



# ASEAN CORPORATE GOVERNANCE SCORECARD

COUNTRY REPORTS AND  
ASSESSMENTS 2013–2014

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ASSESSMENTS 2013–2014

JOINT INITIATIVE OF THE ASEAN CAPITAL MARKETS FORUM  
AND THE ASIAN DEVELOPMENT BANK

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The scorecard is an initiative under the Association of Southeast Asian Nations Capital Markets Forum. The forum endorsed the scorecard and the methodology used in the ranking exercise but was not involved in the assessment and selection of the publicly listed companies on the list.

The terms “publicly listed companies,” “listed companies,” and “companies” are used interchangeably in this report.

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# Abbreviations

ACMF	ASEAN Capital Markets Forum
AGM	annual general meeting
ASEAN	Association of Southeast Asian Nations
ASM	annual stockholders' meeting
BAPEPAM-LK	Badan Pengawas Pasaran Modal dan Lembaga Keuangan (Indonesian capital market and financial institutions supervisory agency)
BOC	board of commissioners
BOD	board of directors
CEO	chief executive officer
DRB	domestic ranking body
ICD	Institute of Corporate Directors (Philippines)
OECD	Organisation for Economic Co-operation and Development
PLC	publicly listed company
RPT	related party transaction
SEC	Securities and Exchange Commission (Philippines)



# Foreword

*by James A. Nugent, Director General, Southeast Asia Department, Asian Development Bank*

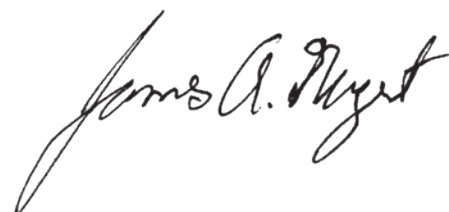
Established in 2004 under the auspices of the Association of Southeast Asian Nations (ASEAN) Finance Ministers, the ASEAN Capital Market Forum (ACMF) has shifted its focus from harmonization of rules and regulations to more strategic issues to achieve greater integration of the region's capital markets under the ASEAN Economic Community Blueprint of 2015. The Asian Development Bank's (ADB) partnership with ACMF has reaped many fruitful outcomes, and the ASEAN Corporate Governance Scorecard is one of the clearest demonstrations of this successful partnership.

The ASEAN Corporate Governance Scorecard provides a rigorous methodology benchmarked against international best practice—including the Organisation for Economic Co-operation and Development's principles of corporate governance—to assess the corporate governance performance of publicly listed companies (PLCs) in the six participating ASEAN member countries. This common methodology provides foreign investors and external fund managers comparable information to form part of their investment decision-making process. The scorecard also provides assurance to foreign investors that corporate governance is a priority agenda in the region. While the link between corporate governance and companies' profit is inconclusive, poor corporate governance has been proven to negatively affect investors' confidence which consequently results in lower investment into the region. Nowhere is this clearer than the drop in foreign investments after the 1997 crisis that engulfed Southeast Asia. Hence, the scorecard is a useful tool to demonstrate ASEAN members' commitment to sound corporate governance which will be important to increase foreign direct investment into the region.

The *ASEAN Corporate Governance Scorecard: Country Reports and Assessments 2013–2014* is the second publication since its launch in 2013. This report is based on experts' assessments of corporate governance performance of PLCs in the region. The assessments then went through a rigorous peer review for consistency and quality control. This report consists of not only individual country reports of the six participating countries but also highlights ASEAN best practice in corporate governance. The countries in Southeast Asia are not only benchmarking their corporate governance frameworks based on international best practices. They are also playing a meaningful role and contributing to the establishment of international norms and best practices. Over time and through regular and continuous publication, the report can provide trend analysis of corporate governance performance of PLCs in the region. This will be useful for governments, regulators, nonprofit organizations, and the private sector to ascertain the improving corporate governance standards in the region.

ADB would like to congratulate ACMF and members of the working group led by the Securities Commission Malaysia for the publication of the *Country Reports and Assessments 2013–2014*. This publication is a culmination of months of hard work by regional corporate governance experts and domestic ranking bodies with the coordination of regulators in the region. We hope this becomes an annual publication, and as capital markets in other Southeast Asian countries continue to develop, future publications may expand to include other countries beyond the initial six.

The ASEAN Corporate Governance Scorecard is proof that differences in capital market development are not insurmountable obstacles to regional integration initiatives. While the ASEAN Economic Community is still a work in progress, regional integration is not built on one collective set of actions. Instead, it consists of small steps leading to initiatives which act as building blocks to regional integration. The scorecard is an important part of ASEAN's regional integration architecture and can in fact be an example for other initiatives. ADB is honored to have played its role and be part of this initiative. We wish ACMF a successful journey toward ASEAN capital market integration and pledge our commitment as a trusted partner in that journey.

A handwritten signature in black ink, reading "James A. Puyat". The signature is written in a cursive, flowing style with a large, sweeping initial 'J'.

# Foreword

*by Goh Ching Yin, Chair, ASEAN Corporate Governance Taskforce*

The Securities Commission Malaysia is honored to have been given the mandate and trust to continue to lead the Association of Southeast Asian Nations (ASEAN) Corporate Governance initiative, which is in its fourth year. This initiative, comprising the ASEAN Corporate Governance Scorecard and the ranking of corporate governance of ASEAN publicly listed companies (PLCs), complements other ASEAN Capital Markets Forum (ACMF) initiatives to promote and brand ASEAN as an attractive asset class. The success of this initiative is a testament to the ACMF's recognition of the importance of corporate governance to enhance the attractiveness and raise the international visibility of well-governed ASEAN PLCs. Besides attracting investors to the region, the establishment of a set of corporate governance standards for the region would also lead to more intra-ASEAN portfolio flows and contribute to the growth of capital markets. As ASEAN companies begin to establish regional footprints outside their home countries, we hope that this convergence will facilitate cross-border operations and help companies expand their markets within the region.

The Securities Commission Malaysia attributes its success in carrying out its mandate to the commitment of fellow regulators to provide guidance and support to both the Securities Commission Malaysia and the group of domestic ranking bodies (DRBs). In particular, we would like to record our gratitude to the Securities and Exchange Commission of Thailand, the Financial Services Authority of Indonesia, the Philippines Securities and Exchange Commission, the Monetary Authority of Singapore, and the Vietnam State Securities Commission. Our appreciation also goes to the Asian Development Bank, which provided the initial funding support to this project through its regional technical assistance, Promoting an Interlinked ASEAN Capital Market.

The scorecard has become an asset for ASEAN given its importance and usefulness in raising the standards of corporate governance among listed companies in the region. One of the valuable features of the scorecard is its ability to highlight areas of strength and weakness through its findings, which provide regulators and corporate governance proponents with useful data points to guide corporate governance reforms, strategies, and measures.

Building and promoting ASEAN as a market with high standards of governance requires strong and continuing collaboration between capital market regulators, DRBs, industry players, and independent corporate governance experts. In this regard, I am pleased to note that the DRBs have dedicated their resources not only to conducting assessments on the PLCs, but to also educating, promoting, and creating awareness of the expectations under the scorecard and the value of good corporate

governance. The DRBs have also held events to recognize and award PLCs that have adopted good corporate governance practices.

The 3-year experience in implementing the ASEAN Corporate Governance initiative and the intensive debates and discussions at the working group meetings have provided the DRBs with a mature and holistic perspective on the standards of corporate governance in ASEAN and an understanding of the constraints prevailing in each participating country. Despite the differences in their stages of development, participating countries were able to balance their national characteristics and the corporate governance principles espoused by the scorecard to converge toward international best practices to meet the integration objectives of the ACMF. Through these experiences, the ranking exercise has evolved to ensure the rigor of not only the scorecard itself, which has undergone review and enhancement before each assessment, but also other parts of the process throughout the year, including peer review.

While there are currently only six participating countries in the scorecard project, we are encouraged by the interest expressed by other countries in the project. We support and look forward to welcoming the participation of more ASEAN countries in this initiative to make this a truly ASEAN effort.

In envisioning the future and sustainability of this project, and in line with the spirit of integration espoused by the ASEAN Economic Community, alignment of interests beyond national boundaries to those of ASEAN as a region is imperative. The unwavering and continuous commitment of all parties is equally crucial to ensure that the scorecard is used to its full potential and ASEAN as a region can attain its goal to be a highly competitive region with high standards of governance.

A handwritten signature in black ink, appearing to read "Bambang", with a large, stylized loop at the end.



# 1

# Executive Summary

## Background

The ASEAN Corporate Governance Scorecard was introduced in 2011. The scorecard is a corporate governance initiative of the Association of Southeast Asian Nations (ASEAN), under the ASEAN Capital Markets Forum (ACMF) Implementation Plan for the development of an integrated capital market, to complement other ACMF initiatives and promote ASEAN as an asset class. The scorecard hopes to raise corporate governance standards of publicly listed companies (PLCs) in ASEAN countries and increase their visibility to investors.

The appointed domestic ranking bodies (DRBs) concluded their assessments and peer review for the third year in January 2014. Bolstered by continued confidence that regulators, PLCs, investors and other stakeholders have in the relevance and effectiveness of the scorecard in elevating corporate governance standards, the third year of assessments saw heightened efforts by PLCs to improve their corporate governance practices.

The publication in 2013 of the inaugural *ASEAN Corporate Governance Scorecard: Country Reports and Assessments 2012–2013* provided the impetus for raising the public's awareness of this initiative and the profile of the countries and PLCs featured. The 2013–2014 report continues the momentum toward elevating the visibility of ASEAN PLCs among investors. In the third year, (2013–2014) DRBs from Indonesia, Malaysia, the Philippines, Singapore, and Thailand, as well as a corporate governance expert from Viet Nam, undertook the corporate governance assessment of ASEAN PLCs. The DRBs were

- the Indonesian Institute for Corporate Directorship;
- the Minority Shareholder Watchdog Group, Malaysia;
- the Institute of Corporate Directors, Philippines;
- the Singapore Institute of Directors and Centre for Governance, Institutions and Organisations, National University of Singapore Business School; and
- the Thai Institute of Directors.

The following section explains the assessment methodology and includes a brief discussion on the overall results observed among participating countries. Each DRB provided its country-specific report focusing on national results and highlighting notable corporate governance practices in its jurisdiction.

