

CORPORATE GOVERNANCE IN

Asia

Asian Roundtable on Corporate Governance



“As the Chair of the OECD Corporate Governance Committee for a decade, I have been impressed with how the Asian Roundtable on Corporate Governance has been and continues to be at the forefront to improve corporate governance standards and practices in Asia, contributing to a broader dialogue on corporate governance also in the OECD. The discussions and experiences from the Asian Roundtable are not only influential in supporting reform initiatives in Asia but also contribute to raising corporate governance standards globally. Asian Roundtable consultations in February 2014 on the review of the OECD Principles of Corporate Governance were amongst the first contributions to the Committee’s discussions on the review. This would not have been possible without the long-standing financial support of the Government of Japan, for which we are grateful.”

Marcello Bianchi,
Chair, OECD Corporate Governance Committee,
Head, Corporate Governance Department of CONSOB,
(the Italian Securities and Exchange Commission)

The Asian Roundtable on Corporate Governance harnesses Asia's diversity to develop common priorities and co-ordinated approaches while respecting the specific conditions of each jurisdiction.

An evolving landscape

The 1997 Asian Financial Crisis was a wake-up call for Asian policy makers and companies. The crisis exposed many institutional and policy weaknesses in the region and spurred multiple reforms. To support this drive to improve corporate governance rules and practices, the Asian economies, along with the OECD, established the Asian Roundtable on Corporate Governance in 1999.

Since then, corporate governance has come a long way in the region. A wide range of laws and regulations have been enacted, standards developed and enforcement strengthened. A corporate governance infrastructure has been built, something that did not exist before the crisis. This infrastructure includes corporate governance committees, institutes of directors and many other institutions.

Important changes have also recently taken place in the organisation and corporate governance of SOEs in some Asian countries. These changes have been concentrated mainly in the areas of the ownership function and the legal and regulatory framework for SOEs.

Awareness of the OECD Principles of Corporate Governance is now high in the Asian region. In fact, all Asian economies are using the OECD Principles of Corporate Governance and outputs of the Asian Roundtable as references in the development of their regulations, corporate governance codes, listing rules, scorecards, as well as academic work. Notably, the ASEAN Corporate Governance Scorecard uses the OECD Principles of Corporate Governance as one of the main benchmarks to assess listed companies in Indonesia, Malaysia, Singapore, the Philippines, Thailand and Viet Nam.

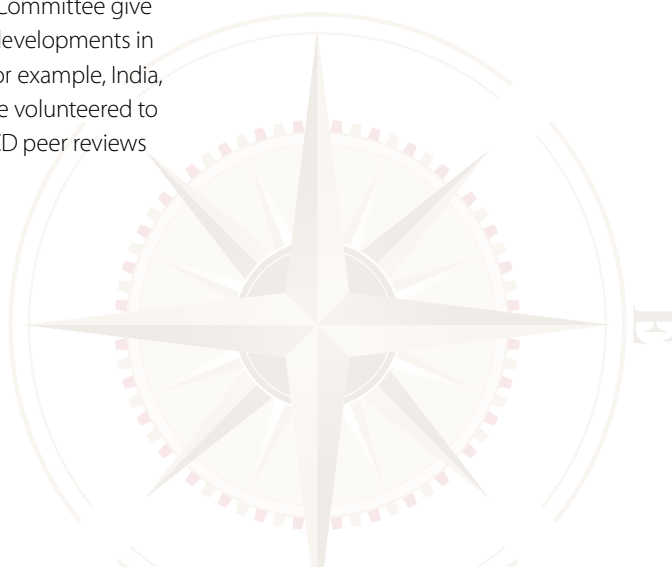
Importantly, the commitment by Asian jurisdictions to improve corporate governance across the region is even greater. With the integration of ASEAN capital markets and the linking of its stock exchanges by 2015, raising the visibility of good corporate governance practices is a high priority.

This commitment to excellence in corporate governance matters not only in Asia. The growing economic influence of the region and the important role played by China, India, and Indonesia in the G20, the Financial Stability Board and the OECD Corporate Governance Committee give corporate governance developments in Asia global relevance. For example, India, Indonesia and Singapore volunteered to participate in some OECD peer reviews of the Principles.

Looking to the future, Asian Roundtable participants are mapping out an ambitious agenda for the years to come as embodied in the 2011 *Reform Priorities in Asia - Taking Corporate Governance to a Higher Level*. The 2008 worldwide financial crisis reminded Asia and the world of the critical importance of strong corporate governance to underpin sound economic growth and value creation.

Achievements in Asia over the last 15 years include:

- The emergence of a corporate governance infrastructure
- More widespread implementation of the global standards embodied by the OECD Principles of Corporate Governance
- A high level of awareness and use of the OECD Principles as a best practice benchmark



“It is heartening to note that awareness of the OECD Principles of Corporate Governance is now very high in the Asian region.”

Shri Prashant Saran, Whole Time Member, Securities and Exchange Board of India (2014)



Benchmarking progress and measuring change

Awareness of the OECD Principles of Corporate Governance is exceptionally high in the Asian region. All Asian economies are using the OECD Principles of Corporate Governance and outputs of the Asian Roundtable as a reference in the development of their regulations, corporate governance codes, listing rules, scorecards, as well as academic work.

Country assessments using the OECD Principles

Twelve of the Asian Roundtable economies have been formally assessed using the OECD Principles, either in a World Bank ROSC, an IMF Financial System Stability Assessment (FSAP) or a self-assessment. These reports provide a useful overview and benchmark for prioritising reforms.

Scorecards can be an incentive for good corporate governance

Another unique feature of the Roundtable economies is the widespread use of scorecards which in most cases explicitly use the OECD Principles as a benchmark. While the measurement of corporate governance practices is a tricky issue and the underlying methodology has to be regularly scrutinised, scorecards can still be useful tools to raise awareness of corporate governance issues and influence incentive structures for companies. Generally, these scorecards have been developed by corporate governance institutes and universities.

In 2013, the first ASEAN Corporate Governance Scorecard was published, unifying some of the previously separate national scorecards. The Scorecard is part of a broader agenda for ASEAN regional capital market integration under the ASEAN Capital Markets Forum (ACMF).

The ASEAN Corporate Governance Scorecard

The inaugural 2013 Scorecard evaluated the top 100 listed companies in Malaysia, Philippines, Indonesia, Thailand, and Singapore and 39 companies in Viet Nam. The OECD Principles of Corporate Governance were used as the main benchmark for developing the standardised ASEAN Corporate Governance Scorecard, with the OECD - in co-operation with the ADB - participating in developing the methodology.

Country assessments using the OECD Principles

Bangladesh, 2009
China, 2010
Hong Kong, China, 2003
India, 2004
Indonesia, 2004 and 2010
Korea, 2003
Malaysia, 2001, 2005 and 2012
Pakistan, 2005
Philippines, 2006
Thailand, 2005 and 2013
Viet Nam, 2006

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Scorecards

Scorecards may assist boards, investors, financial analysts, regulators, and other stakeholders to systematically assess the level of corporate governance that individual companies have achieved. If desired, these scores can be used to generate a ranking or grade of categories that highlight the relative position of a company.

The Scorecard is conceived as a diagnostic tool of ASEAN publicly listed companies with the evaluation conducted in each country individually. The companies are not ranked and their score not disclosed but the average country score is published together with the 100 top performing companies in alphabetical order.

Hong Kong, China

The Hong Kong, China Corporate Governance Scorecard Project sponsored by the Hong Kong Institute of Directors has been conducted in 2004, 2006 and 2009 and 2012. In the latest version, 121 companies are evaluated based on publicly available information. The scorecard follows the original five OECD principles (rights of shareholders, equitable treatment, role of stakeholders, disclosure, and boards) with a total of 133 questions and sub-questions.

