

PECC Macro Corporate
Governance Scorecard Project:
Evaluation of Corporate
Governance in East Asian
Economies

Stephen Yan-leung Cheung
and Hasung Jang

Introduction

- The importance of corporate governance reforms in East Asian Economies
- National, regional and global initiatives
 - PECC guidelines for good corporate governance endorsed by APEC in 2001
 - OECD principle in 2004

Macro Corporate Governance Scorecard

Two surveys

1. Rules and Regulations on Corporate Governance

- Stock-taking exercise
- Based on 5 principles
 - Rights of shareholders
 - Equitable treatment of shareholders
 - Role of shareholders
 - Disclosure and transparency
 - Board responsibilities
- Existing rules and regulations on corporate governance

Macro Corporate Governance Scorecard

1. Rules and Regulations on Corporate Governance
 - Research team consists of representatives from each East Asian economies, including China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand
 - Institute of Directors or Research Institutes
 - Assistance from the regulatory agency

Macro Corporate Governance Scorecard

2. The second survey on

- Market perception on governance practice
- Questionnaire distributed by Investment Fund Association
- Fund managers and analysts with investment exposure in the region

Macro Corporate Governance Scorecard

3. Objectives

- Two different angles
 - existing corporate governance framework
 - Investors perception
- Not a finger-pointing exercise
- Mutual learning experience

Rules and Regulations

- 103 questions
 - 55 are used in the scoring
 - 48 are used for confirmation
- Common and different features of each economy

Rules and Regulations

Area of Evaluation	The Rights of Shareholders	Equitable treatment of shareholders	Role of Stakeholders	Disclosure and Transparency	Board Responsibilities	Sum
Number of questions surveyed	39	12	44	20	28	103
Number of questions included in evaluation	16	9	2	15	13	55

Rules and Regulations

A. Rights of shareholders

- Information available to shareholders
- Voting system
- Shareholder participation
 - appointment / removal of directors
 - amendments of company articles
 - major transactions

Rules and Regulations

B. Equitable Treatment of Shareholders

- Definition of insiders
- Disclosure of insider transactions
- Penalties on insider trading
- Regulatory framework on related party transaction

Rules and Regulations

C. Roles of Shareholders

- Employee incentive plan
- Employee safety and welfare
- Employee wage and benefit in the event of insolvency
- Disclosure on environmental issues

Rules and Regulations

D. Disclosure and Transparency

- Amount of information required to be disclosed in the annual report
- Director shareholding
- Senior management shareholding
- Rotation of audit firm

Rules and Regulations

E. Board Responsibilities

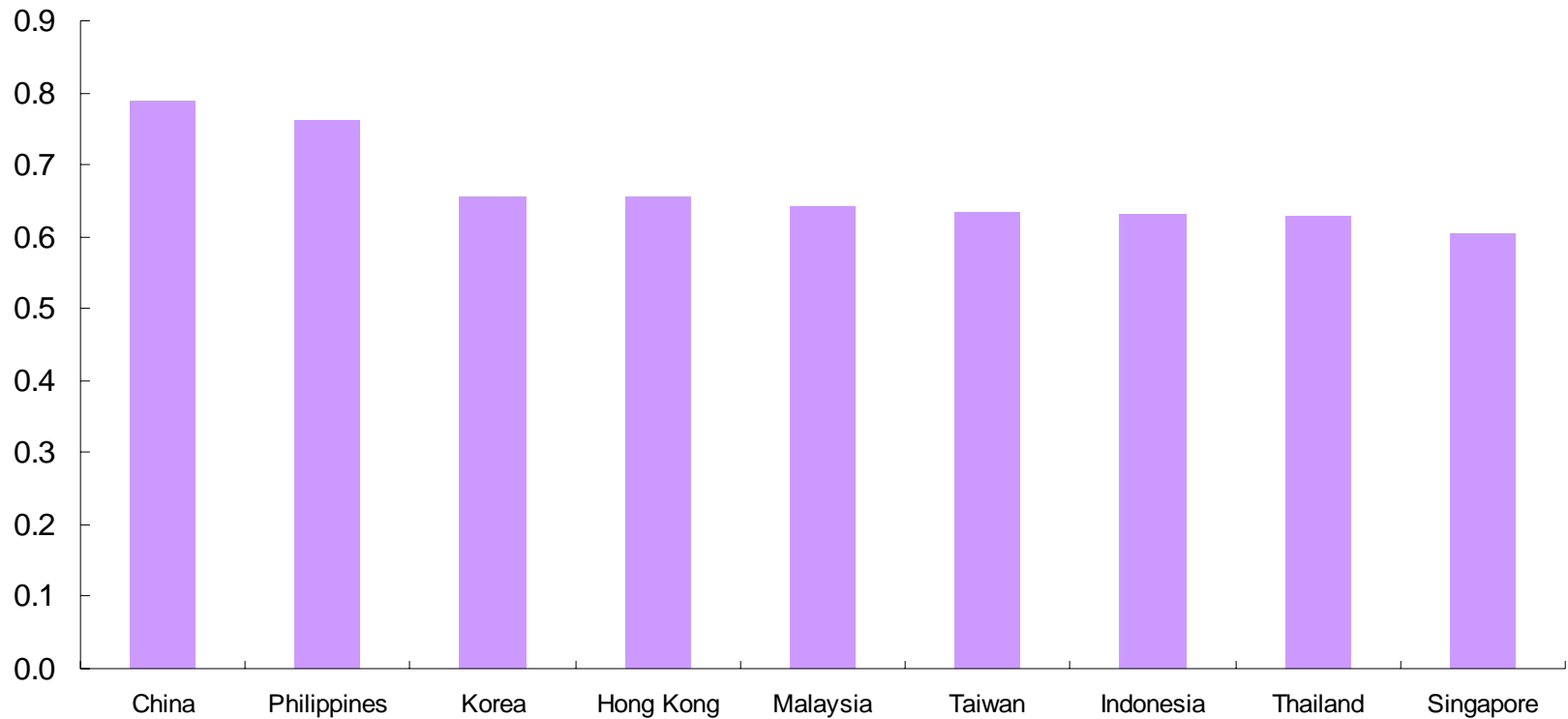
- Board subcommittee; audit, nomination, and remuneration
- Disclosure on director compensation
- Number of outside directors
- Mandatory training for directors