## Assessment Methodology

The assessments of PLCs' corporate governance standards were based on publicly available and accessible information such as annual reports, corporate websites, notices, and circulars. Before the assessment commenced, DRBs held rigorous discussions reviewing each item in the scorecard to ensure clarity of the questions and assessment guidance. The review of the scorecard prior to the third year resulted in several changes, including rewording of some items, removal or addition of items, and enhancements to the assessment guidance. Following the review, the number of Level 1 items decreased from 185 to 179, although the weight of each of the parts in Level 1 stayed the same, and more scores were allocated to the bonus section to incentivize the adoption of higher standards. The score allocation for the bonus and penalty sections was also recalibrated such that bonus and penalty scores would be more proportionate. As a result of the scorecard review, the maximum attainable score increased from 117 points in 2012 to 142 points in 2013 (Figure 1).

**Figure 1** Comparison of Question Numbers and Scores in 2012 and 2013

		Number of Questions	
		2012	2013
Level 1	Part A	26 [10]	25 [10]
	Part B	17 [15]	17 [15]
	Part C	21 [10]	21 [10]
	Part D	42 [25]	40 [25]
	Part E	79 [40]	76 [40]
Level 2	Bonus	11 [17]	9 [42]
	Penalty	23 [(90)]	21 [(53)]

() = negative.

Note: Number in square brackets denotes maximum attainable in each part or in the case of penalty the section, maximum deductible score.

## Peer Review

The peer review process differentiates this exercise from other types of corporate governance assessments. As in previous years, the assessment process in 2013 entailed two rounds of assessments, with the DRBs assessing and ranking their domestic PLCs first, followed by peer review by other DRBs.

For the 2013 assessments, the top 35 PLCs, ranked according to their total scores in the preliminary assessments, were subjected to peer review by another DRB, except the Philippines, which voluntarily subjected 50 of their PLCs to peer review. Peer reviewers were assigned randomly for each PLC, ensuring that DRBs had the opportunity to assess some PLCs from all the other countries. This step was incorporated in the assessment process to ensure that the interpretation of questions across DRBs was consistent.

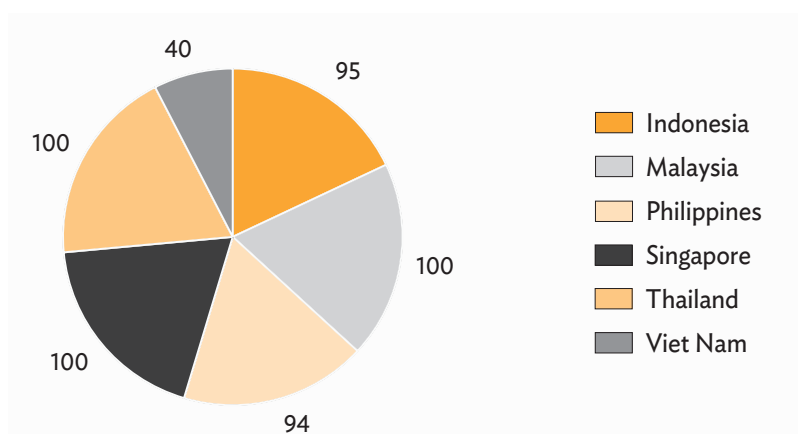
Following peer review, DRBs and peer reviewers held discussions to reconcile any differences in their scores and agree on a final score for a particular PLC. Where the discussions revealed any systemic differences in the DRBs' assessment from that of the peer reviewer due to interpretation of questions,

the DRB would then have to apply the revision in interpretation and reassess across all the PLCs, including those that had not been subjected to peer review. This check and balance process improves accuracy of results.

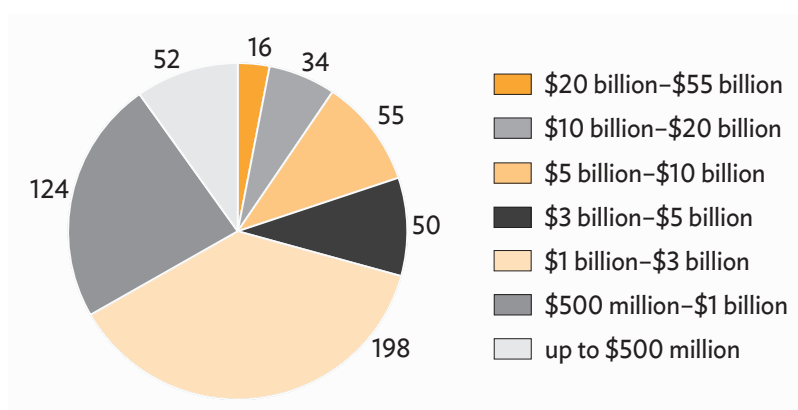
## Overall Results and Analysis

In the 2013 assessments, a total of 529 PLCs were assessed. The number of assessments was not equally distributed among the participating countries due to the limited availability of disclosures in English, which resulted in some countries having fewer than 100 of their domestic PLCs assessed (Figure 2). The market capitalization of assessed PLCs varied, although most of the PLCs boasted market capitalization of more than \$1 billion (Figure 3).

**Figure 2** Number of Publicly Listed Companies Assessed by Country



**Figure 3** Distribution of Publicly Listed Companies Based on Market Capitalization



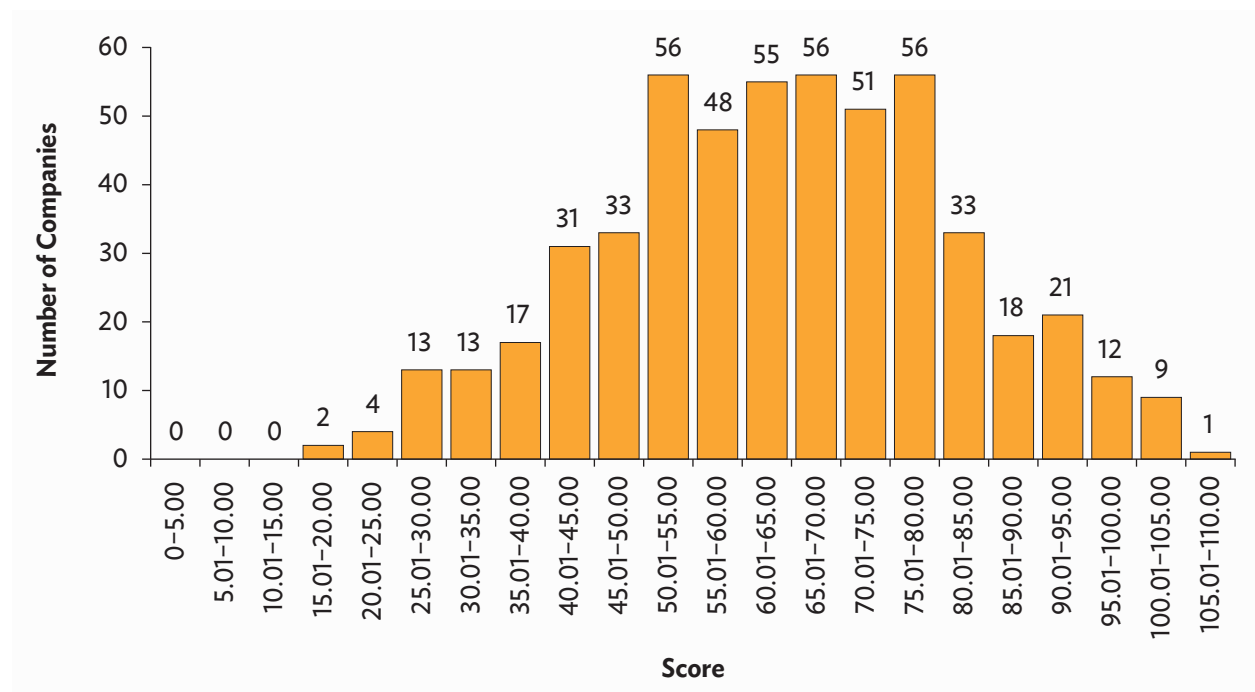
Note: Market capitalization and currency exchange rates as of 30 April 2013.



While the increase in the maximum attainable score may diminish the comparability of scores between the 2 years of assessment, when the Level 2 scores are isolated from the total scores, the results still show an improvement in Level 1 scores in the 2013 assessments. This indicates a general improvement among the participating countries in relation to the fundamental practices in corporate governance based on the OECD Principles of Corporate Governance.

The mean total score improved from 53.66 points in 2012 to 64.02 points in 2013, an increase of 19%. Some PLCs have adopted exemplary practices such as releasing the notice of annual general meeting (AGM) at least 28 days before the meeting, disclosing details of remuneration of the chief executive officer (CEO), and having at least one female independent director on the company board.

**Figure 4** Distribution of Total Scores



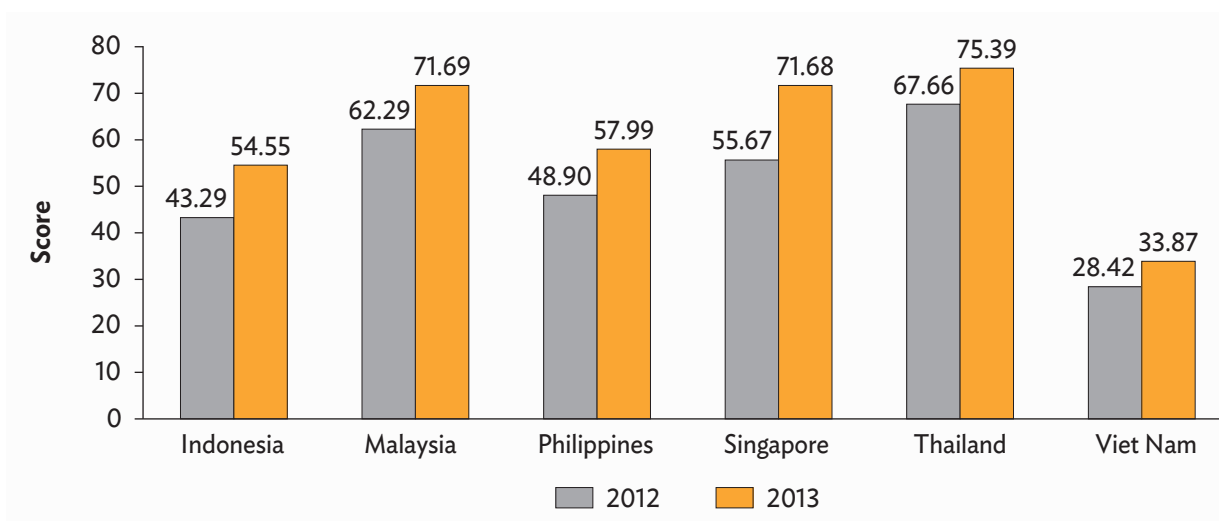
The mean score for Level 1, which excludes bonus and penalty scores, increased by 11%, from 54.32 points in 2012 to 60.09 points in 2013. Meanwhile, the mean score for Level 2 increased to almost 4 points, partly as a result of the higher allocation of bonus points (Figure 5).

