

The 2005 Asian Roundtable on Corporate Governance

Stock take of Corporate Governance Developments in Asia

Session 3, Part 1

Louis Bouchez
Corporate Affairs Division, OECD

Bali, Indonesia
8-9 September 2005

The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD or its Member countries or the World Bank

Outline

- Introduction
- Structure of report
- Priorities 1 – 6 (examples: 2/3 Roundtable economies)
- Next steps
- Conclusions

Introduction

- White Paper 2003
- *Draft* report for discussion purpose only
- Purpose: reference source for Roundtable economies and public to assess progress of implementation of 2003 White Paper Priorities
- Also intended to identify future topics for agenda Roundtable
- Not intended to rank or rate Roundtable economies
- Report on progress in *policy* reforms regarding White Paper Priorities
- Based on responses to Questionnaire and further public information
- 18 Responses from a distribution list of 60
- Possible respondents included policymakers, regulators, stock exchanges, investors, academics, practitioners, other stakeholders
- May – August 2005
- *Progress is on its way*, but

Structure

- Focus on six Priorities
- *Summary of progress* since 1 January 2003
- *Key developments*
- *Obstacles to progress* of today ...
- ... may/should be the *priorities for further improvement* of tomorrow

Priority 1 – Raising Awareness

- Progress since 2003:
 - Director training programmes
 - Public consultation in policy reform
- Key developments:
 - Bangladesh
 - China
- Obstacles to progress:
 - Public – private sector co-operation
 - Transparency policymaking process
 - Public consultation
- Priorities for further improvement:
 - Public consultation
 - Director training
 - Role of the press

Priority 2 – Implementation and Enforcement

- Progress since 2003:
 - Regulatory capacity building
 - Adoption and implementation of (voluntary) codes
- Key developments:
 - Hong Kong
 - India
- Obstacles to progress:
 - Opaque regulatory frameworks
 - Costs
 - Political interference
 - Judiciary
 - Legal transplant
 - Box ticking
- Priorities for further improvement:
 - Accountability regulators
 - Division of responsibilities different enforcement bodies
 - Further strengthening regulatory capacity
 - Capacity/capability/structure judiciary
 - Prevention of political interference
 - Clarify status codes, best practices etc.

Priority 3 - Convergence with international standards and practices for accounting, audit, non-financial disclosure

- Progress since 2003:
 - Audit committees
 - Establishment national independent accounting/audit oversight bodies
 - Periodical auditor rotation
- Key developments:
 - Indonesia
 - Korea
- Obstacles to progress:
 - Underdeveloped institutional framework
 - Overlap / overkill regulators
 - Box ticking attitude
- Priorities for further improvement:
 - Close remaining gaps with IFRS / ISA and practices
 - Audit committees to be mandatory
 - Consolidation of group companies accounts

Priority 4: improve board participation in strategic planning, monitoring of internal control systems and independent review of transactions

- Progress since 2003:
 - Introduction of independent directors
- Key developments:
 - Malaysia
 - Pakistan
- Obstacles to progress:
 - Low board meeting attendance
 - Boards dominated by controlling shareholders unwilling to change
 - Large size boards
 - “independence” not clearly defined
- Priorities for further improvement:
 - Define fiduciary duties of directors
 - Regulation of independent directors
 - Strengthen civil enforcement framework

Priority 5: Ensure protection of non-controlling shareholders

- Progress since 2003:
 - Proxy voting
- Key developments:
 - Philippines
 - Chinese Taipei
- Obstacles to progress:
 - Opaque group structures
 - Ownership structures
 - Lack of shareholder activism by (institutional) investors
- Priorities for further improvement:
 - Introduction class action and derivative suit
 - Ownership restructuring
 - Mandatory disclosure underlying and interlocking shareholdings
 - Insider trading regulation
 - Proxy solicitation

Priority 6: Governments efforts to improve regulation and corporate governance of banks

- Progress since 2003:
 - Banks' internal governance
 - Strengthening role of banking regulator
- Key developments:
 - Singapore
 - Thailand
 - Vietnam
- Obstacles to progress, priorities for further improvement and concrete policy recommendations, see:

Draft Policy Brief on Corporate Governance of Banks

by the Roundtable Task Force on Corporate Governance of Banks

Preliminary observations future agenda Roundtable

- Administrative enforcement
- Civil enforcement
- Ownership structure
- (Fiduciary) duties of directors
- Corporate governance of groups of companies
- Related party transactions

Next steps

- You should verify accuracy draft report and amend where needed
- Update *by you* draft report where key on information is missing
- Who?
 - Policymakers (legislators, regulators)
 - Stock exchanges
 - Academics / think tanks
 - Practitioners
 - Institutes of Directors
 - Other stakeholders (shareholder activists, institutional investors)
- How?
 - Questionnaire – see Attachment 1 to draft report
 - Provide answers to OECD on questions regarding six Priorities
 - Format: 1) date of policy regulation/event, 2) responsible body, 3) short summary of contents
 - Deadline: 30 September 2005
- Please send input to louis.bouchez@oecd.org
- Final report to be distributed among Roundtable participants and other stakeholders before year end



THANK YOU, ...

AND PLEASE, DON'T FORGET, ANY COMMENTS
ARE WELCOME BY 30 SEPTEMBER 2005, AT:

louis.bouchez@oecd.org