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Asian Corporate Governance Association (ACGA)

“CG Watch 2010:
Market Scores and Rankings”

Presentation by
Jamie Allen, Secretary General, ACGA
Asia Risk Council 2010
Hong Kong, October 20, 2010

1. “CG Watch 2010”

- CLSA’s 8th regional CG survey; 5th with ACGA
- 11 major Asian markets assessed by ACGA under five categories, with CLSA input:
 - CG rules and practices
 - Enforcement (“public” and “private”)
 - Political & regulatory environment
 - IGAAP (accounting & auditing)
 - CG culture
- 580 companies (assessed by CLSA) for:
 - Discipline, transparency, independence, accountability, responsibility, fairness (90% of score)
 - Clean & Green + CSR (10% of score)

Methodology

- Market survey (90 questions in five categories):
 - Survey developed by ACGA over 2004, 2005 and 2007. Contains both objective and subjective questions.
 - Substantive questions on specific **rules** (eg, financial reporting, related-party transactions), **enforcement** outcomes and resources, the **government policy** and **regulatory** environment, **accounting and auditing** standards and practices, and **CG culture** (voluntary efforts by companies and other market participants)
 - A 5-point scoring system per question: 0, 0.25, 0.5, 0.75, 1
 - Survey carried out internally by ACGA, based on research and interviews in each market. Input from CLSA towards the end of the process.
 - Final scores are ACGA's responsibility.

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Asia

Special report

Higher ranked markets

Singapore

Hong Kong

Japan

Taiwan

Thailand

High CG stocks

HK Exchanges (388 HK)

Nintendo (7974 JP)

Li & Fung (494 HK)

TSMC (2330 TT)

HSBC (5 HK)

Infosys (INFO IB)

Sony (6758 JP)

Sumitomo Metal (5405 JP)

Tokyo Electron (8035 JP)

Tokyo Gas (9531 JP)

Canon (7751 JP)

Wipro (WPRO IB)



Stray not into perdition
Asia's CG momentum slows

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Regional themes

- The global financial crisis was largely a wasted opportunity in terms of new CG reform. Fiscal stimulus took the pressure off regulators and companies.
 - Asia runs the risk of falling further behind global CG standards. Some markets are intellectually and emotionally isolated.
- Enforcement is generally getting better.
- Regulatory institutions slowly improving in many markets.
- Accounting and auditing standards strengthening, as is awareness of weakness in practices.
 - Audit regulation becoming more independent.
- Voluntary efforts by companies, investors, financial intermediaries and other market players continues to lag government efforts—though gradually evolving.

Market scores (%): 2010 vs 2007

(%)	2007	2010	Change (ppt)		Trend of CG reform
1. Singapore	65	67	(+2)		Improving slowly, negatives cancel positives
2. Hong Kong	67	65	(-2)		Some regression, static overall
3. Japan	52	57	(+5)		Improving, but will reform be sustained?
= 4. Taiwan	54	55	(+1)		Static overall, loss of focus
= 4. Thailand	47	55	(+8)		Improving, but political uncertainties remain
6. Malaysia	49	52	(+3)		Improving, but held back by "CG culture"
= 7. India	56	49	(-7)		Over-rated last time, but slow improvements
= 7. China	45	49	(+4)		Improving, but held back by "CG culture"
9. Korea	49	45	(-4)		Regressing, turning inward
10. Indonesia	37	40	(+3)		Improving, but weak political system
11. Philippines	41	37	(-4)		Regressing, but new government may help

Source: Asian Corporate Governance Association

Market Category Scores

(%)	Total	CG Rules & Practices	Enforcement	Political & Regulatory	IGAAP	CG Culture
1. Singapore	67	65	60	69	88	53
2. Hong Kong	65	59	63	67	80	54
3. Japan	57	45	53	62	75	53
= 4. Taiwan	55	50	47	56	78	46
= 4. Thailand	55	56	42	54	73	49
6. Malaysia	52	49	38	60	80	32
= 7. India	49	46	36	54	63	43
= 7. China	49	47	36	56	75	30
9. Korea	45	43	28	44	78	33
10. Indonesia	40	39	28	33	67	32
11. Philippines	37	35	15	37	75	25