Overall, Thailand's mean score is the highest among the participating countries. Singapore has shown the largest improvement in its mean score—29%—from 55.67 points in 2012 to 71.68 points in 2013 (Figure 6).

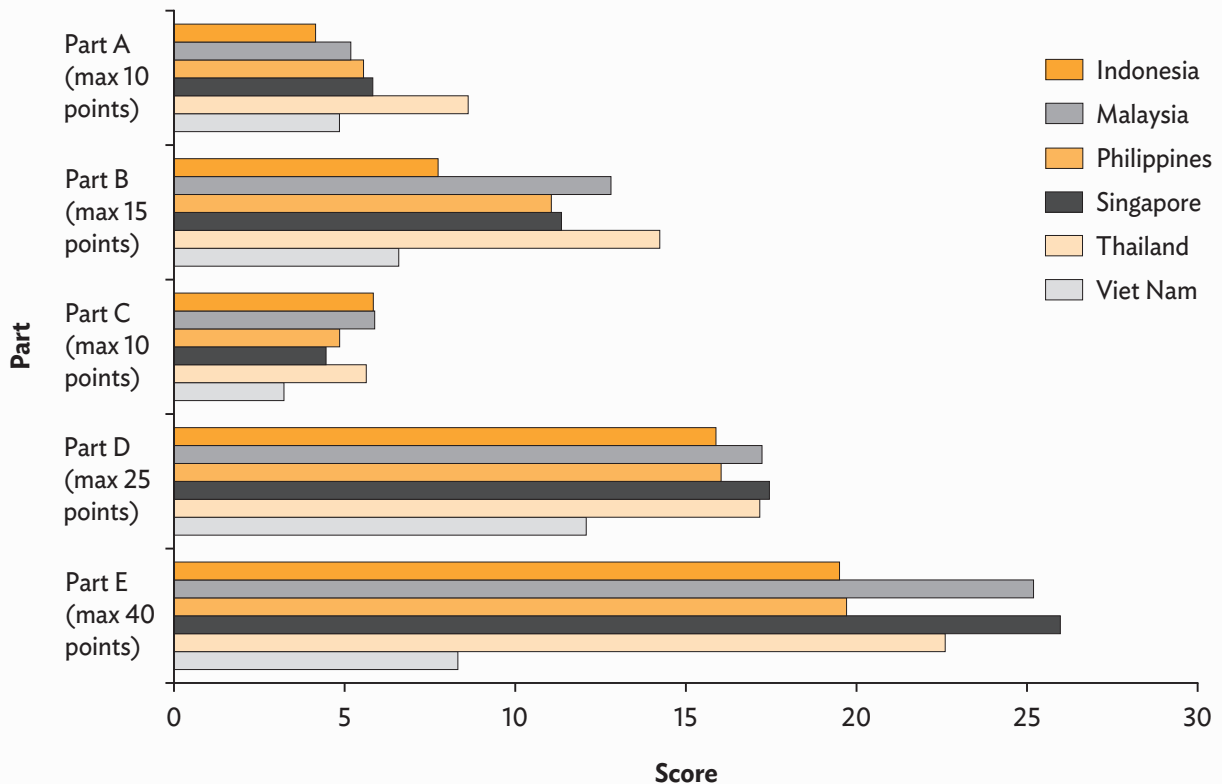
**Figure 5** Comparison of 2012 and 2013 Scores

Total Scores			Level 1 Scores			Level 2 Scores		
	2012	2013		2012	2013		2012	2013
Mean	53.66	64.02	Mean	54.32	60.09	Mean	(0.66)	3.92
Median	55.79	64.55	Median	56.91	61.50	Median	0.00	3.00
Max attainable score	<b>117.00</b>	<b>142.00</b>	Max attainable score	<b>100.00</b>	<b>100.00</b>	Max attainable score	<b>17.00</b>	<b>42.00</b>

(-) = negative.

**Figure 6** Mean Scores by Country

When the results are analyzed by area of corporate governance, Thailand scores highest in two of the five parts in Level 1: Part A (*Rights of Shareholders*) and Part B (*Equitable Treatment of Shareholders*), while Singapore scores highest in Part D (*Disclosure and Transparency*) and Part E (*Responsibilities of the Board*) (Figure 7). Malaysia has the top score in Part C (*Role of Stakeholders*). It is encouraging to note that there are PLCs that score full points in parts A, B, and C, while the top scorers in Parts D and E have managed to score in about 90% of the questions.

**Figure 7** Level 1 Scores by Part

## Conclusion

The performance of ASEAN PLCs in applying recommended corporate governance principles is commendable, although there is still room for further improvement. As the scorecard is premised on the OECD Principles of Corporate Governance, it should be applied as a diagnostic tool by PLCs to identify gaps in their corporate governance practices and assist in achieving sustainable long-term growth and value creation.

DRBs have played a significant role in promoting and creating greater awareness of this initiative and the requirements of the scorecard. Continued commitment from all stakeholders will be crucial to ensuring the sustainability of this initiative. While there may be certain inherent limitations in the scorecard and the domestic assessments of PLCs, DRBs will continue to review and refine the scorecard and its assessment methodology to ensure applicability and relevance to ASEAN PLCs.



Unless otherwise stated, the source for all figures and tables in this chapter is the ACMF Working Group D Secretariat.

# 2

## Background and Methodology

In 2009, finance ministers of the Association of Southeast Asian Nations (ASEAN) endorsed the ASEAN Capital Markets Forum (ACMF) Implementation Plan for the development of an integrated capital market. This initiative is being undertaken in parallel with efforts to achieve convergence in ASEAN as an economic community by 2015. Broadly speaking, the ACMF Implementation Plan seeks to achieve the objectives of the ASEAN Economic Community by

- creating an enabling environment for regional integration;
- creating market infrastructure and regionally focused products and intermediaries;
- strengthening implementation; and
- improving the visibility, integrity, and branding of ASEAN as an asset class.

### The ACMF Corporate Governance Initiative

The ASEAN corporate governance initiative, comprising the ASEAN Corporate Governance Scorecard and the ranking of corporate governance of ASEAN publicly listed companies (PLCs), is one of several regional initiatives of the ACMF. Since it started in early 2011, the initiative has been supported by the Asian Development Bank through technical assistance for Promoting an Interlinked ASEAN Capital Market.

The ACMF Working Group D is responsible for this initiative. The working group is led by the Securities Commission Malaysia, and its members include capital market regulators and corporate governance proponents from the region. Working Group D has been working to enhance a corporate governance ranking methodology, leveraging methodologies already implemented in ASEAN countries, as well as those applied by multilateral agencies such as the Organisation for Economic Co-operation and Development (OECD). From the components and methodologies gathered, assessment criteria and a corporate governance template in the form of a scorecard have been developed.

To keep the methodology objective and independent, the ACMF has enlisted corporate governance experts in the region to develop the scorecard and assessment criteria. Experts for the initiative were chosen for their experience in corporate governance ranking initiatives in their own countries and the recognition accorded to them as authorities in the area of corporate governance. They were recommended by the capital market regulators in their individual countries. The experts, approved by the ACMF, have no vested interest in PLCs and are not linked to securities regulators.

The ASEAN Corporate Governance Scorecard was created by the following corporate governance experts:

- Mak Yuen Teen, former codirector of the Corporate Governance and Financial Reporting Centre and Associate Professor of Accounting, National University of Singapore;
- Rongruja Saicheua, executive vice-president, Thai Institute of Directors;
- Salleh Hassan, director, Securities Industry Development Corporation, Malaysia;
- Sidharta Utama, professor, Faculty of Economics, University of Indonesia;
- Jesus Estanislao, chair, Institute of Corporate Directors, Philippines; and
- Hien Thu Nguyen, director of Maastricht-MBA Program, School of Industrial Management, University of Technology, Vietnam National University-Ho Chi Minh.

Domestic ranking bodies (DRBs) were appointed to apply the scorecard to rank companies in each country. In countries where a similar body has not been appointed, the use of the scorecard may be granted to specific persons authorized by the ACMF. The use of the scorecard by any other party requires authorization and permission from the ACMF.

## Principles behind the ASEAN Corporate Governance Scorecard

The development of the scorecard was guided by the following principles:

- The scorecard should reflect global principles and internationally recognized good practices in corporate governance applicable to PLCs and may exceed the requirements and standards recommended in national legislation.
- The scorecard should not be based on the lowest common denominator but should aim to encourage PLCs to adopt higher standards and aspirations.
- The scorecard should be comprehensive in coverage, capturing the salient elements of corporate governance.
- The scorecard should enable gaps in corporate governance practices among ASEAN PLCs to be identified and should draw attention to good corporate governance practices.
- The scorecard should be universal and applicable to different markets in ASEAN.
- The methodology should be robust to allow the accurate assessment of the corporate governance of PLCs beyond minimum compliance and box-ticking.
- There should be extensive and robust quality assurance processes to ensure the independence and reliability of the assessment.

## Initial Development

The OECD Principles of Corporate Governance, given their global acceptance by policy makers, investors, and other stakeholders, were used as the main benchmark for the scorecard. Consequently, many of the items in the scorecard may be best practices that go beyond the requirements of national legislation.

The experts also drew from the existing body of work and ranking initiatives in the region, including those of institutes of directors, shareholder associations, and universities, to guide the initial inclusion of items in the scorecard.

The scorecard covers the following five areas of the OECD principles:

- rights of shareholders,
- equitable treatment of shareholders,
- role of stakeholders,
- disclosure and transparency, and
- responsibilities of the board.

Within Level 1, the weight allocated to each of the five areas is as follows:

- |                                       |     |
|---------------------------------------|-----|
| • Rights of shareholders              | 10% |
| • Equitable treatment of shareholders | 15% |
| • Role of stakeholders                | 10% |
| • Disclosure and transparency         | 25% |
| • Responsibilities of the board       | 40% |

The scorecard uses two levels of scoring to better capture the implementation of the substance of good corporate governance (Box 1.0). Level 1 comprises descriptors or items that are in essence indicative of (i) the laws, rules, regulations, and requirements of each ASEAN member country; and (ii) basic expectations of the OECD principles. Level 2 consists of (i) bonus items reflecting other emerging good practices, and (ii) penalty items reflecting actions and events that are indicative of poor governance.

