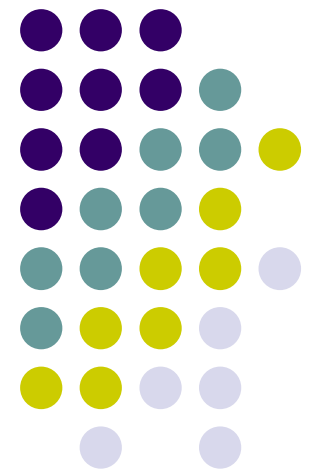


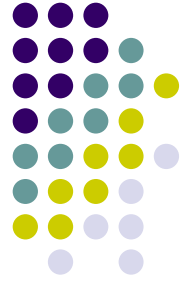
Implementation of Corporate Governance Best Practices in Asia: Have We Gone Too Far?

A/P Mak Yuen Teen
Director, Corporate Governance and
Financial Reporting Centre
National University of Singapore



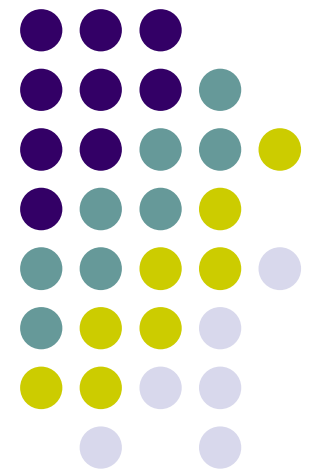
**Risky Business? Corporate Governance in Asia 2006,
25-26 September 2006, Hong Kong**

Common Objections to Efforts to Raise CG standards in Asia



1. Cultural differences make the Anglo-American models inappropriate for Asia
2. Insufficient attention to differences in nature of companies and other differences in institutional environments
3. The Anglo-American models did not prevent Enron, WorldCom, etc.
4. Corporate governance is about ethics and not rules

How Far Have We Gone? The Adoption of Best Practices in Asia





Adoption of Best Practices - 2004

Table 1 : Summary Statistics of Corporate Governance Disclosure Scores

Item	Hong Kong	Malaysia	Thailand	Singapore
Sample Size	33	50	50	45
Max Score	99/140	94/140	75/140	119/140
Min Score	19/140	44/140	4/140	16/140
Mean	42.57	64.92	37.56	80.58
Standard Deviation	19.85	11.85	16.6	28.57
Median	38	64	35	92

Based on CGFRC-S&P Corporate Governance Disclosure Studies in 2004.. Companies included were index stocks or, in the case of Malaysia, the top 50 companies on the KLSE index.

Adoption of Best Practices

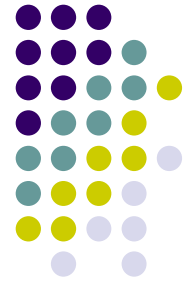


Table 2 : Proportion of Independent Directors

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006 [^]	All 2006
> 1/3 – 1/2	30%	50%	36%	24%	38%	72%
> 1/2	9%	18%	6%	34%	39%	19%

[^] Percentages for 2006 are based on 44 companies as one company had de-listed in 2006

Adoption of Best Practices



Table 3 : CEO Chairman Separation

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006 [^]	All 2006
Held by separate persons	76%	94%	88%	80%	80%	62%
Held by same person	24%	6%	12%	20%	20%	38%

[^] Percentages for 2006 are based on 44 companies as one company had de-listed in 2006

Adoption of Best Practices



Table 4 : Frequency of Board Meetings

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006^	ALL 2006
ND	49%	0%	28%	13%	11%	5%
6 times or less	39%	56%	18%	67%	62%	83%
More than 6 times	12%	44%	54%	20%	27%	12%

^ Percentages for 2006 are based on 44 companies as one company had de-listed in 2006

Adoption of Best Practices



Table 5 : Attendance at Board Meetings

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006^	ALL 2006
ND	64%	0%	46%	20%	25%	9%
Less than 80%	6%	10%	12%	20%	5%	11%
More than 80%	30%	90%	42%	60%	70%	80%

^ Percentages for 2006 are based on 44 companies as one company had de-listed in 2006

Adoption of Best Practices



Table 6 : Nominating Committee

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006	All 2006
% with NC	40%	84%	34%	80%	82%	92%
% with independent NC chair*	38%	76%	24%	64%	68%	86%

*HK –Based on 13 companies having a Nominating Committee

*M'sia –Based on 42 companies having a Nominating Committee

*Thai –Based on 17 companies having a Nominating Committee

*S'pore Large Caps 2004 & 2006 – Based on 36 companies having a Nominating Committee;
S'pore All 2006 - Based on 612 companies having a Nominating Committee

Adoption of Best Practices



Table 7 : Independence of Nominating Committee

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006	All 2006
51-99%	62%	64%	18%	67%	58%	79%
100%	23%	12%	6%	17%	25%	15%

HK –Based on 13 companies having a Nominating Committee

M'sia –Based on 42 companies having a Nominating Committee

Thai –Based on 17 companies having a Nominating Committee

S'pore Large Caps 2004 & 2006 – Based on 36 companies having a Nominating Committee;