Source: Asian Corporate Governance Association

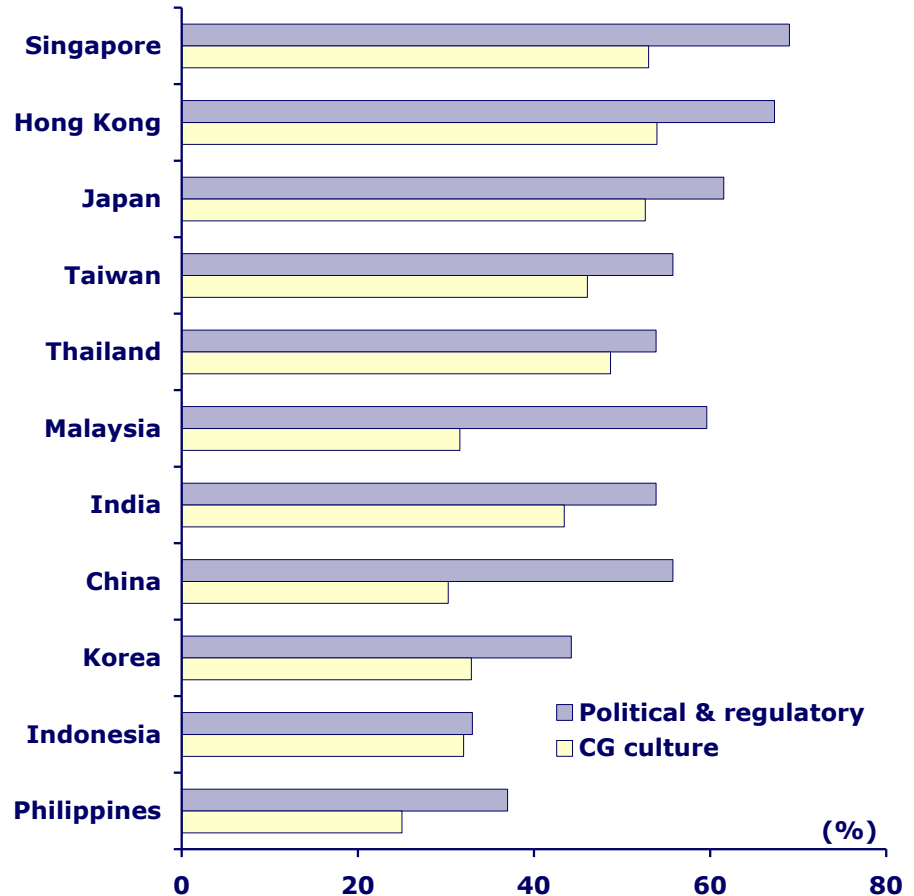
Enforcement: A stronger indicator of final rankings than other categories

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Source: Asian Corporate Governance Association

Government vs CG Culture

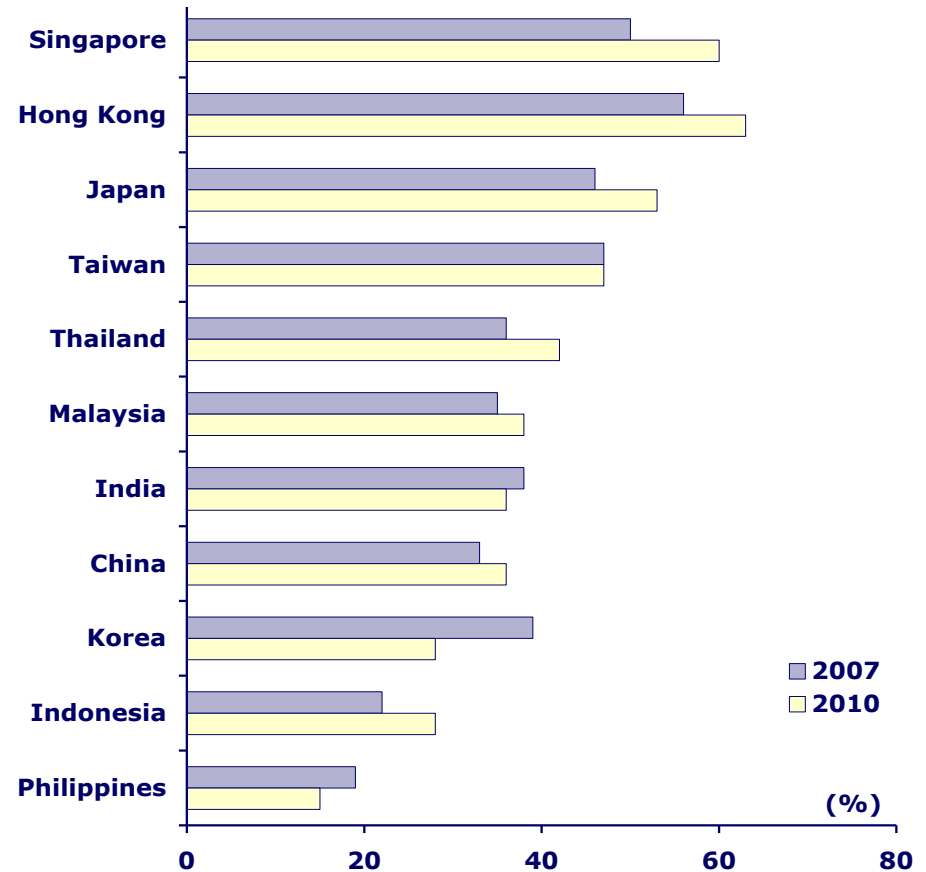
- Significant gaps in most markets between scores for political/regulatory environment and CG culture.
- Gap particularly wide for Malaysia (28 ppts) and China (26 ppts).
- For Indonesia, political and regulatory weaknesses, plus improvements in areas of CG culture, result in no gap.
- Conclusion: CG reform still very state-led, top-down in Asia. Culture hasn't yet caught up.



