Asian Corporate Governance Association (ACGA)

"Corporate Governance In Asia: Regional Overview"

Presentation by
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Agenda

1. Trends of CG in Asia

2. Elements of sound corporate governance

3. Company case studies

4. Final Thoughts

Introducing ACGA

- The Asian Corporate Governance Association (ACGA) was formed to help facilitate the implementation of effective corporate governance in Asia. We are:
  - A provider of expert and empirical information, analysis and advice on corporate governance in 11 major Asian markets.
  - An independent advocacy organisation focussed on tangible improvements: We work closely with investors and engage with regulators and companies on pertinent issues.
  - An educational body: We organise conferences and events, and provide speakers and resources to a range of educational, business association, and public groups.

ACGA was incorporated in Hong Kong in October 1999 as a non-profit membership association.

ACGA Member Network

- **ACGA has 86 member organisations:**
  - 53 in Asia-Pacific and 33 in Europe and North America.
  - Members include influential financial and investment institutions (asset owners and managers), leading Asian listed and unlisted companies, international law and accounting firms, and educational bodies.
  - Members have, in aggregate, more than US$10 trillion under management globally.

1. Trends of Corporate Governance in Asia: "CG Watch" Survey

1. Our latest joint ACGA-CLSA "CG Watch 2010" survey, where we once again provide the country rankings, will be released very soon.
2. Once again the rankings were determined from the category scores for CG Rules & Practice; Enforcement; Political/Regulatory; IGAAP; and CG Culture.
3. And this year some markets definitely surprised—Japan, Thailand, Indonesia and China—while others either regressed or disappointed.
4. Financial reporting standards continue to lag in many markets; regulators make it far too easy for companies to tick boxes; and fundamentals such as independent directors and audit committees lack effective rules.

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“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 %

Countries that disappointed

- Worst performers:
  - Korea – anti-reformist agenda of the Lee Myung-bak administration
  - India – a market that we felt we overrated in previous years, especially after writing our India White Paper
  - Philippines – disappointed in most categories, especially “CG Culture”
- Disappointing markets:
  - Singapore – while still one of the top markets in the region, fails to perform at the level of an international financial centre
  - Hong Kong – shows a lack of political courage to reignite the reform process following an attack by local tycoons on plans to extend black out period for director share trading
  - Taiwan – Caught in a holding pattern

2. 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”)

3. Company case studies

Poor governance:

- Fu Ji Catering, Hong Kong

Good governance:

- Infosys, India
  (www.infosys.com)

Fu Ji Catering, Hong Kong

Poor governance:

- **Fu Ji Catering**
  - Private mainland company based in Shanghai and listed on HKEx suddenly announced a voluntary winding-up in mid-2009;
  - Claimed independent financial adviser had uncovered 'significant financial challenges' for the company and its financial position and outlook 'had been deteriorating quite rapidly';
  - Yet in the months prior to this announcement, Fu Ji experienced a number of material events that were each price-sensitive and should have been disclosed.

Infosys, India

- India's leading IT company and one of Asia's most highly regarded companies from a governance point of view.
- Early on saw the value of being transparent and accountable—not just for shareholders, but also for its customers and potential customers, many of whom were in the US and Europe. Infosys believed this would make it a more trusted supplier. The strategy worked.
- Has a strong independent and international element on its board of directors.
- Publishes its audited annual results very quickly (15 days).
- Not afraid to release bad news to the market.

4. Final thoughts

- Corporate governance reform is a dynamic process--an attempt to continuously improve the financial system and create a more level playing field for participants.
- Reform efforts are never perfect or complete, but without them investor confidence and trust would not return.
- CG regimes in Asia have improved since 1997, but there is still a lot of work to do.
- The recent financial crisis highlights not the failure of CG standards *per se*, but a failure of implementation by major financial institutions and, arguably, a failure of regulatory governance.

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