Malaysia

A predecessor to the ASEAN Scorecard, the Malaysian Corporate Governance Index was conducted and issued by the Minority Shareholders Watchdog Group from 2009 to 2011. The Index ranked companies in Malaysia based on the Code on Corporate Governance and Listing Requirements. Overall grades from A+ to C were given, as well as awards in different categories such as Best Transparency and Most Diverse Board.

Philippines

The Corporate Governance Scorecard for Publicly-Listed Companies (CGS) was the Philippine predecessor to the ASEAN Scorecard and had been conducted annually from 2005 to 2012 by the Institute of Corporate Directors (ICD). When the ICD conducted its most recent CGS in 2012, the overall governance score for PLCs had risen to 76% from 52% in 2005. In addition, the Philippine Stock Exchange launched its own annual PSE Bell Awards for Corporate Governance for both listed companies and broker/dealers in 2012.

The awards criteria for the listed companies are based on the PSE's Corporate Governance Guidelines, a corporate governance code and scorecard for listed companies issued by the Exchange in 2010 which incorporate the OECD Principles.

Thailand

The Corporate Governance Report of Thai Listed Companies (CGR) has been produced since 2003 by the Thai Institute of Directors (IOD). The 2012 CGR contains 513 sample companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment. The Thai CGR will continue to be published in parallel to the ASEAN Scorecard and the 2014 CGR will have updated assessment criteria consistent with the governance assessment based on the ASEAN Scorecard.

Viet Nam

The original 2009 Corporate Governance Scorecard for Viet Nam, the national predecessor to the ASEAN Scorecard, was the result of co-operation between the IFC and the State Securities Commission of Viet Nam, with support from the Global Corporate Governance Forum. This scorecard is a review of the corporate governance practices of the 100 largest companies listed on the Hanoi and Ho Chi Minh City stock exchanges.

Roundtable events by year

- 2014** Annual Roundtable meeting, Mumbai, India
Institutional Investors in India, Mumbai, India
- 2013** Annual Roundtable meeting, Kuala Lumpur, Malaysia
Asian Roundtable Task Force on Enforcement, Kuala Lumpur, Malaysia
International Corporate Governance Seminar, Kuala Lumpur, Malaysia
- 2012** Annual Roundtable meeting, Tokyo, Japan
Asian Roundtable Task Force on Enforcement, Tokyo, Japan
- 2011** Annual Roundtable meeting, Bali, Indonesia
- 2010** Annual Roundtable meeting, Shanghai, China
Fighting Abusive Related Party Transactions: Workshop on Implementation, Delhi, India
Working Group meeting of the Asian Roundtable on Corporate Governance, Kuala Lumpur, Malaysia
- 2009** Annual Roundtable meeting, Manila, Philippines
Asian Roundtable Task Force on Related Party Transactions, Manila, Philippines
- 2008** Annual Roundtable meeting, Hong Kong, China
- 2007** Annual Roundtable meeting, Singapore
- 2006** Annual Roundtable meeting, Bangkok, Thailand
Seminar on Corporate Governance Developments in Thailand, Bangkok, Thailand
Dialogue on Corporate Governance in India
OECD, FSI, BIS Seminar on Corporate Governance for Banks in Asia, Hong Kong, China
- 2005** Annual Roundtable meeting, Bali, Indonesia
Seminar on Corporate Governance Developments in Indonesia, Bali, Indonesia
- 2004** Annual Roundtable meeting, Seoul, Korea
Consultative Meeting on Corporate Governance in Viet Nam, Hanoi, Viet Nam
- 2003** Annual Roundtable meeting, Kuala Lumpur, Malaysia
Official Presentation of the White Paper on Corporate Governance in Asia, Kuala Lumpur, Malaysia
- 2002** Annual Roundtable meeting, Mumbai, India
- 2001** Annual Roundtable meeting, Singapore



“The Philippine Stock Exchange recognises corporate governance as an essential prerequisite for a fair, efficient and stable equities market. We acknowledge the role of the OECD in furthering corporate governance as a means to achieving economic growth and development in the region. We look forward to continuing to participate in the Asian Roundtable on Corporate Governance in the next critical activities of the OECD and doing our share in helping develop corporate governance standards that are more responsive to the unique circumstances in Asia, especially as ASEAN prepares for economic integration in 2015.”

Hans B. Sicat, President & CEO, The Philippine Stock Exchange, Inc. (2014)

The Asian Roundtable on Corporate Governance: A forum for regional dialogue and co-operation

Since 1999, the Roundtable has brought together the most active and influential policy makers, practitioners and experts on corporate governance in the region, as well as from OECD countries and relevant international institutions. Participants exchange experiences and push forward the reform agenda on corporate governance while promoting awareness and use of the OECD Principles of Corporate Governance as well as the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

In addition to being a valuable venue for building networks and knowledge-sharing, the Roundtable produces policy reports and guides on a consensus basis. The Roundtable's *White Paper on Corporate Governance in Asia*, released in 2003, was an ambitious undertaking for a region as diverse as Asia. It was a collective effort by Asian policy makers, regulators, and regional and international experts to reach agreement on a roadmap for improving Asia's corporate governance. Based on the OECD Principles of Corporate Governance, the White Paper adapted implementation to the specific conditions of Asia. The White Paper has since been updated with the 2011 publication *Reform Priorities in Asia: Taking Corporate Governance to a Higher Level*, endorsed on a consensus basis.

The Roundtable holds its annual meetings in a different jurisdiction each year, co-hosted and financed by local institutions, as well as more targeted events on specific topics. To date, these events have covered the governance of banks; fighting abusive related party transactions; board nomination and election; the enforcement challenge; and, governance in specific Asian economies.

The Roundtable is supported by the OECD, with generous financial support from the Japanese government. The Asian Development Bank also provides financial assistance.

Task forces and networks

The Roundtable sets up dedicated task forces to examine specific topics in depth. Results are presented to the Roundtable for discussion and agreement by consensus before the reports are released. Reports published to date include the 2006 *Policy Brief on Corporate Governance of Banks in Asia*, the 2009 *Guide on Fighting Abusive Related Party Transactions in Asia*, the 2013 report *Better Policies for Board Nomination and Election in Asia* and the forthcoming 2014 guide *Strengthening Corporate Governance through Effective Public Enforcement in Asia*.

The OECD-Asia Network on Corporate Governance of State-Owned Enterprises was established in 2006 under the auspices of the Roundtable. The Network raised awareness and promoted SOE governance improvements in Asian economies through the OECD Guidelines on Corporate Governance of State-Owned Enterprises. In 2010, the Network published a *Policy Brief on Corporate Governance of State-Owned Enterprises in Asia*. Since 2013, the Roundtable integrated some SOE issues, such as the listing of SOEs and impact on performance.

The Asian Roundtable supports decision-makers in their efforts to improve corporate governance by:

- conducting informal reviews of corporate governance policy frameworks and practices in jurisdictions, benefitting from international experience
- raising awareness of major developments and challenges
- evaluating implementation and enforcement
- discussing and analysing policy options to support viable and effective corporate governance reforms

“As globalisation advances, it is essential that the OECD strengthens its ties with non-member countries and involves them in global standard-setting. I believe that the Asian Roundtable on Corporate Governance is a good example. Asian Roundtable participants from a diverse group of Asian countries and OECD members share their knowledge and experiences through their discussions, with regard to corporate governance rules and practices. So far, these discussions have made a great contribution to improving the OECD Principles of Corporate Governance, one of the key international standards for sound financial systems.”

Mr. Kazuo Kodama, Ambassador Extraordinary and Plenipotentiary, The Delegation of Japan to the OECD (2014)



The Asian Roundtable and the OECD Principles of Corporate Governance

Since they were issued in 1999, the OECD Principles of Corporate Governance have become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They are recognised by the Financial Stability Board (FSB) as one of the key standards for international financial stability and form the basis for the corporate governance component of the World Bank Report on the Observance of Standards and Codes.