### Box 1.0 The Two Levels of the ASEAN Corporate Governance Scorecard

#### Level 1

Five major sections that correspond to the Organisation for Economic Co-operation and Development principles:

**Part A: Rights of Shareholders (25 items)**

**Part B: Equitable Treatment (17 items)**

**Part C: Role of Stakeholders (21 items)**

**Part D: Disclosure and Transparency (40 items)**

**Part E: Responsibilities of the Board (76 items)**

Total number of items or descriptors: 179

#### Level 2

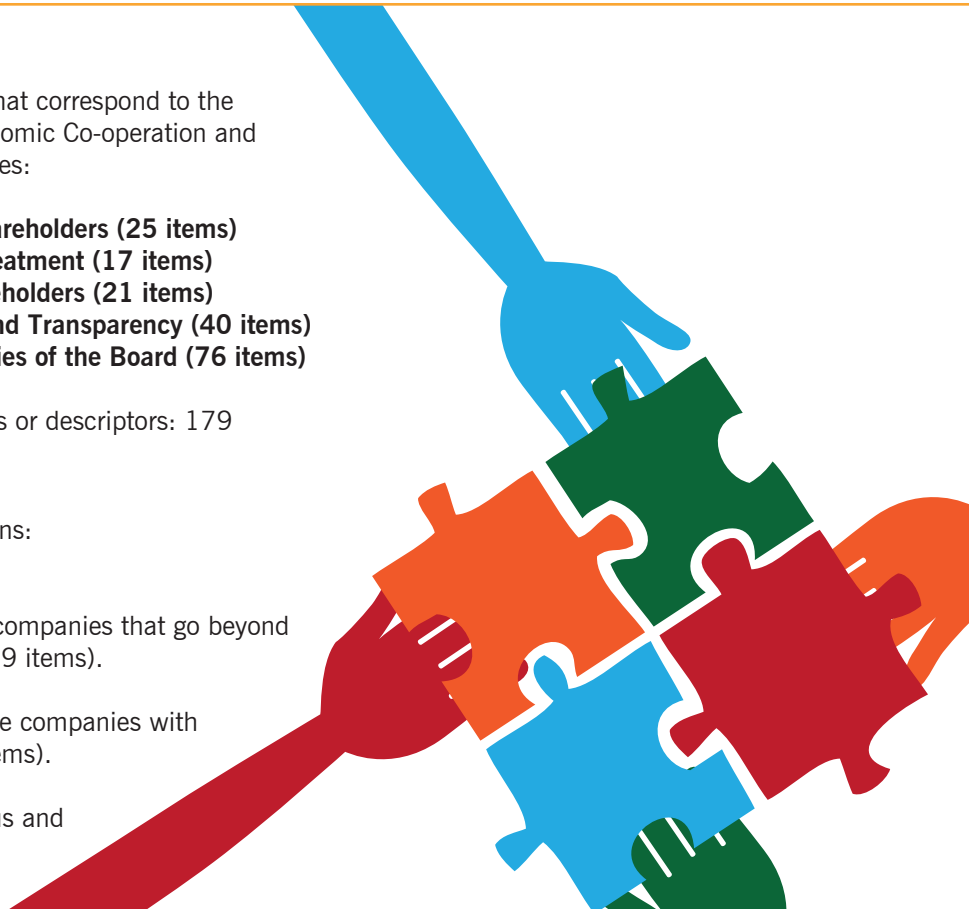
Two additional sections:

##### Bonus and Penalty

Bonus items reward companies that go beyond minimum standards (9 items).

Penalty items penalize companies with poor practices (21 items).

Total number of bonus and penalty items: 30



## Refinement and Validation

The scorecard was reviewed item by item against the OECD principles; other international corporate governance principles and practices recommended by bodies such as the Asian Corporate Governance Association, the International Corporate Governance Network, and the World Bank; and selected codes of corporate governance. Each item in the scorecard was cross-referenced to at least one of these benchmarks.

The scorecard was put through a validation process (beta testing). It was applied to a sample of companies in each country to ensure that the wording of the items on the scorecard was widely comprehensible and universally applicable to the extent possible. The validation process also sought to identify the sources of information for the scorecard items and any laws, regulations, and listing rules applicable to each item in each country. In addition, the scorecard was subjected to peer review to minimize discrepancies in the standards of assessment applied by the experts.

The corporate governance experts met with a senior representative from the OECD in August 2011, and this engagement resulted in the endorsement of the scorecard and the methodology by the OECD. The second round of engagement was held with the OECD and the International Corporate Governance Network in July 2012, when senior representatives from both organizations provided constructive feedback to strengthen the scorecard.

## Development of Detailed Guidance for Assessors

To ensure the consistent application of the scorecard by all assessors in this and future assessments, detailed guidance notes have been developed for individual items, especially those that are not self-explanatory.

## Guidance for Publicly Listed Companies and Stakeholders on the Use of the Scorecard

PLCs and stakeholders using the scorecard and results should note the following:

### Accessibility of Information

The assessment of PLCs through the scorecard relies primarily on information from annual reports and company websites. Other sources of information are company announcements, circulars, articles of association, minutes of shareholders' meetings, corporate governance policies, codes of conduct, and sustainability reports. Only information that is publicly available and easily accessible and understood is used in the assessment. To be given points on the scorecard, disclosure must be unambiguous and sufficiently complete. To be assessed and ranked, most of this information should be in English.

## Scorecard Methodology

### Level 1

Level 1 consists of 179 items and is divided into five parts corresponding to the respective OECD principles. Each part carries a different weight in relation to the total Level 1 score of 100 points based on the relative importance of the area.

Some items may provide for a “not applicable” option. Where a practice is mandated by laws, regulations, or listing rules in a country, the company is taken to have adopted the practice unless there is evidence to the contrary. To score an item, the company must make sufficiently clear and complete disclosure.



**Box 1.1** Composition and Structure of Level 1

Level 1	Number of Questions	Weight (as a % of total Level 1 score)	Maximum Attainable Score
Part A: Rights of Shareholders	25	10	10 points
Part B: Equitable Treatment of Shareholders	17	15	15 points
Part C: Role of Stakeholders	21	10	10 points
Part D: Disclosure and Transparency	40	25	25 points
Part E: Responsibilities of the Board	76	40	40 points

The weighted score of each part is obtained by the following formula:

$$\text{Score} = \frac{\text{No. of items scored by PLC}}{\text{Total no. of questions}^*} \times \text{Maximum attainable score of part (in points)}$$

\* Total number of questions after adjusting for items that are not applicable for a PLC.

*Example:* If PLC1 scores in 24 out of the 25 items in Part A,  
 PLC1's score in Part A =  $\frac{24}{25} \times 10 \text{ points} = 9.6 \text{ points}$

The Level 1 score is obtained by totaling the score of each part, A to E, in Level 1. The maximum attainable score of Level 1 is therefore 100 points.

*Example:* If PLC1 scores 9.6 points in Part A and perfect in each of Parts B to E in Level 1,  
 PLC1's Level 1 score =  $9.6 + 15 + 10 + 25 + 40 = 99.6 \text{ points}$

## Level 2

Level 2 consists of bonus and penalty items that are meant to enhance the robustness of the scorecard in assessing the extent to which companies apply the spirit of good corporate governance. The purpose of the bonus items is to recognize companies that go beyond the items in Level 1 by adopting other emerging good practices. The penalty items are designed to downgrade companies with poor governance practices that are not reflected in their scores for Level 1, such as being sanctioned by regulators for breaches of listing rules.

Level 2 contains 9 bonus and 21 penalty items, each with a different number of points. The maximum attainable bonus points is 42 while the maximum penalty points deductible is 53.

**Box 1.2** Composition and Structure of Level 2

Level 2	Number of Questions	Maximum Score (points)
Bonus	9	42
Penalty	21	(53)

( ) = negative.

The Level 2 score is obtained by totaling the bonus scores and penalty scores. In the best case scenario, a PLC would obtain a perfect score in the bonus section and no penalty scores, thereby obtaining a Level 2 score of 42 points.

*Example:* If PLC1 scores 42 bonus points and 3 penalty points,  
 PLC1's Level 2 score =  $42 + (-3) = 39$  points

**Total score**

The total score is obtained by the following formula:

$$\text{Total score} = \text{Level 1 score} + \text{Level 2 score}$$

*Example:* PLC1's total score =  $99.6 + 39 = 138.6$  points

The maximum attainable score is 142 points (100 points from Level 1 and 42 points from Level 2).

# 3

## Country Reports and Assessments

# INDONESIA

## Background

It is widely acknowledged that bad corporate governance practices implemented by Indonesian corporations were a major cause of Indonesia's financial crisis in 1998. Disclosure and transparency, board practices, and protection of minority shareholders were poorly implemented by some publicly listed companies (PLCs). Since the crisis, regulators and the private sector have collaborated to strengthen regulatory and corporate governance frameworks in the country. The capital market and financial institution supervisory body, the Indonesian Capital Market and Financial Institution Supervisory Authority (BAPEPAM-LK), issued various regulations to strengthen compliance. Similar regulations were also issued by the Bank of Indonesia. The National Committee on Governance Policy revised the local standard of good corporate governance in 2006. Improvement continues to stem from these efforts. However, empirical evidence shows that, in general, the satisfactory implementation of corporate governance practices is still a big challenge for Indonesian PLCs (World Bank, 2010; ACGA-CLSA CG Watch 2012; ASEAN Corporate Governance Scorecard, 2012).

In 2013, the Financial Services Authority (OJK) of Indonesia in cooperation with various parties, such as the Indonesia Stock Exchange, the Indonesian Institute for Corporate Directorship, the National Committee on Governance Policy, the Indonesian Institute for Commissioners and Directors, the Ministry of State-Owned Enterprises, developed a corporate governance road map of Indonesia to further improve the country's corporate governance framework. The road map, which will begin implementation in 2014, aims to

- (i) develop milestones for corporate governance improvement of Indonesian PLCs as well as other issuers,
- (ii) strengthen the corporate governance framework and regulations, and
- (iii) improve corporate governance implementation in efforts to create ASEAN as an asset class.

## Overall Analysis

The 2013 ASEAN Corporate Governance Scorecard results were based on 95 Indonesian PLCs. The criteria used in the selection of these firms were the size of their market capitalization and their issuance of annual reports in English. Five companies of the 100 PLCs selected had to be dropped because they did not issue annual reports in English. Figure 8 shows the average, maximum, and minimum market capitalization for all selected firms and the best 50 PLCs.