Source: Asian Corporate Governance Association

Enforcement: Mostly on the rise

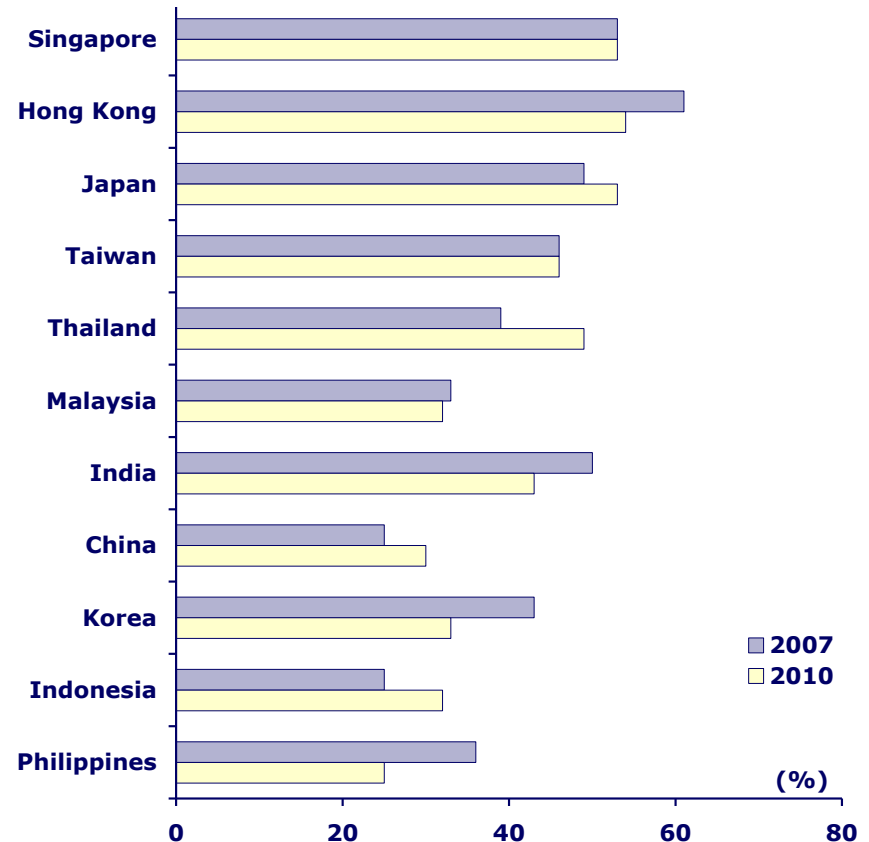
- Most markets show improved scores on enforcement.
- A product of better regulatory enforcement and stronger “private enforcement” (eg, investor voting of shares and company engagement).
- Much enforcement is administrative (ie, fines, warnings, criticisms)
- Little progress in most markets against insider trading, market manipulation, and fraud.



Source: Asian Corporate Governance Association

CG Culture: Mostly flat or on the slide

- CG culture score flat in Singapore, Taiwan and Malaysia.
- Falling in Hong Kong, India, Korea, Philippines.
- Improving in Japan and Thailand. Also China and Indonesia (but from low bases).
- Rising economies and capital markets have brought about a short-term focus.



Source: Asian Corporate Governance Association

Conclusion

- For international capital markets, Singapore and Hong Kong should be doing better in this survey.
- The progress of CG reform is not always linear—Korea the best example of a market going backwards.
- Reform continues to be top-down and state-led. There is room for companies and investors to play more of a leadership role—something that would benefit capital markets and local economies over the longer term.
- Markets can turn their fortunes around. Witness Japan, Thailand, Indonesia. Sustaining this is the challenge.
- Many regulators are taking enforcement more seriously, including in the area of auditor regulation.

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