The Principles are organised into six broad categories:

- ensuring the basis for an effective corporate governance framework
- rights of shareholders and key ownership functions
- equitable treatment of shareholders
- role of stakeholders
- disclosure and transparency
- responsibilities of the board

Facilitating effective implementation

In response to the corporate governance challenges that came into focus in the wake of the financial crisis, the OECD launched a thematic peer review process designed to facilitate the effective implementation of the OECD Principles and to assist market participants and policy makers to respond to emerging corporate governance risks.

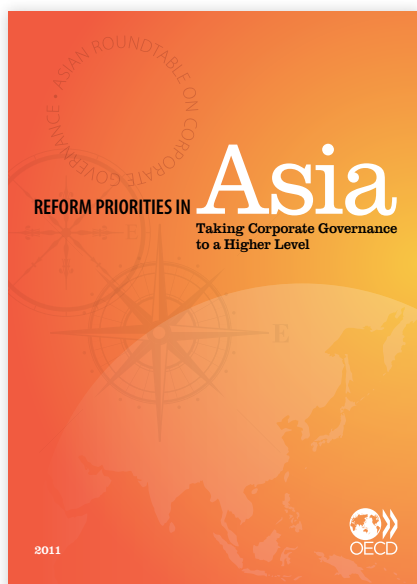
The peer review process is carried out through an exchange of experiences and expertise that provides participants with an overview of existing practices and approaches and an opportunity to identify good practices that can stimulate and guide improvements. The reviews are also forward looking, so as to help identify key market practices and policy developments that may undermine the quality of corporate governance. Both OECD and non-OECD jurisdictions participate in this process and a number of Asian economies have participated in the six reviews completed to date.

Board Practices: Incentives and Governing Risks

This report examines the overall market and regulatory context for considering board practices in relation to managing incentives and associated risks. It covers 29 jurisdictions and includes in-depth reviews of Brazil, Japan, Portugal, Sweden and the United Kingdom.

The Role of Institutional Investors in Promoting Good Corporate Governance

This report focuses on the role of institutional investors in promoting good corporate governance practices, including the incentives they face to promote such outcomes. It covers 26 jurisdictions and includes in-depth reviews of Australia, Chile and Germany.



Agreed on a consensus basis by Asian Roundtable economies, *Reform Priorities in Asia – Taking Corporate Governance to a Higher Level* adapts implementation of the OECD Principles of Corporate Governance to the specific conditions of Asia.



Related Party Transactions and Minority Shareholder Rights

This report looks at the corporate governance framework that manages related party transactions with the aim to protect minority investors. The report covers over 30 jurisdictions including Hong Kong, China; India; and Singapore.

An in-depth review of India describes the structure of listed companies and especially the concentration of ownership and the use of company groups, all of which are related to the type and intensity of related party transactions.

The corporate governance framework that has been established to manage such transactions and to protect minority shareholders is analysed and the potential for improvements discussed.

Board Member Nomination and Election

This report focuses on the corporate governance framework and practices that relate to the nomination and election of board members. It covers 26 jurisdictions including Hong Kong, China; India; Indonesia; and Singapore.

An in-depth review of Indonesia describes the ownership structure of listed companies and then considers the board nomination and election processes including disclosure practices and obligations. The board nomination and election process is placed within the context of the overall corporate governance framework.

Supervision and Enforcement in Corporate Governance

This report covers the corporate governance framework and practices relating to the supervision and enforcement, both public and private, in the specific areas of related party transactions, take-over bids, and shareholder meetings. The report covers 27 jurisdictions including Hong Kong, China; India; Indonesia; and Singapore.

Risk Management and Corporate Governance

This report analyses the corporate governance framework and practices relating to corporate risk management in the private sector and in state-owned enterprises. The report covers 27 jurisdictions, including Hong Kong, China; India; and Singapore.

An in-depth review of Singapore summarises the corporate governance framework and practices relating to corporate risk management, with a focus on Singapore's recently adopted "Risk Governance Guidance for Listed Boards".

Updating the Principles

The Principles are being reviewed in 2014 for the third time since their adoption in 1999. The rationale for the review is to ensure the continuing high quality, relevance and usefulness of the Principles taking into account recent developments in the corporate sector and capital markets. The outcome should provide policy makers, regulators and other rule-making bodies with a sound benchmark for establishing an effective corporate governance framework.

The basis for the review will be the 2004 version of the Principles, which embrace the shared understanding that a high level of transparency, accountability, board oversight, and respect for the rights of shareholders and role of key stakeholders is part of the foundation of a well-functioning corporate governance system. These core values should be maintained and, as appropriate, strengthened to reflect experiences since 2004.

As the Principles are a global standard also adopted by the FSB, all FSB member jurisdictions are invited to participate in the review as Associates and have the same decision-making rights as OECD members.

The review will benefit from consultations with stakeholders, including the business sector, investors, professional groups at national and international levels, trade unions, civil society organisations and other international standard setting bodies. Asian Roundtable participants were given an early opportunity to provide input to the review at their annual meeting in March 2014.

A number of important regional developments in the ownership and governance of SOEs in Asia have taken place over the last years. They include:

- The establishment of the “Cabinet Committee on Restructuring of Public Sector Enterprises (PSEs)” in Pakistan; and the first Public Sector Companies (Corporate Governance) Rules, which came into force in 2013.
- The creation of a new category of Central Public Sector Enterprises (CPSE) known as “Maharatna” in India as well as the establishment of governmentally approved “Guidelines on Corporate Governance for CPSEs” in India.
- The passage of the Government-Owned and Controlled Corporations (GOCC) Governance Act of 2011 in the Philippines. Under the act, the President is given the authority to review, retain and replace officials in more than 100 GOCCs. It also creates the Governance Commission for GOCCs that will examine the performance and organisational structures of GOCCs.
- The creation of boards of directors in most SOE parent companies in China and introduction of outside directors in SOE boards, as well as new performance assessment measures and rules to incentivise executives and directors through performance based remuneration.
- The comprehensive 10-year Government Linked Companies (GLC) Transformation Programme in Malaysia has had a positive impact as today many of the highest ranked companies in Malaysia, in terms of good governance practices, are actually GLCs.



OECD Guidelines on Corporate Governance of State-Owned Enterprises

The OECD Guidelines on Corporate Governance of State-Owned Enterprises are the world’s leading standard for helping governments manage more effectively their responsibilities as company owners. Improving the corporate governance of SOEs makes them more competitive, efficient and transparent. SOEs which operate with higher standards of governance are better able to pursue both commercial and non-commercial priorities.

The Guidelines are based on, and fully compatible with, the OECD Principles of Corporate Governance, but are explicitly oriented to issues that are specific to the ownership and corporate governance of SOEs.

Addressing the State as an owner, the Guidelines establish the core elements of a good corporate governance regime. They provide standards and good practices, as well as guidance on implementation, and should be adapted to the specific circumstances of individual countries and regions.

The Guidelines cover six broad areas:

- Ensuring an effective legal and regulatory framework for SOEs
- The State acting as an owner
- Equitable treatment of shareholders
- Relations with stakeholders
- Transparency and disclosure
- The responsibilities of the boards of SOEs

In parallel with the 2014 review of the OECD Principles of Corporate Governance, the OECD Guidelines on Corporate Governance of State-Owned Enterprises are also being revised.

“In taking forward our policies, Asian economies must take into account lessons learnt from the global financial crisis, not least in relation to corporate governance. The OECD and the Asian Roundtable provides an important forum for Asian counterparts to exchange views and put corporate governance issues and policy initiatives on the global agenda.”

