation
  - Bumi Resources: announced three questionable acquisitions in one week in January 2009. Investors concerned about price, rationale and ownership issues.
  - Reduced powers for KPK and suspension of deputies
  - Resignation of Sri Mulyani Indrawati

5. Recommendations

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