

## **SUMMARY NOTE**

OECD Asian Roundtable on Corporate Governance  
29-30 October, Bangkok, Thailand

### **1. Key messages and outcomes**

- The G20/OECD Principles of Corporate Governance are increasingly relevant to Asia as Asian capital markets continue to deepen and become more complex. As the Principles are outcome-based, they are adaptable to a number of country circumstances.
- Important progress has been made by a number of Asian Roundtable economies towards the development of sound corporate governance frameworks. This was specifically highlighted during the breakout sessions with regards to related party transactions and board nomination and election.

### **2. Background**

A sound corporate governance framework plays an important role in creating a favourable investment climate and functioning capital market. The degree to which companies observe internationally recognised principles of corporate governance is a determinant of investment decisions, the cost of capital, the confidence of investors, and the ability of companies to access funding from a larger pool of investors.

Established in 1999, the OECD Asian Roundtable on Corporate Governance has become a unique platform for engagement by senior officials, regulators, and practitioners - including international and regional institutions and academics - committed to improving corporate governance in Asia. The objective of the Asian Roundtable is to support decision-makers in their efforts to improve corporate governance in the region. The Asian Roundtable offers (i) evidence-based comparative policy analysis and advice in order to advance implementation of better corporate governance in the region, and (ii) consensus-building and real knowledge-sharing, including by providing a bridge between Asia and the OECD Corporate Governance Committee – the international standard setter on corporate governance.

This year's Roundtable was timely as it took place just after the launch of the revised G20/OECD Principles of Corporate Governance, which were endorsed by the G20 this Fall. The Roundtable provided an opportunity to share perspectives on their relevance and implementation in Asia.

### **3. Main points of discussion**

#### **Corporate Governance Developments in Thailand**

The recent developments related to corporate governance in Thailand were presented by panellists, which included the Secretary-General of the Securities Exchange Commission, the President of the Stock Exchange of Thailand, the President of the Thai Institute of Directors, and the Director of a

publicly listed Thai firm. Notably, the Principles of Good Corporate Governance for Listed Companies were revised by the Stock Exchange of Thailand in 2012 and came into effect in 2013. Also, the Thai Institute of Directors has developed a star-rating system to assess the corporate governance of individual listed companies. Thailand's rating according to the ASEAN Corporate Governance Scorecard has improved, and 522 Thai companies have signed the "clean business commitment".

Nonetheless, challenges remain in terms of implementation. The key is how to get companies to buy in to good corporate governance practices. It was pointed out that companies should comply not only with the letter of the law, but also with its spirit. Engendering such a culture requires a whole-of-government effort to encourage firms to understand the business case for sound corporate governance. One participant pointed out that more evidence is needed to show that good governance leads to good performance.

### **The revised G20/OECD Principles on Corporate Governance**

Taking place just after the revision and endorsement of the Principles of Corporate Governance by the G20, the Roundtable discussed the opportunities and challenges related to the implementation of the Principles in Asia. The five pillars of the revised G20/OECD Principles were presented, as was the extensive evidence base that was developed in the process of their revision. The Principles are outcome-based, adaptable to different country circumstances and more ambitious than a simple box-ticking approach.

Benefitting from the perspectives of securities regulators, stock exchanges, self-regulatory organisations, institutes of directors, the media and the private sector, the discussion took stock of progress in a number of Asian economies (specifically China, Malaysia, the Philippines and Singapore) toward the development of corporate governance policies in line with the Principles. Key topics of discussion were how to improve the effectiveness of independent board directors, the role of corporate bondholders in corporate governance, and the applicability of the new chapter on institutional investors (considering the prevalence of concentrated ownership in Asia). It was suggested that the Asian Roundtable might next address the role of stock exchanges in promoting sound corporate governance.

### **Family-controlled companies in Asia**

A significant portion of listed companies in Asia are family-controlled. Common challenges for family-controlled firms include that owners tend to maintain control over firms and to be reluctant to disclose information, raising concern for good corporate governance. It was highlighted that significant challenges for family-controlled firms in Asia include, in particular, leadership succession and corruption or family conflicts. Some research on family-controlled firms was cited illustrating the significant shareholder value that commonly dissipates in the wake of leadership succession. Panellists invited the OECD to develop further work that could inform policymakers on i) the process for determining leadership succession, ii) the relationship between family owners and professional managers, iii) the incentive promotion system, and iv) family-controlled firms in the initial public offering process.

A meeting of the Task Force on Family-controlled Companies in Asia, which included 34 participants, was held directly after the Roundtable. A draft consultants paper, funded by the CFA Institute, provided a review of the literature and some case studies. Task Force members expressed some concerns with regards to the draft paper, such as the effects of the recommendations in creating more regulations that might stifle family-controlled firms. The varied definitions of family-controlled firms and thus the comparability and accuracy of data was another concern. The group decided not to endorse the draft paper and to orient the future work towards identifying the main characteristics of family controlled listed firms in Asia, and describing specific challenges to ultimately inform regulators/policy-makers about what's happening at company level. This would also enable companies to better understand regulatory concerns. The G20/OECD Principles of Corporate Governance would serve as the main reference.