Mr Carlson Tong, Chairman of the Securities and Futures Commission, Hong Kong, China (2014)

Change and progress in the new millenium

Progress with the legal and regulatory framework

Company law and securities law are frequently updated in all Asian Roundtable economies to incorporate new developments. Demonstrating the benefit of being able to draw on other jurisdictions' experiences, Roundtable economies have made liberal use of legislation and practices from other economies as a source of inspiration when strengthening their own systems. Recent examples of legal reform include:

- Amendments to the Companies Act in Malaysia in 2007 and 2010 to introduce enhanced and clarified regulation of related party transactions, strengthened shareholder rights, and a better defined role of the board.
- Amendments to the Securities and Exchange Act in Thailand in 2007 to provide stronger protection for investors' interests, to enhance corporate governance of listed companies and to make key governance recommendations mandatory.
- The reform of the Companies Ordinance in Hong Kong, China was passed by the legislative council in 2012 after it went through an extensive public consultation process that started in 2006. The new Ordinance introduces enhanced accountability of directors, more shareholder engagement in the decision-making process and improved disclosure of company information.
- The Ministry of Finance in Singapore released a draft Companies Bill in May 2013, to amend the current Companies Act, based on the recommendations of the Steering Committee it had appointed in 2007. Key changes include the lessening of regulatory burdens on companies while rules and principles ensuring transparency and accountability, including directors' duties would be strengthened.
- The 2013 Companies Act in India makes comprehensive reforms to virtually all areas affecting corporate governance. The reforms include increased requirements for independent directors, more director duties, the introduction of shareholder class action suits and the proposal of the expanded use of e-governance for various company processes.
- The Indonesian Company Law update of 2007 introduced fiduciary duties and responsibilities for commissioners and directors. The new Company Law also put the three main corporate organs in Indonesia, the general shareholder meeting, the Board of Commissioners and the Board of Directors on equal footing for the first time.
- In Chinese Taipei, updates to the Company Act between 2005 and 2012 enhanced the accountability of directors and introduced cumulative and e-voting.

A survey of Fidelity analysts, who cover around 1 000 stocks across the Asia-Pacific, found that 21% of major companies within Asia are applying a global corporate governance standard to their operations. Around 50% of the analysts thought it would take 10 years or longer for the companies they follow in Asia to reach global international best practices in corporate governance.

However, the Fidelity Asia Fund portfolio manager David Urquhart qualified the findings, "The application of corporate governance is on the rise in Asia. There has been continuous improvement in corporate governance among Asian companies since the Asian financial crisis and this has been spurred on by the global financial crisis."

(Investor Daily, Corporate Governance Improves in Asia, 3 February 2011)



Strengthening enforcement capacity

Credible enforcement is critical for a functioning corporate governance system. Sharing experiences and challenges related to enforcement has always been high on the agenda of the Asian Roundtable, as embodied by the recent Task Force on Enforcement. Typically, Securities and Company Law enforcement in Asia relies largely on the public sector despite the growing significance of private initiatives. Implementing one of the key policy priorities in Asia, regulators have been working on strengthening their enforcement capacity:

- Stronger regulatory powers and upgrade of existing resources.** Pakistan's Securities and Exchange Commission gained the authority to issue regulations, directives, codes, guidelines, circulars and notifications via an amendment of the Companies Ordinance. The strategic enforcement initiative by the Securities Commission in Malaysia led to the better use of available enforcement options, such as prosecution, civil action and restitution. And in Indonesia, the new Financial Services Authority (Otoritas Jasa Keuangan – OJK) consolidated financial sector supervision formerly separated between the Bank of Indonesia and OJK's predecessor, Bapepam - LK.



Better Policies for Board Nomination and Election in Asia

This report reviews the current policy framework; summarises the challenges to establishing a formal and transparent board nomination and election process in Asia; and, suggests policy options to improve the transparency of the board nomination and election process in order to reinforce more effective boards.

In February 2014, the OJK launched the "Indonesia Corporate Governance Road Map – Towards Better Governance of Issuers and Public Companies" and the "Indonesia Corporate Governance Manual" in order to accelerate good corporate governance implementation in Indonesian financial and public companies. As part of the roadmap and merger, OJK expects to have an increasing number of qualified personnel.

- The creation of new units within existing bodies.** The China Securities Regulatory Commission set up an inspection division to deal with the major, cross-regional cases in the securities and futures market. Bursa Malaysia created a dedicated Enforcement Division and the Philippines Stock Exchange added a Corporate Governance Office. The Taiwan Stock Exchange added a Corporate Governance Department to support the work of the Corporate Governance Center.

- Better co-operation between regulatory bodies.** In India, the Securities Fraud Investigation Office, a multi-disciplinary organisation under the Ministry of Corporate Affairs, was established to take on complex and systemically important cases. In Malaysia there is on-going high level co-operation and co-ordination between the Securities Commission, Companies Commission and the police, which enhances the supervision and enforcement capabilities of these agencies.



Taking the enforcement challenge seriously

Regulators in Asia are taking the enforcement challenge seriously. A number of economies have established specialised courts to deal with capital market matters. Chinese Taipei; Hong Kong, China; Korea; Malaysia; and the Philippines have created, separately or within institutions, new bodies aimed at increasing enforcement capacity. Increased Asian Corporate Governance Association (ACGA) ratings in the subsequent 2010 and 2012 *CG Watch* reports indicate continuous improved enforcement of corporate governance rules across most Asian markets. *CG Watch 2012* attributes the improved score in Thailand, India, Korea and the Philippines, largely to improved regulatory enforcement and/or greater investment in enforcement initiatives.

The 2014 *Strengthening Corporate Governance through Effective Public Enforcement in Asia* was developed by the Asian Roundtable's Task Force on Enforcement. The guide puts forward good practices and recommendations in the following areas to improve enforcement capacity in Asia:

- Comprehensive legal framework/adequacy of laws
- Jurisdiction and expertise of enforcement authorities
- The independence of enforcement authorities
- Checks and balances in the enforcement system
- Budget for enforcement authorities
- Authority to monitor, supervise, investigate and enforce
- Sanctions
- Disclosure of enforcement actions and practices
- Courts and judicial system
- Cross-border enforcement



Roundtable economies

Population, GDP, Market Capitalisation,
and number of Listed Companies

(2012 figures)

	GDP (2012) (PPP, current USD billions)	Market Capitalisation (USD millions)	Market CAP/ GDP 2012 (nominal)	Listed domestic companies 2012
Bangladesh*	286.3	17,479	15%	229
China**	12 268.6	3 697 376	44.9%	2 494
Chinese Taipei**	894.3	831 900	177%	802
Hong Kong, China*	365.6	1 108 127	420.9%	1 553
India*	4 715.6	1 263 335	68.6%	5 294
Indonesia**	1 203.6	396 772	45.2%	483
Korea**	1 540.1	1 180 473	104.5%	1 798
Malaysia*	494.6	476 340	156.2%	900
Mongolia**	15.0	1 292	12.6%	329
Pakistan*	491.1	43 676	19.4%	573
Philippines*	419.5	264 142	105.6%	254
Singapore*	322.9	414 125	150.8%	479
Thailand**	645.1	382 999	104.7%	585
Viet Nam**	336.2	32 933	21.1%	311

* Common law jurisdiction

** Civil law jurisdiction

Note: All Chinese Taipei data from CIA world factbook and World Federation of Exchanges

Sources:

GDP: World Bank

<http://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD>

Market Capitalisation: World Bank

<http://data.worldbank.org/indicator/CM.MKT.LCAP.CD>

Market Cap/GDP: World Bank

<http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS>

Listed domestic companies: World Federation of Stock exchanges;

World Bank; data.worldbank.org/indicator/CM.MKT.LDOM.NO

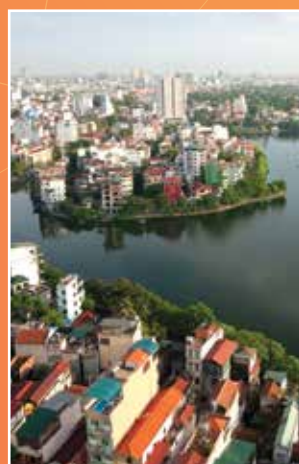
Population: International Database U.S. Census

This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.