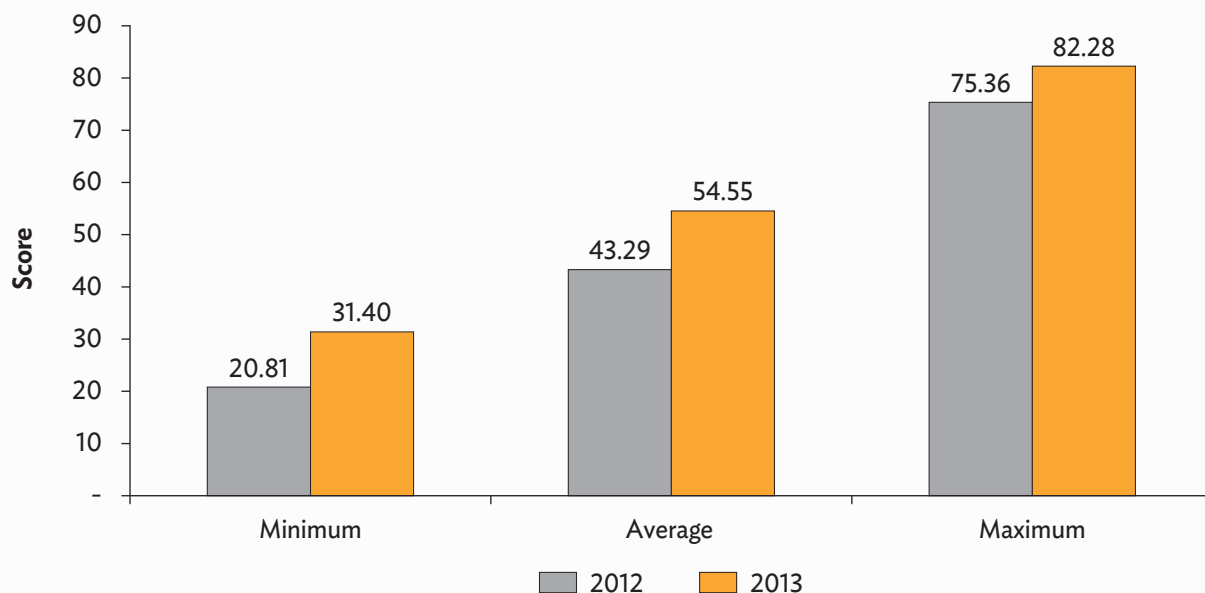
**Figure 8** Average, Maximum, and Minimum Market Capitalization (rupiah)

Market Capitalization	All Selected Firms (in million IDR)	Best 50 Publicly Listed Companies (in million IDR)
Average	42,897,284	58,732,176
Maximum	369,486,900	297,554,116
Minimum	7,831	636,312

Although differences between maximum and minimum market capitalization for all selected firms and the best 50 PLCs are very high, the difference among the best 50 PLCs is narrower. Average market capitalization of the best 50 PLCs is higher than the average of all selected firms, suggesting that the shares of companies that have sound corporate governance tend to perform better.

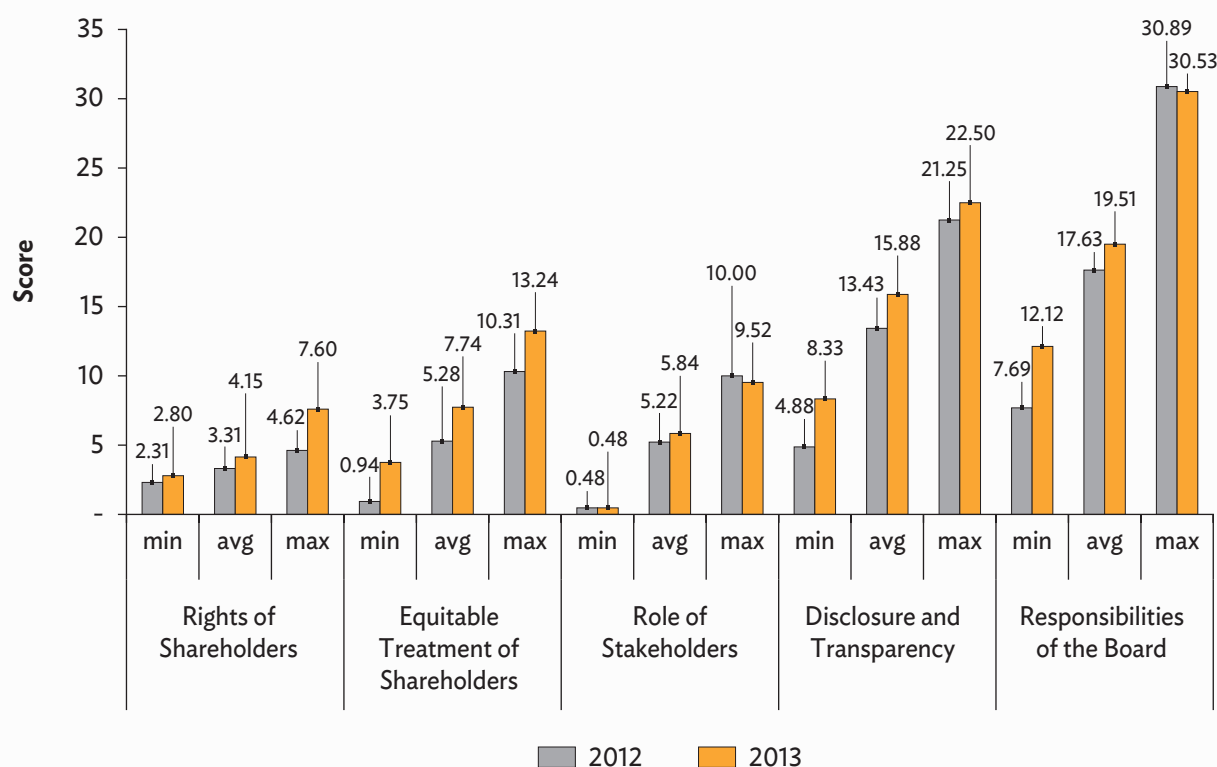
Corporate governance performance improved significantly in 2013 compared to 2012 both in overall and individual corporate governance principles (Figure 9).

**Figure 9** Corporate Governance Performance Improvement, 2012–2013



As indicated in Figure 9, the average, maximum, and minimum corporate governance implementation scores all improved. On average, the score increased by 11.26 points from 43.29 points in 2012 to 54.55 points in 2013—a 26% improvement. The maximum score improved from 75.36 points in 2012 to 82.28 points in 2013 and the minimum score from 20.81 points to 31.40 points in the same period. This suggests that awareness of implementing global standards of corporate governance practices among Indonesian PLCs increased significantly. The average score of each part in Level 1 also rose significantly (Figure 10).

**Figure 10** Corporate Governance Improvement from 2012 to 2013 in terms of OECD Principles



avg = average, max = maximum, min = minimum, OECD = Organisation for Economic Co-operation and Development.

Note: Maximum attainable score for Rights of Shareholders is 10 points, Equitable Treatment of Shareholders is 15 points, Role of Stakeholders is 10 points, Disclosure and Transparency is 25 points, and Responsibility of the Board is 40 points. Thus, maximum total score of Level 1 is 100 points.

Despite this encouraging improvement, the implementation of global practices in corporate governance is still a challenge for the future. The average achievement level of 54.55 points is still unsatisfactory compared to other participating countries.

## Part A: Rights of Shareholders

### Strengths and Areas for Improvement

The average score for Rights of Shareholders was 4.15 points with a maximum score of 7.60 points and a low score of 2.80 points (Figure 10). The average improved by 25% from 3.31 points in 2012 to 4.15 points in 2013. One company experienced a dramatic improvement in its maximum score, achieving 7.60 points in 2013 compared to 4.62 points in 2012. The lowest performer also improved from 2.31 points in 2012 to 2.80 points in 2013.

Despite the improvement, the performance in this area is still weak. It achieved the lowest score in Level 1 and remains a big challenge for Indonesian PLCs.

It is common for PLCs to simply implement what is required by laws and regulations; the application of best practices is rare. For instance, the absence of requirements for detailed disclosure of annual general meeting (AGM) minutes has led to the poor quality of disclosure of AGM minutes and announcement of AGM results. Another problem is due to decision-making processes. Decision making through consensus (*musyawarah mufakat*) is commonly practiced and decisions are rarely made through voting procedures. These factors contributed significantly to a low score for compliance with the principles of rights of shareholders implemented by the surveyed PLCs.

**Figure 11** Strengths and Areas for Improvement in *Rights of Shareholders*



#### STRENGTHS

- Shareholders have clear rights to participate in decision making concerning fundamental corporate changes.
- Shareholders have the right to approve the remuneration of members of the boards.
- Annual general meeting (AGM) location is easy to reach.



#### AREAS FOR IMPROVEMENT

- Dividends are paid late.
- The minutes of AGMs and announcement of AGM results are poor, including the disclosure of
  - questions and answers, and resolutions during AGMs;
  - voting results; and
  - list of attendance.
- Voting is used poorly in the decision-making process.

## Part B: Equitable Treatment of Shareholders

### Strengths and Areas for Improvement

The performance of Equitable Treatment of Shareholders improved by 46.59% from 5.28 points in 2012 to 7.74 points in 2013 (Figure 10). The maximum score increased from 10.31 points in 2012 to 13.24 points in 2013. The lowest-performing firm improved very significantly from a score of 0.94 points to 3.75 points during the same period. Despite the improvement, compliance performance (average score) is still considered low. However, the improvement in Equitable Treatment of Shareholders signals better future practices.

The main problem contributing to the low score for Equitable Treatment of Shareholders was due to poor quality of notice to call for AGMs and non availability of the notice in English. Most questions related to the notice of AGM received poor scores. Shareholders, especially minority and foreign ones, were not well informed of AGM agendas. Another problem was the poor protection of minority shareholders from related party transactions (RPTs), such as disclosures of company policy related to financial assistance and companies' actions to ensure that RPTs were fair and at arm's length.

**Figure 12** Strengths and Areas for Improvement in *Equitable Treatment of Shareholders*





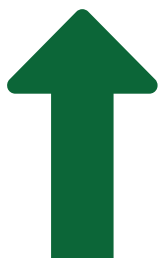
## Part C: Role of Stakeholders

### Strengths and Areas for Improvement

The average score on Role of Stakeholders was 5.84 points with a maximum score of 9.52 points and minimum score of 0.48 points (Figure 10). The overall performance on Role of Stakeholders improved by 12%. However, maximum and minimum scores were relatively stable or unchanged. During the 2012 and 2013 assessments, it was found that the implementation of stakeholder practices was better than that of shareholder practices. It suggests that orientation to broader stakeholders' interests might be more important than shareholders' interests to companies in their corporate governance practices.