Rules and Regulations

Area of Corporate Governance	The Rights of Shareholders	Equitable treatment of shareholders	Role of Stakeholders	Disclosure and Transparency	Board Responsibilities	Sum
Weight 1	30%	10%	5%	15%	40%	100%
Weight 2	20%	20%	10%	20%	30%	100%

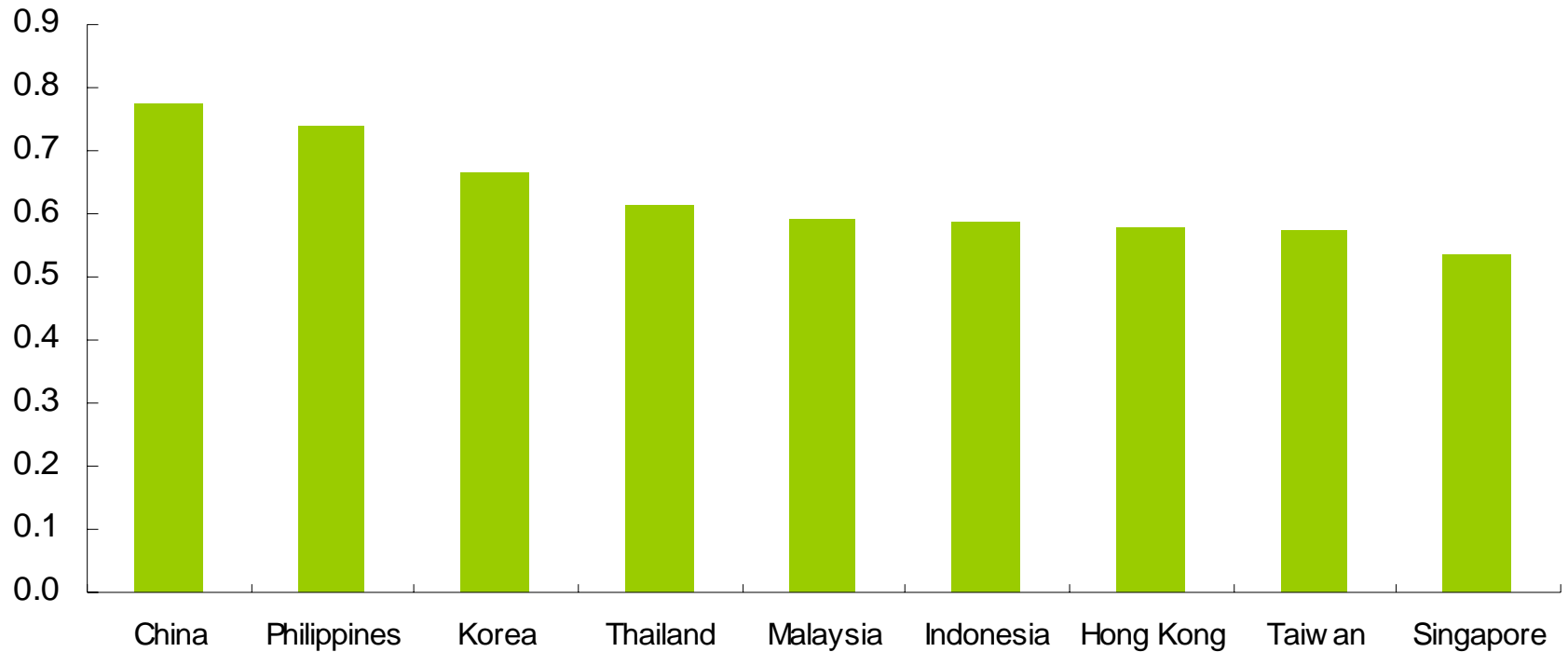
Rules and Regulations

Rating result (Weighting 1)