PAKISTAN
Population: **196.1 M**

INDIA
Population: **1 236.0 M**





MONGOLIA
Population: **2.9 M**



KOREA
Population: **49.0 M**



CHINA
Population: **1 355.0 M**



BANGLADESH
Population: **166.2 M**

CHINESE TAIPEI
Population: **23.3 M**



HONG KONG, CHINA
Population: **7.1 M**

THAILAND
Population: **67.7 M**

VIET NAM
Population: **93.4 M**

PHILIPPINES
Population: **107.6 M**

MALAYSIA
Population: **30.0 M**

SINGAPORE
Population: **5.6 M**



INDONESIA
Population: **253.6 M**





A roadmap for improving corporate governance infrastructure

After surveying challenges and progress, as well as engaging in an extensive consultation process among Roundtable participants, the original 2003 White Paper priorities were updated in 2011 with the publication of *Reform Priorities in Asia – Taking Corporate Governance to a Higher Level*. The 2011 report reflects the changes in the corporate governance landscape since 2003 and is intended to continue to support decision-makers and practitioners in their efforts to take corporate governance to a higher level. The updated priorities for reform are:

- Public and private sector institutions should continue to make the business case for the value of good corporate governance among companies, board members, gatekeepers, shareholders and other interested parties, such as professional associations.
- All jurisdictions should strive for active, visible and effective enforcement of corporate-governance laws and regulations. Regulatory, investigative and enforcement institutions should be adequately resourced, credible and accountable, and work closely and effectively with other domestic and external institutions. They should be supported by a credible and efficient judicial system.
- The quality of disclosure should be enhanced and made in a timely and transparent manner. Jurisdictions should promote the adoption of emerging good practices for non-financial disclosure. Asian Roundtable jurisdictions should continue the process of full convergence with international standards and practices for accounting and audit. The implementation and monitoring of audit and accounting standards should be overseen by bodies independent of the profession.
- Board performance needs to be improved by appropriate further training and board evaluations. The board nomination process should be transparent and include full disclosure about prospective board members, including their qualifications, with emphasis on the selection of qualified candidates. Boards of directors must improve their participation in strategic planning, monitoring of internal control and risk oversight systems. Boards should ensure independent reviews of transactions involving managers, directors, controlling shareholders and other insiders.
- The legal and regulatory framework should ensure that non-controlling shareholders are adequately protected from expropriation by insiders and controlling shareholders. Gatekeepers such as external auditors, rating agencies, advisors, and intermediaries should be able to inform and advise shareholders free of conflicts of interest.
- Shareholder engagement should be encouraged and facilitated, in particular by institutional investors.

“The Securities Commission is cognisant of the tremendous amount of work that has been undertaken by the OECD in contributing to the global corporate governance regulatory architecture. I have no doubt that the quality of debate which emanates from the OECD Roundtables will help guide and shape the corporate governance agenda and immediate term priorities of many Asian countries.”

YBhg Datuk Ranjit Ajit Singh, Chairman, Securities Commission Malaysia (2013)

Moving beyond box-ticking

Making the business case and improving corporate culture beyond compliance are critical for sustained success. Recognising this need, the Malaysian Securities Commission's Corporate Governance Blueprint 2011-2015 aims to strengthen market discipline and promote greater internalisation of the culture of good governance. The Financial Supervisory Commission in Chinese Taipei published the Roadmap of Corporate Governance (2013-2017) to showcase its plans for corporate governance reform. The update of the Corporate Governance Code in 2012 was the first outcome of its ambitious reform agenda. Singapore is also working hard to keep up reform momentum as evidenced by its 2012 update of the Code of Corporate Governance. The new code includes increased requirements for director independence, board composition, director training, multiple directorship, alternate directors, remuneration practices and disclosures, risk management, as well as shareholder rights. In Indonesia, based on the OJK's Road Map, new regulations will be issued and “comply or explain” will be applied as the new approach for implementation of the corporate governance code.

Formalising local corporate governance structures

The main drivers of corporate governance reform in the region continue to be government bodies, mainly Security Commissions and Ministries of Finance, as well as stock exchanges. However, over the last decade, private institutions have emerged as players in the corporate governance landscape and active participants in the Roundtable process.

In addition, national corporate governance committees have been set up to foster dialogue between the public and the private sector in most jurisdictions, in many cases to draft, monitor, and revise national corporate governance codes.

Asian economies are actively updating their corporate governance codes

Roundtable participants recognise that developing further laws and regulations would not be sufficient to change company and investor behaviour. In 1999, Hong Kong, China was the only Roundtable economy with a corporate governance code, the voluntary 1993 Code of Best Practice. Today, every participating Asian Roundtable jurisdiction has Codes and other guidance on behaviour based largely on the OECD Principles. Recent years have seen a flurry of revisions of already existing codes, with generally more specific and demanding expectations as to corporate behaviour, and enhanced monitoring. With their recent updates, Hong Kong, China; Chinese Taipei; and Singapore have already moved on to the third generation of their codes.

Asian Roundtable policy recommendations, reviews and evaluations

Strengthening Corporate Governance through Effective Public Enforcement in Asia (2014)

Better Policies for Board Nomination and Election in Asia (2013)

Reform Priorities in Asia – Taking Corporate Governance to a Higher Level (2011)

Corporate Governance in Asia: Progress and Challenges (2011)

Policy Brief on Corporate Governance of State-Owned Enterprises in Asia (2010)

Guide on Fighting Abusive Related Party Transactions in Asia (2009)

Enforcement of Corporate Governance in Asia (2007)

Overview of Corporate Governance in Asia (2007)

Policy Brief on Corporate Governance of Banks in Asia (2006)

Implementing the White Paper on Corporate Governance in Asia (2006)

Asian White Paper on Corporate Governance (2003)

Timeline of codes

2002 *China Code of Corporate Governance for Listed Companies* (CSRC and SETC)

2003 *Korea Code of Best Practice of Corporate Governance*, replacing 1999 Code, (Committee on Corporate Governance)

2006 *Indonesia Code of Good Corporate Governance*, replacing 2001 Code (National Committee for Corporate Governance)

Thailand Principles of Good Corporate Governance for Listed Companies, replacing 2002 Principles (Stock Exchange of Thailand)

2007 *Mongolia Corporate Governance Code of Mongolia* (Financial Regulatory Commission)

Viet Nam Code of Corporate Governance for Listed Companies (Ministry of Finance)

2009 *India Corporate Governance Voluntary Guidelines* (Ministry of Corporate Affairs)

Philippines Code of Corporate Governance, replacing 2002 Code (Securities Commission).

2012 *Bangladesh Corporate Governance Guidelines*, replacing 2006 Notification (Securities and Exchange Commission)

Chinese Taipei Corporate Governance Best Practice Principles, replacing 2006 version of original 2002 Principles (Taiwan Stock Exchange)

Hong Kong, China Corporate Governance Code, replacing 2004 version of original 1993 Code (Hong Kong Stock Exchange)

Malaysia Code of Corporate Governance, replacing 2007 Code (Securities Commission Malaysia)

Pakistan Code of Corporate Governance, replacing 2002 Code (Securities and Exchange Commission)

Singapore Code of Corporate Governance, replacing 2005 version of original 2001 Code (Monetary Authority of Singapore)





Non-controlling shareholders

The 2011 report *Reform Priorities in Asia – Taking Corporate Governance to a Higher Level* emphasises the critical nature of protection of minority shareholders rights in Asia given the often concentrated ownership of companies. Over the past decade, important developments have taken place with respect to shareholder rights:

- increased availability of legal redress mechanisms for shareholders;
- a greater focus on combating insider trading and abusive related party transactions;
- the emergence of shareholder engagement.