Most companies were found to have policies concerning the interests of their stakeholders (such as customers, communities, creditors, and employees), including promoting sustainable development. Disclosures of activities related to those policies were also evidenced. However, policy and procedures pertaining to anticorruption activities have not been appropriately addressed by the sampled PLCs. Most companies were still reluctant to involve stakeholders, including individual employees, in preventing unethical practices. Most companies even did not have a policy and procedures to protect employees who revealed unethical practices. Supplier management was also poorly implemented.

**Figure 13** Strengths and Areas for Improvement in *Role of Stakeholders*



#### STRENGTHS

- Publicly listed companies (PLCs) disclose policies and program activities with regard to customer welfare, communities, creditors' rights, and environmental sustainability.
- There are clear policies on employee safety and health and welfare.
- PLCs have employee training and development programs, including data on those training and development programs.



#### AREAS FOR IMPROVEMENT

- Poor policy and implementation on the supplier selection process are poor.
- There is a lack of anticorruption policy and programs.
- Reporting on program activities of employee safety, health, and welfare is poor.
- Lack of long-term employee incentives.
- Employee complaints and grievance procedures to prevent illegal and unethical behavior are poor.
- Policy and procedures to protect employees who reveal illegal and unethical behavior are poor.

## Part D: Disclosure and Transparency

### Strengths and Areas for Improvement

The highest score among the five Organisation for Economic Co-operation and Development (OECD) principles implemented by companies was for Disclosure and Transparency. As seen in Figure 10, the performance score in this area was 15.88 points, an improvement of 18% compared to 2012 performance. Maximum and minimum scores also increased. The maximum score increased from 21.25 points in 2012 to 22.50 points in 2013 and the minimum score increased very significant from 4.88 points in 2012 to 8.33 points during the same period.

However, disclosure of ownership structure was still poor, including disclosure of beneficial owners who have a shareholding of 5% or more, direct and indirect shareholdings of major shareholders, board of directors (BOD) and board of commissioners (BOC), and shareholdings of senior management. The concentrated ownership commonly found in family-owned PLCs appeared to contribute to the poor disclosure of ownership structure.

The quality of annual reporting by some PLCs was good as it included disclosures of key risks, company objectives, financial performance, dividend policy, board meetings, and board meeting attendance. Disclosures of key risks, financial indicators, and board meeting attendance can be considered excellent. However, companies still faced challenges in disclosing whistle-blowing, biographical details of members of the boards, directors education programs, detail on remuneration of individual members of the BOD and BOC, and statements of the boards concerning full compliance with the code of corporate governance. Other problems that need to be addressed include disclosure of policy in reviewing material RPTs and of the audit fees of external auditors.

**Figure 14** Strengths and Areas for Improvement in *Disclosure and Transparency*



## Part E: Responsibilities of the Board

### Strengths and Areas for Improvement

The second-lowest score on Indonesia's Corporate Governance Scorecard was in the performance of Responsibilities of the Board. The average score was 19.51 points (Figure 10). However, it improved by 11% compared to 2012. The maximum score was relatively constant, while the minimum score improved very significantly from 7.69 points in 2012 to 12.12 points in 2013.

Despite this improvement, BOCs have not fully exercised their fiduciary duties, such as reviewing the vision and mission of the company, and reviewing and monitoring the implementation of corporate strategy. Board structure needs to be strengthened to ensure commissioners' independence in exercising their fiduciary duties. The absence of remuneration and nomination committees in most PLCs might also contribute to the ineffectiveness of BOCs. Although some companies have these committees, in many cases they were not chaired by independent commissioners. In addition, it was found that board nomination and selection processes were poorly implemented, as was the disclosure of performance appraisal for chief executive officers (CEOs) and BOCs. It was not clear whether effective performance appraisals for BOCs and BODs were conducted.

Good board practices appeared in corporate governance reports in which most companies clearly state the responsibilities of the board, disclosure of code of ethics, and number of BOC meetings. Sound board practices were also found in committee audit practices. BAPEPAM-LK (now the Financial Services Authority) regulation requires the audit committee chair and all members of the committee to be independent. These factors contributed to the good score for the performance of audit committees.

### Bonus and Penalty

Bonus and penalty scores have a strong impact on the increase or decrease in the overall score achieved by companies. Bonus points are intended to motivate companies to implement corporate governance beyond standards. Because bonus points have a strong positive impact on the score, companies are expected to pursue bonus points. Penalty points, on the other hand, will significantly decrease a company's score. Few companies were awarded bonus points resulting from efforts beyond the implementation of standard practices. Several companies were awarded bonus points based on the release of financial reports within 60 days or from a commissioner composition that is more than 50% independent. At the same time, few companies incurred penalty points. Most penalties resulted from the pyramidal structure of corporations and from the extension of independent commissioners' tenures beyond two terms.

**Figure 15** Strengths and Areas for Improvement in *Responsibilities of the Board*

## STRENGTHS

- Responsibilities of board of commissioners (BOC) and board of directors (BOD) are disclosed.
- Companies have approved vision and mission.
- Audit committee practices are sound.
- Key risks are well managed.
- There is separation of chair (president of commissioner) and chief executive officer (president of director).
- At least one of the independent commissioners has experience in the industry or sector in which the company operates.



## AREAS FOR IMPROVEMENT

- Corporate governance policies are inadequate, such as
  - disclosure of board charter; and
  - review of company's vision and mission, business strategy, and their implementation by the boards.
- The number of independent commissioners is inadequate.
- Independence is not clearly defined.
- There is a lack of independent members of nomination and remuneration committees, as well as a lack of leadership by an independent commissioner in most publicly listed companies.
- BOC and BOD selection processes are poor.
- BOC and BOD performance appraisal are poorly disclosed.
- There is inadequate disclosure of BOC and BOD training and development programs.

**Figure 16** Strengths and Areas for Improvement in the *Bonus and Penalty Area*

## STRENGTHS

- Only few companies received penalties.
- Overall, companies comply with local rules and regulations.



## AREAS FOR IMPROVEMENT

- There are several cases of pyramidal structure.
- Tenure of independent commissioners may be more than two terms.

## Conclusions and Recommendations

Corporate governance implementation in Indonesia improved significantly from 2012 to 2013. This indicates a better awareness of the need to adopt best practices, and provides a positive signal for future corporate governance practices in Indonesia. However, corporate governance performance is still considered to be below an acceptable level. Improvements can be attributed to

- an OJK initiative to develop corporate governance road map for Indonesia that will be implemented starting in 2014;
- promotion of the ASEAN Corporate Governance Scorecard conducted by the Indonesian Institute of Corporate Directorship to the PLCs;
- support from various parties, such as the Indonesia Stock Exchange, Bank of Indonesia, Indonesian Public-Listed Association, National Committee on Corporate Governance, and others in the private sector; and
- positive response of PLCs to the road map and socialization.

Challenges facing companies in the future include protection of minority and foreign shareholders, quality of disclosures to ensure that all shareholders are well informed and protected, disclosure of ownership structure, competencies and selection of the boards, empowerment of independent commissioners, and board appraisal.


The Financial Services Authority initiative to strengthen the regulatory framework will have a positive impact on corporate governance practices in the future. However, excessive regulation may spur a negative reaction from PLCs. As an alternative, soft enforcement to strengthen corporate governance practices in the future can be achieved through the requirement for every PLC to conduct an annual assessment. Review of the assessment results by independent parties is necessary to further improve the corporate governance framework.

**Table 1** Corporate Governance: Top 50 Publicly Listed Companies—Indonesia

No.	Listing Code	Publicly Listed Company Name	No.	Listing Code	Publicly Listed Company Name
1	ABMM	ABM Investama	26	SMCB	Holcim Indonesia
2	ADMF	Adira Dinamika Multi Finance	27	ITMG	Indo Tambangraya Megah
3	AKRA	AKR Corporindo	28	INTP	Indocement Tunggal Prakasa
4	ANTM	Aneka Tambang (Persero)	29	ICBP	Indofood CBP Sukses Makmur
5	ASII	Astra International	30	INDF	Indofood Sukses Makmur
6	BBCA	Bank Central Asia	31	ISAT	Indosat
7	BNGA	Bank CIMB Niaga	32	JSMR	Jasa Marga (Persero)
8	BDMN	Bank Danamon	33	KLBF	Kalbe Farma
9	BNII	Bank International Indonesia	34	LPKR	Lippo Karawaci
10	BMRI	Bank Mandiri (Persero)	35	LPPF	Pacific Utama
11	MEGA	Bank Mega	36	PWON	Pakuwon Jati
12	BBNI	Bank Negara Indonesia (Persero)	37	PGAS	Perusahaan Gas Negara (Persero)
13	NISP	Bank NISP	38	LSIP	PP London Sumatera Indonesia
14	PNBN	Bank Pan Indonesia	39	SIMP	Salim Ivomas Pratama
15	BNLI	Bank Permata	40	SMGR	Semen Indonesia (Persero)
16	BBRI	Bank Rakyat Indonesia (Persero)	41	AMRT	Sumber Alfaria Trijaya
17	BBTN	Bank Tabungan Negara (Persero)	42	SCMA	Surya Citra Media
18	BTPN	Bank Tabungan Pensiunan Negara	43	PTBA	Tambang Batubara Bukit Asam (Persero)
19	BJBR	BPD Jawa Barat dan Banten	44	TLKM	Telekomunikasi Indonesia (Persero)
20	BUMI	Bumi Resources	45	TBIG	Tower Bersama Infrastructure
21	CTRA	Ciputra Development	46	UNVR	Unilever Indonesia
22	EXCL	Excelcomindo Pratama	47	UNTR	United Tractors
23	GIAA	Garuda Indonesia (Persero)	48	INCO	Vale Indonesia
24	GEMS	Golden Energy Mines	49	WSKT	Waskita Karya (Persero)
25	HERO	Hero Supermarket	50	WIKA	Wijaya Karya (Persero)

No. = number.

Note: The companies are arranged alphabetically.

 Unless otherwise stated, the source for all figures and tables in this chapter is the Indonesian Institute for Corporate Directorship.

# MALAYSIA

## Background

The corporate governance regulatory framework for Malaysian publicly listed companies (PLCs) was further enhanced in 2013 with the amendments to the Bursa Malaysia Listing Requirements pursuant to the issuance of the Corporate Governance Blueprint 2011 and Malaysian Code on Corporate Governance 2012. These amendments were aimed at promoting a better corporate governance culture among Malaysian PLCs.

The recommendations in the Corporate Governance Blueprint 2011 and the Malaysian Code on Corporate Governance 2012 were further explained through the Bursa Malaysia Corporate Disclosure Guidelines published in late 2013.

The assessment of the top 100 Malaysian PLCs by market capitalization as of 30 April 2013 was based on disclosures in their published annual reports as of 31 July 2013, and information available on corporate websites and announcements on the Bursa website as of end October 2013.