Rules and Regulations

Rating result (Weighting 2)



Investor Evaluation

Results

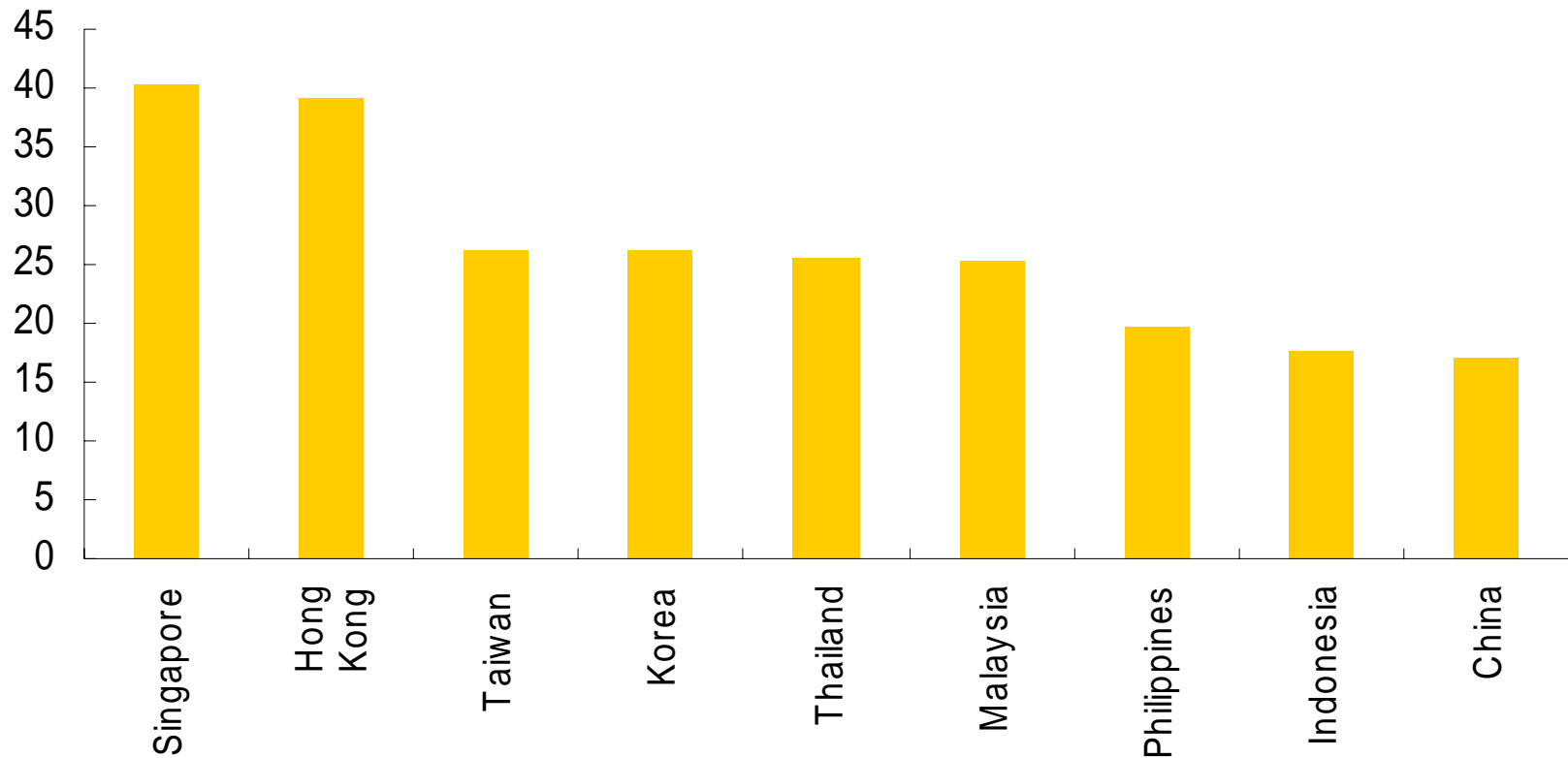
- 10 questions
- 17 fund managers and 8 analysts
- 1 to 5 point scale

Investor Evaluation

1. How do you evaluate overall quality of corporate governance practiced in each country?
2. Shareholder rights are protected.
3. Management respects shareholder value.
4. Accounting reports including annual and semi-annual reports are accurate and reliable.
5. Disclosures are made timely and adequately.
6. Board supervises the management independently and effectively.
7. Rules and regulations on corporate governance are enforced effectively.
8. The financial intermediaries including accountants and auditors can be trusted.
9. Legal system including courts and prosecutors are fair and independent.
10. Foreign investors are equally treated as local investors.

Investor Evaluation

Score of sum of all 10 questions



Conclusion (1)

- Economies are not significantly different from each other in the first survey
- However, there are significant differences in the second survey
- Rules and regulations are not that important
- Investor perceptions are very different

Conclusion (2)

- Not a finger-pointing exercise
- MUTUAL learning experience
- REFORM not only in rules and regulations
- ALSO in the implementation and enforcement

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