S'pore All 2006 - Based on 612 companies having a Nominating Committee

Adoption of Best Practices



Table 8 : Board and Director Appraisals

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006	All 2006
Board appraisal	6%	18%	6%	60%	36%	26%
Director appraisal	23%	12%	6%	49%	30%	17%

HK –Based on 13 companies having a Nominating Committee

M'sia –Based on 42 companies having a Nominating Committee

Thai –Based on 17 companies having a Nominating Committee

S'pore Large Caps 2004 & 2006 – Based on 36 companies having a Nominating Committee;

S'pore All 2006 - Based on 612 companies having a Nominating Committee

Adoption of Best Practices

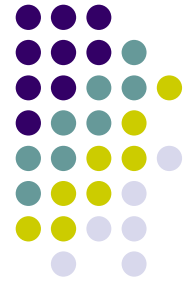


Table 9 : Remuneration Committee

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006	All 2006
% with RC	58%	82%	44%	87%	89%	94%

Adoption of Best Practices



Table 10 : Independence of Remuneration Committee

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006	All 2006
51-99%	47%	46%	27%	49%		
100%	37%	7%	9%	23%	21%	18%

HK – Based on 19 companies having a Remuneration Committee

M'sia – Based on 41 companies having a Remuneration Committee

Thai – Based on 22 companies having a Remuneration Committee

S'pore Large Caps 2004 & 2006 – Based on 39 companies having a Remuneration Committee;

S'pore All 2006 - Based on 629 companies having a Remuneration Committee

Adoption of Best Practices

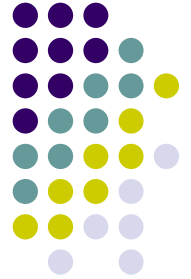


Table 11 : Disclosure of Executive Directors' Remuneration

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006^	All 2006
Not disclosed	40%	5%	80%	13%	11%	11%
Disclosed in bands	39%	80%	0%	67%	64%	83%
Disclosed in exact amount	21%	15%	20%	20%	25%	6%

^ Percentages for 2006 are based on 44 companies as one company had de-listed in 2006

Adoption of Best Practices

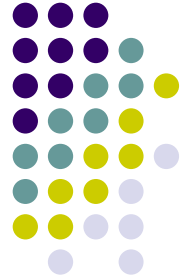


Table 12 : Disclosure of Non-Executive Directors' Remuneration

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006^	All 2006
Not disclosed	40%	5%	80%	15%	11%	10%
Disclosed in bands	39%	80%	0%	58%	66%	83%
Disclosed in exact amounts	21%	15%	20%	27%	23%	7%

^ Percentages for 2006 are based on 44 companies as one company had de-listed in 2006

Adoption of Best Practices

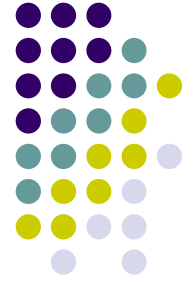
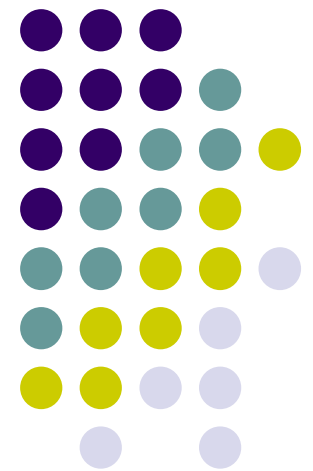


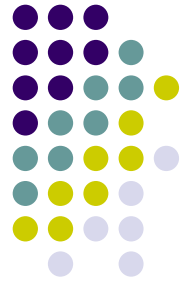
Table 13 : Independence of Audit Committee

	Hong Kong	Malaysia	Thailand	Singapore		
	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2004	Large Caps 2006	All 2006
51- 99%	30%	82%	6%	40%		
100%	58%	8%	80%	38%	61%	49%

Challenges in Adopting Best CG Practices in Asia

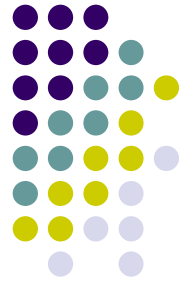


Challenges in Adopting Best CG Practices in Asia



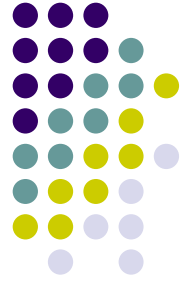
Asian companies appear to have adopted many of the best practices recommended in the developed economies, but.....