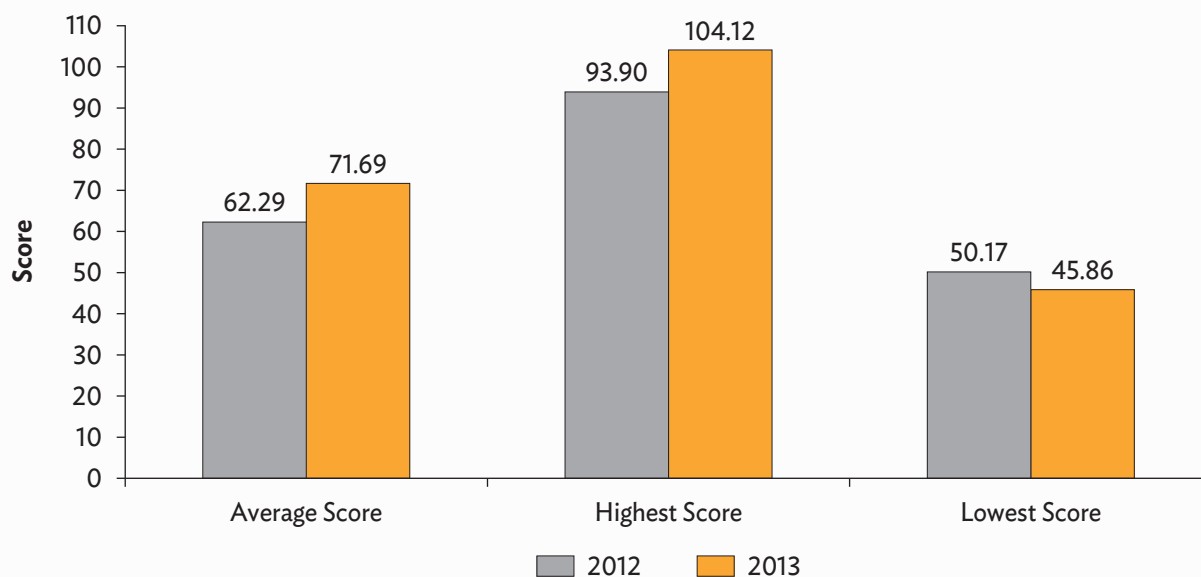
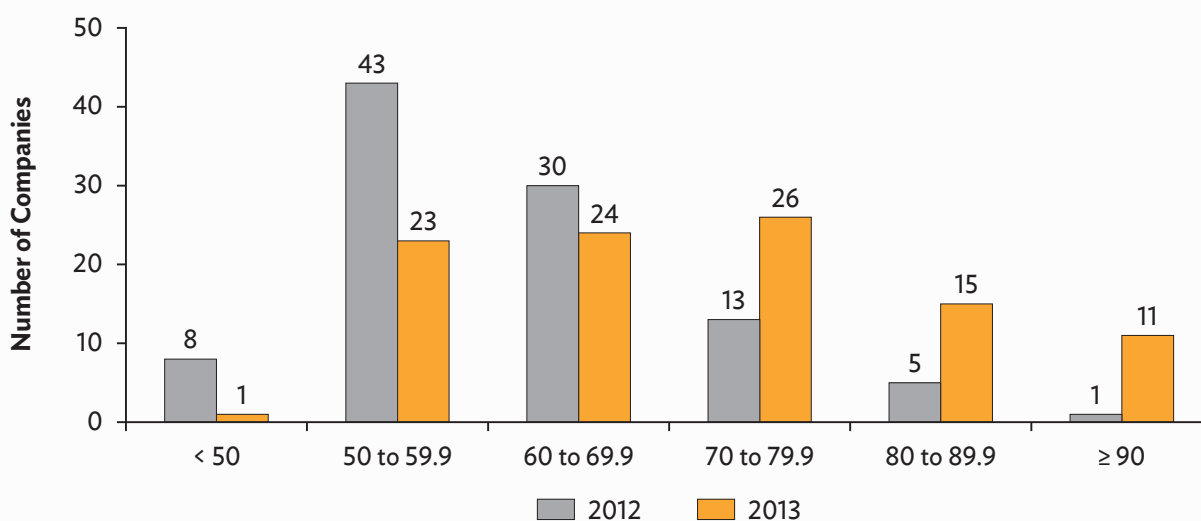
The companies were assessed against the 179 items in the ASEAN Corporate Governance Scorecard, of which 32 were default response items. These default items are mandatory requirements under Malaysian laws, rules, and regulations to which companies must comply unless there is evidence to the contrary.

## Overall Analysis

The overall performance of the 100 PLCs and the highest and lowest total scores in 2013 and 2012 are shown in Figure 17.

The average score of the top 100 Malaysian PLCs is 71.69 points compared to 62.29 points in 2012, an increase of 15%. The minimum score is 45.86 points, while the maximum score is 104.12 points. For the top 50 PLCs, the average score is 82.14 points.

Only one company scored less than 50 points in 2013, compared to eight companies in the previous year. Meanwhile, the number of companies that exceeded 90 points increased to 11, from only 1 in 2012. Despite the more stringent parameters set in 2013, Malaysian PLCs appear to have been able to raise their corporate governance standards to meet the higher expectations.

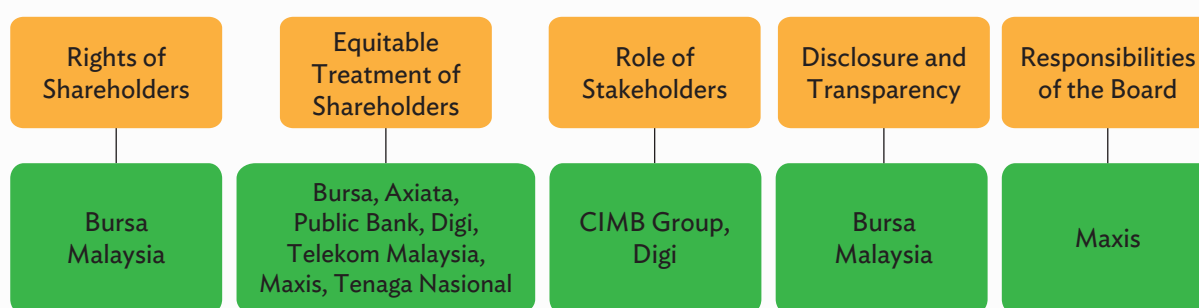
**Figure 17** Overall CG Score of Top 100 Publicly Listed Companies in Malaysia**Figure 18** Overall CG Score of Top 100 Publicly Listed Companies in Malaysia (by Band)



**Figure 19** Distribution of Average Scores for the Top 100 Publicly Listed Companies

Year	Part A	Part B	Part C	Part D	Part E
2013	5.18	12.81	5.88	17.23	25.19
2012	5.11	13.38	5.86	16.55	21.54

Scores improved across all categories except Part B, *Equitable Treatment of Shareholders* (Figure 19). Malaysian PLCs scored highest under Part E (*Responsibilities of the Board*) with an average score of 25.19 points. The exemplary companies in each of the sections of the scorecard are depicted in Figure 20.

**Figure 20** Exemplary Publicly Listed Companies in Malaysia

## Part A: Rights of Shareholders

### Strengths and Areas for Improvement

According to the OECD Principles of Corporate Governance, the corporate governance framework should protect and facilitate the exercise of shareholders' rights. Of the 25 items in this category, 8 are default response items. The average score increased to 5.18 points in 2013 from 5.11 points in 2012.

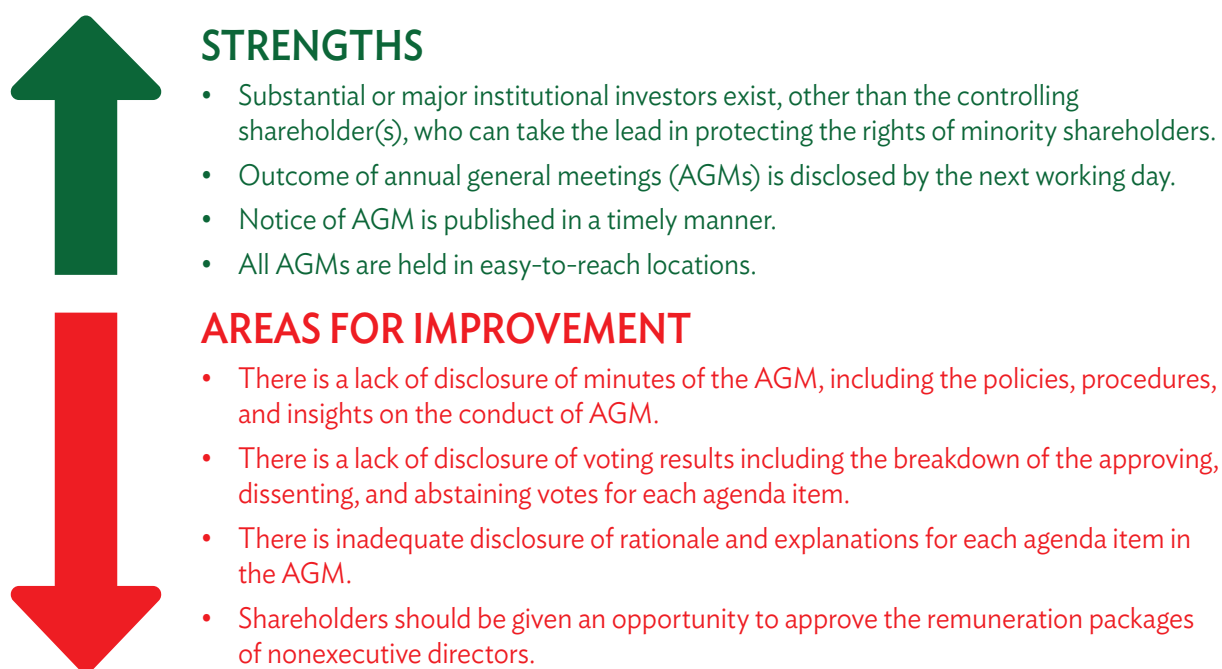
Figure 21 shows the strengths and areas for improvement in Rights of Shareholders. As in 2012, all the companies provided at least 21 days' notice for all resolutions, with almost all disclosing the outcome of their annual general meeting (AGM), including resolutions, within 24 hours. Of the listed companies, 94% also have institutional investors holding more than a 5% share ownership in the company. With the current changing corporate governance landscape, institutional investors are expected to play the lead role in monitoring their investee companies and protecting the rights of minority shareholders.