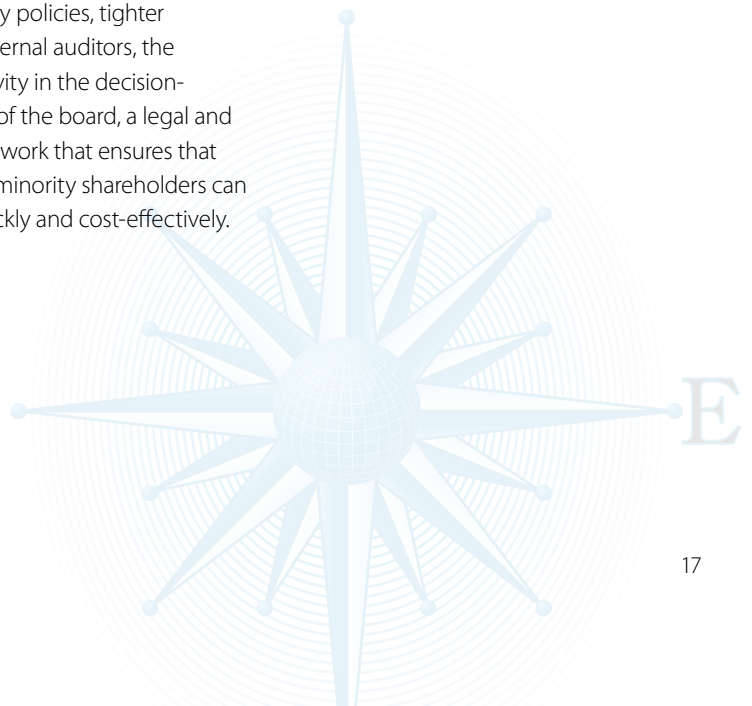
While all these issues have been subject to discussions at Roundtable meetings, due to their systemic relevance, abusive related party transactions have received specific attention with the Roundtable setting up a dedicated task force.

Abusive related party transactions

Progress has been made in requiring the disclosure of related party transactions by all Asian Roundtable economies. Approval mechanisms by shareholders and/or the board for such transactions have been introduced throughout the region. However, related party transactions are still considered one of the biggest corporate governance challenges within Asian business.

The Task Force on Related Party Transactions produced a *Guide on Fighting Abusive Related Party Transactions in Asia* which contains nine key recommendations adopted on a consensus basis. These include clearer legal definitions, well-defined company policies, tighter standards for external auditors, the need for objectivity in the decision-making process of the board, a legal and regulatory framework that ensures that legal redress by minority shareholders can be achieved quickly and cost-effectively.

The recommendations are already having a policy impact. For example, the 2013 Indian Companies Act introduced a number of new compliance rules such as obtaining prior approval of the Board of Directors or the shareholders before entering into RPTs. In Korea, amendments to the Commercial Act - intended to curb chaebol insiders from gaining unfair business advantages - went into force in 2012. Provisions in the Act now include that conflict of interest rules are applicable not only to company directors, officers and controlling shareholders, but also to their family members and associated firms; and that for all personal transactions with the company, prior approval by two-thirds of the board is required.



Shareholder participation rights

Notice periods for Annual General Meetings (AGM) are generally still below global best practice of 28 days, but have been increased in a number of jurisdictions over the last few years. They now range between 14 and 21 days. Thailand follows a voluntary approach by recommending a 30-day period in its AGM assessment project but shareholders may receive as little as the legally mandated seven days notice, according to the 2012 World Bank Corporate Governance Report on the Observance of Standards and Codes (ROSC) for Thailand, and electronic and postal voting is not allowed. In its corporate governance evaluation system, Chinese Taipei recommends a 30-day period for listed companies to send out AGM notices and detailed meeting materials.

The right of shareholders to nominate candidates for board positions is widespread in Asia. Updates to the company law in Chinese Taipei have lowered the nomination threshold to shareholders holding 1% or more of the total number of outstanding shares. The CFA Institute points out that in Hong Kong, China, India, and Singapore, nomination rights are given to shareholders. Differences between markets now merely lie in the thresholds required for shareholders to be granted this entitlement.

However, practices such as voting by a show of hands are still widely used in the region and viewed as unfair by shareholders, as the 2013 OECD report on *Better Policies for Board Nomination and Election in Asia* points out. The show of hands method reduces the effectiveness

of shareholder participation as it does not indicate the percentage of ownership that hands represent and can dilute the vote of some of the larger shareholders. With improved technology and earlier registration of shares to vote, voting by poll can be more efficiently introduced.

Indeed, voting by proxy is universally enabled in Asia and electronic voting has been made possible by new laws and listing requirements in China, Chinese Taipei, India, Indonesia, Korea, and Singapore.

Legal redress mechanisms

Both derivative law suits (where one or more shareholders file suit on behalf of the company against the board members to recover losses) and shareholder class-action lawsuits (where a group of shareholders sues board members directly for damages suffered by all shareholders) have been introduced or are in the process of being introduced in most Roundtable economies. Examples of the actual initiation of derivative or class action lawsuits in the region are found in Chinese Taipei and Korea over the past decade.

Insider trading

Insider trading and stock price manipulation is not taken lightly under the law in the Asian Roundtable economies. Civil liability applies in all economies but Indonesia. Fines can be introduced everywhere. Offenders are subject to potential imprisonment for these violations in all Asian Roundtable member economies but Viet Nam. A growing number of convictions for insider trading, including a number of high-profile cases in Hong Kong, China and mainland China, are testimony that enforcement of the law is also progressing.

Shareholder engagement

Activist shareholders are not yet common in Asia, leaving the public sector as a main driver of corporate governance reforms. Raising awareness among shareholders and creating better incentives for shareholder engagement remains a challenge. However, there are many encouraging signs of shareholders playing an increasingly active role in the region, such as the growing role of investor associations and institutional investors.

Investor associations

Examples of private and state-sponsored organisations dedicated to protecting minority shareholders include:

■ The Securities Investors Association Singapore

The Securities Investors Association Singapore, "SIAS", has grown from its founding in 1999 to a membership of about 71,000 minority shareholders today, making it the largest minority shareholder watchdog group in Asia. Its mission ranges from protecting minority shareholders' interests to the promotion of corporate governance in listed companies and the education of the public on investment issues. It is the voice for minority shareholders and has, through its "in the boardroom and not the courtroom" brand of activism, resolved many shareholder issues.



Since 2003, SIAS has been rating listed companies on their corporate governance and transparency practices based on a Scorecard incorporating the five OECD investor rights principles and the Singapore Corporate Governance Code, rewarding them with the Singapore Corporate Governance Award, as an Investors' Choice Award.

■ **The Shareholders' Association of the Philippines (SharePHIL)**

Formed in 2011 as a private sector initiative, SharePHIL's mission is to become a major catalyst in promoting the development of the capital market by advocating shareholder and investor education with respect to their rights, duties and responsibilities thereby fostering shareholder activism. Besides investor education, SharePHIL has programmes in corporate governance advocacy; research; and, shareholder relations and representation.

■ **The Thai Investors Association**

The Thai Investors Association (TIA) has been initiated and is being funded by the Thai Securities Regulator (SEC). Its most visible contribution is the AGM Assessment Project, an initiative to promote awareness in the area of shareholder participation and protection. With an AGM evaluation checklist, the Thai Investor Association sends qualified volunteers, often retail investors, to attend all listed companies' annual general meetings and grade their function, efficiency and shareholder rights protection. It also encourages retail shareholders to ask pertinent questions and vote.