Challenges in Adopting Best CG Practices in Asia



- Form rather than substance – box-ticking approach
- Lack of regulatory or market enforcement of “comply or explain” has led to practices such as false disclosures, non-compliance with comply or explain, partial compliance with no explanations and boilerplate disclosures
- Many companies still see corporate governance as a compliance exercise, rather than helping enhance long-term performance and shareholder value

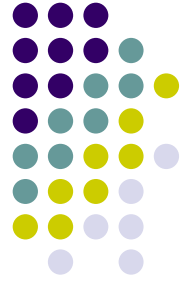
Some Specific Challenges



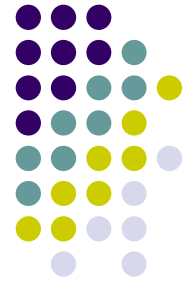
1. Independent directors

- Definitionally-independent rather than independent-minded directors
- Old boys' network in recruiting directors
- Shortage of qualified independent directors, especially for smaller companies?
- Difficulty in overcoming Asian values such as high power distance, low tolerance for ambiguity and collectivism which are important for a person to challenge an authority figure, to ask possibly stupid questions and to “rock the boat”

Some Specific Challenges

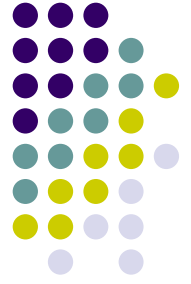


- Can a director really be independent of a controlling shareholder? Should he be?
- Can independent directors really oversee management who are controlling shareholders of the company?
- Lack of accountability of independent directors



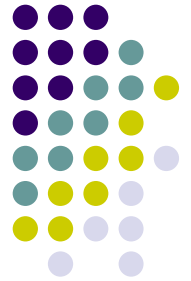
Should we discontinue the use of the term “independent directors”?

Some Specific Challenges



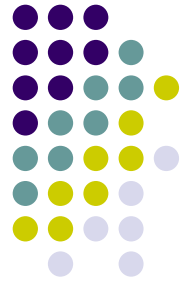
2. Separation of Chairman and CEO

- Chairman tends to be:
 - Chairman-cum-CEO
 - Controlling shareholder or his nominee (may be “non-executive”)
 - Executive Chairman
 - Family member of the CEO
- Independent Chairmen are rare



Can Asian companies which mostly have founder-CEOs or are family-controlled really have effective separation between Chairman and CEO? If not, can there be an effective check and balance in place?

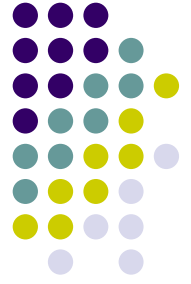
Some Specific Challenges



3. Board and director appraisals

- acceptance that boards and directors should be held accountable for performance still not high (double standards?)
- difficult to be critical of peers, and especially of Chairman
- box-ticking exercise, and results are not used

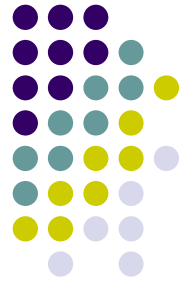
Some Specific Challenges



4. Board renewal

- difficult to replace directors who do not contribute because of “face” issue
- long tenures are common

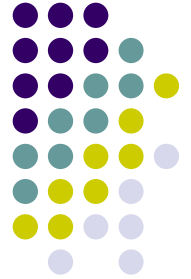
Some Specific Challenges



5. CEO succession planning

- challenges for family-controlled companies – can the board actually implement a proper succession plan?

Some Specific Challenges



6. Remuneration committee

- “Given my large investment as a controlling shareholder, shouldn’t I be allowed to chair the remuneration committee so that I can decide how much to pay directors and senior executives?”

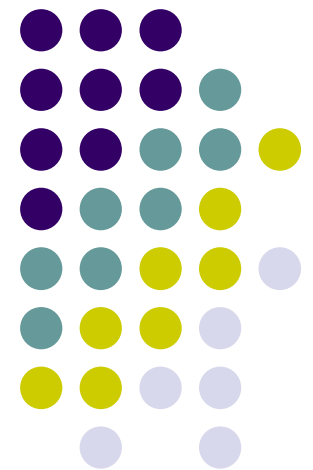
Some Specific Challenges



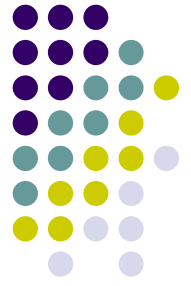
7. Remuneration disclosure

- Arguments against disclose remuneration details of executive directors and senior management:
 - Poaching
 - Upward ratcheting of pay
 - Face (if low pay)
 - Jealousy (if high pay)
 - Privacy
 - Security
- Are they valid?

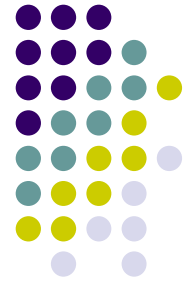
Further Improvements in Corporate Governance in Asia



Further Improvements in Corporate Governance in Asia



1. Improve enforcement of rules
2. Increase accountability of directors, including independent directors
3. Pay independent directors more and pay them right
4. Focus on the 3 C's in appointing directors – character, commitment and competence
5. Improve rights of minority shareholders with respect to appointment of independent directors and ability to take class actions
6. Put pressure on institutional investors to become more active



Having strong board governance is more even more important in Asia than in countries like the U.S. because other governance mechanisms are less developed

Thank You!

Q & A