### **Progress towards the implementation of previous Asian Roundtable recommendations**

Two breakout sessions were held with the goal of monitoring the progress made by Asian Roundtable economies towards the implementation of previous Asian Roundtable recommendations. One breakout session took stock of developments regarding related party transactions (RPTs) since the publication of the 2009 report *Fighting Related Party Transactions in Asia*, while the other took stock of developments since the publication of the 2013 report *Better Policies for Board Nomination and Election in Asia*.

For the breakout session on board nomination and election, progress made in China, Chinese Taipei, India, Malaysia, the Philippines and Thailand was outlined by lead discussants. In Chinese Taipei, key developments include the creation of a CG ranking for individual firms, a stricter requirement on independent board directors and the introduction of e-voting. In India, the passing of the Companies Act 2013 and the SEBI listing rules are two major developments, as they require boards to form nomination committees and to disclose how they are formed. In Malaysia, the listing rules do the same and where the minority shareholder watchdog group monitors and activates AGMs. In China, the nomination committee is recommended by the code of corporate governance, which is under revision and expected to be developed by CSRC next year. In the Philippines, the establishment of the nomination committee is the best practice, but not all listed companies have implemented it. In Indonesia, the regulation on the nomination and election committee was issued in December 2014 and will come into force in December 2015.

For the breakout session on RPTs, recent developments in India and the Philippines were presented. Some examples that were shared include the setting-up a committee on RPTs, in addition to the audit committee, in the Philippines. In Viet Nam, the new Law on Enterprises requires shareholder approval for RPTs. The representative from Chinese Taipei noted the introduction of a registration platform for shareholder meetings to address challenges related to the ability of shareholders to participate in meetings, which are usually clustered around the month of April. Two cases of enforcement action were reported by India, one of them against Siemens.

### **Institutional Investors in Asia**

In light of the new chapter on institutional investors in the revised G20/OECD Principles of Corporate

Governance, the discussion focused on assessing the ownership engagement of institutional investors in Asia. The base of institutional investors in Asia is still small, though growing. There are a number of international investors active in the region, while they are diverse in their investment strategies and their level of engagement. A number of the recent policy developments regarding ownership engagement were also discussed. For investors, voting at AGMs can be challenging, as it is hard to monitor thousands of firms in which they invest in many jurisdictions and they do not want to pay much for research. Disclosure in English, e-voting and the avoidance of an excessive number of AGMs on the same day were cited as good practices to facilitate investor voting. The stewardship code is also a good practice. It was established recently in Japan and Malaysia and is in the progress of development in Hong Kong (China), Singapore and Chinese Taipei.

Panellists provided their views on the new chapter on institution investors in the Principles. Comments included that the Principles could be more precise when it comes to the wide range of different investors that exist. Also, it was specified that ownership engagement in and of itself does not mean anything; the quality of engagement is what counts. Considering the long and complex investment chain that has emerged in many financial markets, it was also noted that the proxy advisors play an important role in helping investors to engage. The future steps to facilitate the implementation of the new chapter on institutional investors in Asia may include increased use of IT (e.g. e-voting) and the development of a database and platform for the investment chain.

#### **Disclosure of beneficial ownership and control**

Without disclosure of beneficial governance and control, good corporate governance is not possible. A sound disclosure regime was identified as critical because there is a risk that controlling beneficial owners, with large voting blocks, may also have an incentive to divert corporate assets and exploit opportunities for personal gain (e.g. RPTs, share dilutions). Frameworks for disclosure of beneficial ownership and control have been developed in Asian economies. In reality, however, it is often difficult to find who really has control over a company, even within the disclosure regimes of many OECD countries. Participants noted that just the rules and regulations are not enough to create the true incentives for sound disclosure. Creating a comprehensive framework to support a culture of disclosure is critical.

Views from China, Indonesia, the United States, the World Bank and the OECD Secretariat were presented. In China, establishing a web-based platform to disclose beneficial ownership in state-owned firms was mentioned. In Indonesia, progress has been made towards implementing the recommendations of 2013 report “Disclosure of Beneficial Ownership and Control in Indonesia: Legislative and Regulatory Policy Options for Sustainable Capital Markets”. The rules regarding disclosure in the United States were also explained. Finally, the importance of beneficial ownership was outlined in the context of anti-corruption with reference to the OECD Anti-Bribery Convention. Moreover, the FATF recommendations require the identification of beneficial ownership and control for anti-terrorism and anti-money laundering purposes. It was pointed out that the regulation for these purposes might also be useful to securities regulation.