■ **Malaysia Minority Shareholder Watchdog Group**

The Malaysia Minority Shareholder Watchdog Group (MSWG) was established in 2000 as a public company. An initiative of the Ministry of Finance, it has the explicit task of protecting minority shareholders. MSWG has since grown into a collective voice for retail shareholders and has taken on a more active role in shareholder meetings in recent years. The Group also produced the "Malaysian Corporate Governance Index" which has since been integrated into the ASEAN Corporate Governance Scorecard. MSWG continues to apply the Scorecard to rank companies in Malaysia.

■ **The Securities Investors and Futures Traders Protection Center, Chinese Taipei**

In Chinese Taipei, the Securities Investors and Futures Traders Protection Center was set up in 2003 as a non-profit organisation. With the mission to strengthen the investor protection mechanism and promote a sound development of the securities and futures markets, the Center handles investor complaints, consultation and mediation, files class-action lawsuits on behalf of investors and derivative lawsuits on behalf of the company, and manages an investor compensation fund.

Institutional investors

Evidence of increasing engagement by institutional investors in the region is still sporadic, but growing. Some of it is still state-driven, such as in Thailand where members of the Association of Investment Management Companies (AIMC) are now obliged by the Thai SEC to vote at AGMs. Under SEC/AIMC rules, they are also required to attend annual meetings and vote against resolutions that breach AIMC voting policy. Similarly, Indian institutional shareholders are now required to vote their shares.

In Korea, pension funds which are operated by government agencies actively exercise their shareholder rights, with a particular focus on improving the governance system of companies in which they invest. For this purpose a pool of independent board members was created to assure the availability of qualified professionals who might be nominated.

In an example of true private enforcement, foreign institutional investors are becoming more active, both in voting and engaging with companies in Chinese Taipei; Hong Kong, China; and Thailand, as CG Watch 2012 notes.

“The Asian Roundtable facilitates the exchange of ideas, experience, and knowledge in developing corporate governance. The peer-pressure that arises from the discussions raises our spirit and motivates us to keep improving and enhancing corporate governance implementation in Indonesia.”

Ms. Etty Wulandari, Senior Specialist to the Chairman, Indonesia Financial Services Agency (2014)

Converging with international standards: disclosure and transparency

The Roundtable sees progress made in the area of disclosure and transparency as a significant achievement over the last decade. Progress can be observed with respect to convergence with international standards, a higher degree of disclosure, stronger institutions and greater professional accountability, and technological advancement, thus going a long way towards fulfilling one of the updated six key priorities for corporate governance reform in Asia.

Convergence with international standards

Seven of the fourteen Asian Roundtable economies have already fully adopted International Financial Reporting Standards (IFRSs) as the national accounting standard. All others, with the exception of Indonesia, are in the process of doing so. Others have achieved substantial convergence, as is the case in China. India is set to fully adopt IFRSs by 2014 and Thailand by 2015.

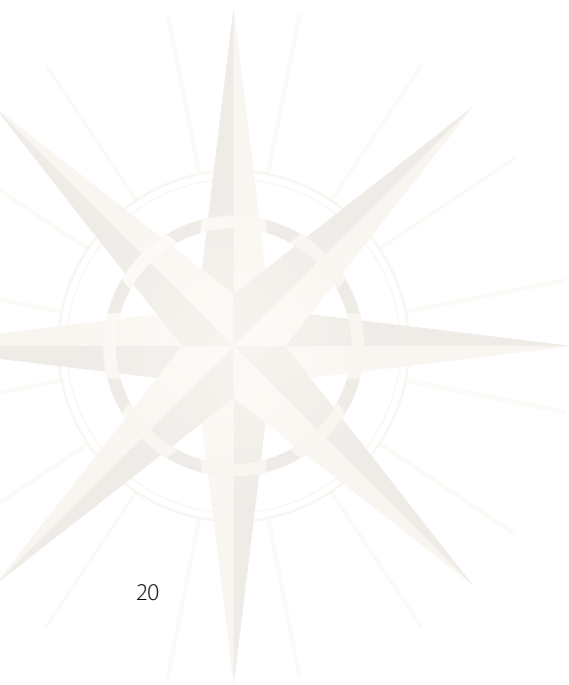
International Standards on Auditing have either been adopted as national auditing standards by the national standards setter or mandated by law as the national auditing standards by all Asian Roundtable economies. However, in some jurisdictions, the time lag between the issuance of modifications to the standard and the national adoption and translation of these modifications can be an issue.

Consolidated financial reporting as well as quarterly reporting is now required for listed companies in most economies. Annual reports are to include essential non-financial information such as information on corporate governance management discussion and analysis, and ownership structures. Rules regarding disclosure of price-sensitive information are also progressing. However, as *CG Watch 2012* points out, the quality of non-financial reporting is an area of continuous weakness, including in such areas as the disclosure of material price-sensitive information, and rules on related-party transactions and insider trading/market manipulation.

Stronger institutions and greater professional accountability

Asian Roundtable economies have taken a number of institutional initiatives to strengthen financial oversight. In 2006, Chinese Taipei amended the Securities and Exchange Act in order to impose stricter standards of liability upon those preparing financial reports. In 2009, the Thai SEC appointed an Audit Advisory Committee to serve in an expert advisory capacity in areas of controlling audit quality. Malaysia amended its Securities Commission Act in order to set up an Audit Oversight Board, and the Malaysian Institute of Accountants established two new boards, the Audit and Assurance Standards Board and the Ethics Standards Board. In Singapore, the Accounting and Corporate Regulatory Authority (ACRA) initiated a consultation phase to review the Accountants Act in 2012. The aim is to strengthen the authority of ACRA to enable it to take stronger disciplinary action against errant auditors.

Codes of ethics for auditors and accountants have also been introduced in a number of jurisdictions. These developments mean that gatekeepers throughout Asia now face the prospect of increased damages for negligent sponsorship or negligent certification of financial statements.



Technological progress

Disclosure practices are particularly well suited to benefit from technological progress. While there is still room for improvement, both regulators and companies are using their websites better to disseminate timely information. Websites are also gradually becoming more user-friendly and available in English. The focus of the 2013 Indian Companies Act on better use of e-governance in shareholder communication is an important step in this context.

Another example is the launch of the Information Disclosure Express by the Shanghai Stock Exchange (SSE) in 2013. The Express enables listed companies to directly disseminate certain types of information and announcements through the SSE electronic information disclosure technology platform without the advance verification of the SSE, thus reducing the information time lag to investors.

eXtensible Business Reporting language (XBRL) is set to become the standard way of recording, storing and transmitting company financial information in numerous participating jurisdictions. XBRL is an agreed, standardised format to express financial reporting and allows easy exchange and modelling of information. China, Chinese Taipei, India, Korea, and Singapore have already implemented XBRL-enabled systems. In Malaysia, the introduction of XBRL is part of the Companies Commission's 5-year strategic plan till 2015, and in Indonesia, Bank Indonesia is spearheading its own XBRL project.



Improving the role of the board

The OECD Principles, the most recent global financial crisis and the updated 2011 policy priorities in Asia have highlighted that an effective board of directors is at the heart of a well-functioning and well-governed corporation, acting as the ultimate internal monitor. This monitoring role of independent directors in particular, is especially relevant in jurisdictions where there is no separation of ownership and control, which is the case in many Asian family-controlled businesses.

Measures to improve board nomination and election processes in Asia

- I. Ensure a transparent, fair and formal board nomination and election process
- II. Empower the nomination committee
- III. Facilitate the participation of all shareholders in the board nomination and election process
- IV. Enhance transparency and accountability of the board evaluation process
- V. Increase the pool of qualified candidates to the board

Source OECD (2013) *Better Policies for Board Nomination and Election in Asia*

Consequently, boardroom challenges and ways to achieve more independent and objective boards are a critical element of dialogue and study within the Roundtable, most recently with the 2013 guide on *Better Policies for Board Nomination and Election in Asia*.

Over the last decade, notable progress has been made in Asia towards more independent and professional boards, including by establishing specialised committees, and launching a number of director training programmes.

Independent directors

Regulators in the region have clearly understood the importance of independent directors on boards in dealing with conflicts of interest by controlling shareholders. The CFA Institute's 2010 study *Independent Non-Executive Directors* points out that regulators "addressed the issue by highlighting the role of independent non-executive directors [INEDs] in various newly developed codes of corporate governance and by setting a minimum number or proportion of INEDs for corporate boards." Today, independent directors are a requirement for listed companies in all Asian Roundtable economies. Most economies require at least one third of the board to be independent. The new 2012 Singaporean Corporate Governance Code recommends a majority of independent directors when the Chairman of the board is not independent.

In practice, as *CG Watch 2012* shows, around 60% of Singaporean and Indian companies already have boards where independent directors represent more than half of the total. The 2012 World Bank ROSC on Corporate Governance for Malaysia notes that most directors are non-executive directors, and typically at least one third of the board are considered independent of management and major shareholders.

Crucially, virtually all economies have refined their criteria to determine when a director qualifies as independent. Malaysia's Listing Requirements stipulate, for instance, that board members fulfil a "subjective" and "objective" test of independence. The subjective criteria takes into consideration a board member's "judgment and ability" to act in the best interests of the company, while the objective criteria considers more material characteristics such as shareholdings and family ties to controlling shareholders and other board members.



Committees

Committees of the board such as audit, remuneration and board nomination can be effective in cases where management or controlling shareholder groups are likely to have conflicts of interest. The formation of special committees is provided for in codes, listing rules or legislation in all economies but Viet Nam. Audit committees are required everywhere but Viet Nam. In addition, Chinese Taipei requests that an audit committee shall be composed of the entire number of independent directors.

Requirements regarding the composition of an audit committee differ slightly from economy to economy. Good practice for audit committees is to have an independent chairman and at least the majority of committee members should be independent. In addition, at least one independent director should have accounting and auditing expertise. Going beyond this practice, *CG Watch 2012* assesses whether all members of audit committees have the requisite financial expertise. Against this benchmark, Chinese Taipei, India and Singapore fare best. In Chinese Taipei almost 50% of companies meet these requirements.

Director training programmes

While board members typically have to satisfy basic requirements across the region, such as meeting a fit-and-proper test, director training is not a mandatory requirement. However, the CFA Institute's 2010 study *Director Professionalism – A Review of Training Programs in Asia-Pacific* notes that the increasing recognition of the value of corporate governance and growing number of independent directors has resulted in "director training slowly emerging as a best practice in the Asia-Pacific region". Indeed, board member education and training programmes are offered by various local and international organisations and institutions in the majority of jurisdictions. The active Institutes of Directors throughout the region already offer an institutional setup for expanding the professionalisation of director training programmes. In Pakistan, director training certification has become mandatory.



2014 AND BEYOND

This year marks the 15th anniversary of the establishment of the Asian Roundtable on Corporate Governance.

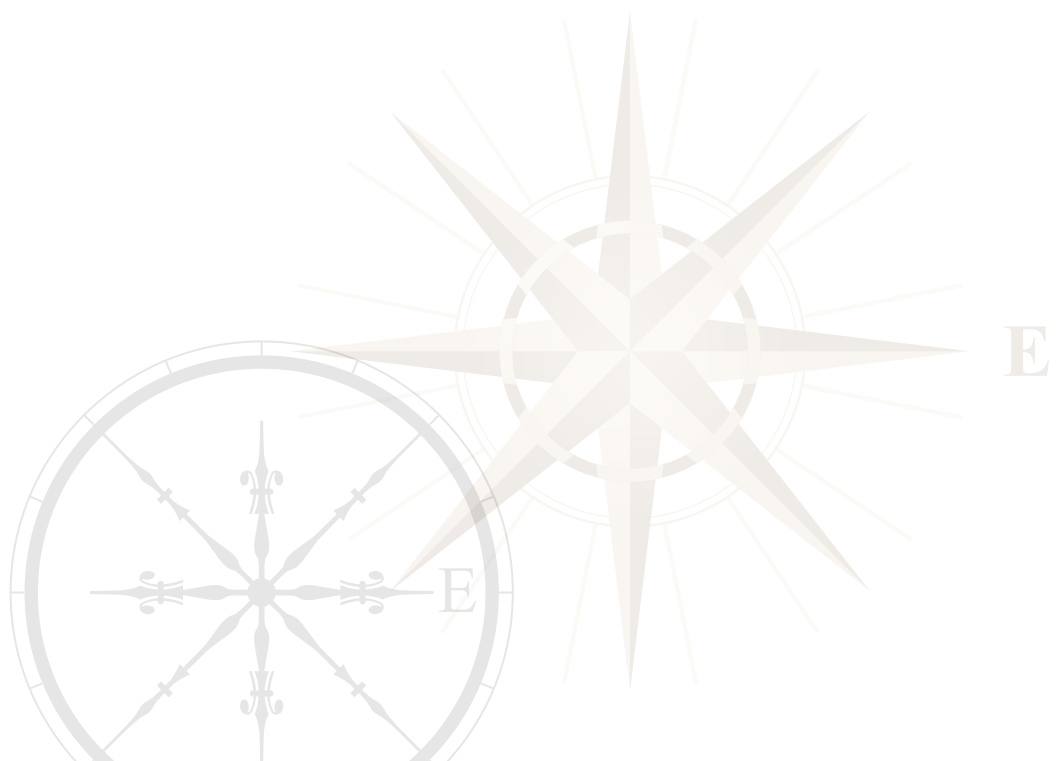
Asian Roundtable economies have made tangible progress since the Asian Financial Crisis in 1997 and the launch of the Roundtable in 1999.

The Roundtable has become an important conduit for sharing knowledge and experience, using the OECD Principles of Corporate Governance. For example, the *ASEAN Corporate Governance Scorecard: Country Reports* uses the OECD Principles to assess top listed companies. Many of the Asian Roundtable economies are now key members in global standard-setting bodies, such as the Financial Stability Board, the G20, and the OECD Corporate Governance Committee.

In 2014, the OECD is conducting a review of the OECD Principles. The annual Roundtable meeting in Mumbai, India, in March 2014, gave Roundtable economies an early opportunity to participate in consultations contributing to the review process.

Corporate governance developments in Asia have global relevance and the Roundtable is where the policy reform agenda is being formed. The Roundtable agenda is designed to address characteristics specific to Asian markets, such as the prevalence of concentrated ownership, notably by the state and families, and how corporate governance policies, regulations and practices have evolved or should be adjusted to fit the particular challenges and opportunities. The Roundtable also addresses 'smart' enforcement of corporate governance rules. Enforcement is not simply about maintaining the rule of law. It is also a precondition for deep and liquid markets, building trust of investors and citizens, and underpinning growth.

The Asian Roundtable has also been a springboard for developing bilateral programmes to address country-specific reform initiatives. These policy dialogues have taken place in China, India and Indonesia concentrating on the analysis and design of concrete policies as well as their implementation. Some of the issues addressed include the disclosure of beneficial ownership and control, related party transactions and minority shareholder protection, as well as the role of institutional investors in promoting corporate governance. The content and style of the policy dialogue is flexible and aims to respond to the specific demand of the country. If needed, a wide range of issues can be considered including corporate governance, capital market development and the governance of state-owned enterprises. Discussions are underway to address these issues in Southeast Asia.





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Corporate Affairs Division

Directorate for Financial and Enterprise Affairs

OECD

2, rue André Pascal

75775 Paris Cedex 16 FRANCE

www.oecd.org/daf/corporateaffairs

daf.contact@oecd.org