One area where Malaysian listed companies may need to improve is on the disclosure of AGM minutes. Only 7% of companies (up from 4% in 2012) disclosed the minutes of AGMs, indicating an obvious lack of disclosure of policies, processes, and insights on the conduct of AGMs by the listed companies. This is important as insights on the conduct of AGMs could indicate the quality and effectiveness of the meetings, including whether shareholders are given adequate opportunity to raise questions.

There should also be greater transparency in the disclosure of voting results, including the breakdown of the approving, dissenting, and abstaining votes for each agenda item. Generally, the listed companies assessed also do not provide the rationale and explanation for each agenda item in the notice of AGM.

Another area that could be improved is the timely payment of dividends to shareholders. The 2013 assessment revealed that only 21% (17% in 2012) of the companies paid dividends within 30 days after being (i) declared for interim dividends, and (ii) approved at the AGM for final dividends. It is common for Malaysian companies to seek shareholders' approval only for payment of directors' fees at an AGM, excluding other remuneration such as allowances, benefit-in-kind, and other emoluments for nonexecutive directors.

**Figure 21** Strengths and Areas for Improvement in *Rights of Shareholders*



## Part B: Equitable Treatment of Shareholders

### Strengths and Areas for Improvement

In this category, 7 of the 17 items are default response items. The average score is 12.81 points compared to 13.38 points in 2012.

Figure 22 shows the strengths and areas for improvement in Equitable Treatment of Shareholders. Most of the listed companies (90%) only have one class of ordinary shares, and for those that have more than one class of shares, the voting rights of such shares were clearly disclosed in the annual report. The notices of AGM of all companies were published in English and almost all companies (99%) do not bundle their resolutions (i.e., each resolution in the AGM deals with only one item). Rules prohibiting insider trading and disclosure on directors' conflict of interest in related party transactions (RPTs) are default response items, as there are laws and rules or regulations in Malaysia dealing with such items.

However, only 33% of the companies were deemed to have adequately disclosed the profiles of directors who were seeking election or reelection. Many did not clearly separate the directorships of these directors in listed or unlisted public companies. Of the listed companies, 17% provided an explanation of the dividend policy—a slight increase from 14% in 2012. In addition, 66% of the companies disclosed that RPTs were conducted in a fair manner and at arm's length, and only few companies have RPTs that could be classified as financial assistance.

**Figure 22** Strengths and Areas for Improvement in *Equitable Treatment of Shareholders*



#### STRENGTHS

- There is no bundling of resolutions in annual general meeting (AGM).
- Notices of AGM and circulars are in English.
- Proxy documents are easily available.
- There are adequate rules and policies dealing with insider trading, abusive self-dealing, and related party transactions by directors.



#### AREAS FOR IMPROVEMENT

- There is inadequate disclosure of the profiles of directors seeking election or reelection.
- There is a lack of explanation of the dividend policy.
- Minority shareholders should be informed whether related party transactions are conducted in such a way to ensure that they are fair and at arm's length.

## Part C: Role of Stakeholders

### Strengths and Areas for Improvement

This category examines a company's role in safeguarding the interests of the broader stakeholders, including customers, employees, and society at large. Most Malaysian PLCs have a separate corporate responsibility statement in the annual report as well as on their corporate websites, and a few others print a stand-alone sustainability report and publish it on their corporate website. The average score under this category has increased marginally to 5.88 points from 5.86 points in 2012.

Figure 23 shows the strengths and areas for improvement in Role of Stakeholders. Generally, companies had disclosed their policies relating to efforts to ensure an environmentally friendly value chain; interaction with communities; safeguarding of creditors' rights, as well as disclosure on the health, safety, and welfare policy for employees and staff training and development programs. Companies generally provided channels of communication where stakeholder could voice their concerns.

However, many companies still fall short in disclosures relating to policies on customers' welfare, supplier and contractor selection practice, reward or compensation policy for employees, and company anticorruption programs and procedures. While the number of companies that had procedures for complaints by employees concerning illegal and unethical behavior had improved from 49% in 2012 to 57% in 2013, whistle-blowing is still a key area for improvement. Policies and procedures to protect whistle-blowers also need to be improved.

**Figure 23** Strengths and Areas for Improvement in *Role of Stakeholders*



## Part D: Disclosure and Transparency

### Strengths and Areas for Improvement

Transparency is a crucial element of an effective corporate governance framework for shareholders to make timely and informed decisions. Of the 40 items assessed under this category, 4 were default response items for Malaysia. The average score has increased to 17.23 points from 16.55 points in 2012.

Most companies assessed were transparent in terms of their ownership structure. All of them disclosed the beneficial owners, i.e., those with shareholdings larger than 5%. Almost all companies disclosed the direct and indirect shareholdings of the substantial shareholders and directors. Nonetheless, only 3% (0% in 2012) chose to disclose the direct and indirect shareholdings of senior management.

In terms of the quality of the annual report, all the top 100 companies disclosed financial performance indicators that provide shareholders and investors with valuable information on the financial health of the company. For companies that had RPTs, almost all disclosed the nature and value of each material or significant RPT. Regarding the relationship with the external auditors, all companies disclosed the audit fees, and most also disclosed the amount of nonaudit fees paid or payable to the same audit firm. The companies had corporate websites as required under the listing requirements, with the majority providing information on business operations, financial statements, annual reports, company announcements, and contact details for investor relations.

However, only 12% of the companies disclosed a statement that confirmed the company's full compliance with the Malaysian Code on Corporate Governance. The low figure could also be attributed to the fact that in instances where there was noncompliance, the company did not provide an explanation or explanations for such departure, hence no score was given. Only 13% of the PLCs disclosed the company's memorandum and articles of association on the company's website. There was also lack of disclosure of the corporate objectives (9%) and key risks (22%) by the company, where only financial risks were often disclosed and the company was silent on other risks such as product risk, country risk, and market risk. Disclosures on the dividend policy (35%), details of whistle-blowing policy (43%), and remuneration of each director (40%) could be further improved.

**Figure 24** Strengths and Areas for Improvement in *Disclosure and Transparency*

## STRENGTHS

- There is disclosure of the identity of the beneficial owners and substantial shareholders.
- There is disclosure of the direct and indirect shareholdings of the substantial shareholders and directors.
- There is disclosure of financial performance indicators.
- There is disclosure of the nature and value for each material or significant related party transaction.
- There is disclosure of audit and nonaudit fees.
- The company website is informative and contains contact details for investor relations.



## AREAS FOR IMPROVEMENT

- There is a lack of disclosure of the direct and indirect shareholdings of senior management.
- There is a lack of disclosure of the statement of confirmation of the company's full compliance with the Malaysian Code on Corporate Governance.
- The memorandum and articles of association are not publicly disclosed.
- There is a lack of disclosure on corporate objectives, key risks (other than financial risks), dividend policy, details of whistle-blowing policy, and remuneration of individual directors.

## Part E: Responsibilities of the Board

### Strengths and Areas for Improvement

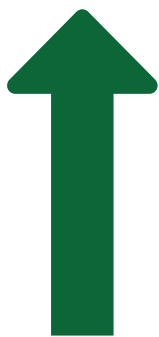
This part forms the largest number of items in the scorecard, compared to other parts in Level 1, with 76 out of 179 items. It is also given the highest weight at 40% due to its importance. Of the 76 parameters, 10 items were default response items for Malaysia. This category reported an improvement in the average score to 25.19 points from 22.01 points in 2012, an increase of 14.45%.

The strengths and areas for improvement under this category are depicted in Figure 25. Most of the Malaysian PLCs clearly disclosed the roles and responsibilities of the board, with approximately half having their own board charter or corporate governance policy (54%) and code of ethics (47%). The establishment of board charters was a significant improvement from 2012, given that only 11% of the listed companies had established board charters in 2012. The number of companies that disclosed the types of decisions requiring the approval of the board of directors (BOD) had also increased in 2013 (61% compared to 55% in 2012). With regard to the board structure, 91% (92% in 2012) of the companies had different persons assuming the roles of chair and chief executive officer (CEO), with 40% (43% in 2012) of the boards being led by an independent chair. Almost one-third of the companies had adopted a term limit of 9 years or less for their independent directors in line with the recommendation of the code.

Similar to the findings in 2012, many listed companies had vested in the audit committee the primary responsibility for (i) recommendations on the appointment, reappointment, and removal of the external auditor; and (ii) the appointment and removal of the internal auditor. All of the listed companies disclosed the internal control procedures and risk management systems in place.

In terms of areas for improvement, very few companies asserted that they had reviewed their vision and mission statement during the past 5 years. It was also not very clear whether the board took the lead in the review of annual corporate strategy, as only 26% made such disclosure. Companies should provide at least a summary of their code of ethics, and explain how they implement and monitor compliance with the code of ethics to assure shareholders that the check and balance functions are adequate. Disclosure on remuneration matters, particularly relating to policies and practices for executive directors and CEOs, as well as disclosure of the fee structure for nonexecutive directors, need to be further improved. On a positive note, only 8% of the companies granted share options to their independent nonexecutive directors in 2013. There are still gaps in board assessments, with about half of the listed companies asserting that an annual performance assessment was conducted for the board, individual directors, and board committees. Lesser companies made further disclosure on the board assessment process and criteria used for assessment.

**Figure 25** Strengths and Areas for Improvement in *Responsibilities of the Board*



## STRENGTHS

- The roles and responsibilities of the board are disclosed.
- The types of decisions which required the board of director's approval are disclosed.
- The chair and chief executive officer are separate positions.
- The audit committee has the primary responsibility for (i) recommendations on the appointment, reappointment and removal of the external auditor; and (ii) the appointment and removal of the internal auditor.
- The internal control procedures and risk management systems are disclosed.



## AREAS FOR IMPROVEMENT

- There is a lack of disclosure on whether the company's vision and mission statement had been reviewed by the board during the past 5 years, and whether the board took the lead in reviewing annual corporate strategy.
- There is a lack of disclosure on the details of the code of ethics, and explanation on its implementation and monitoring.
- Remuneration matters are poorly disclosed, particularly relating to policy and practices for executive directors and chief executive officer, as well as disclosure of the fee structure for nonexecutive directors.
- There is a lack of disclosure on whether an annual performance assessment was conducted for the board, individual directors and board committees, as well as the board assessment process and criteria used for assessment.

## Bonus and Penalty

Malaysian companies have shown improvement in corporate governance practices by adopting other emerging good practices that go beyond the items in Level 1. The average overall bonus is 6.74 points compared to 1.93 points in 2012, and the highest was 22 points compared to 7 points in 2012. One notable improvement is the increasing number of female independent directors on company boards. Of the companies assessed in 2013, 37% had at least one female independent director, compared to 28% in 2012.

Under the penalty section, 35% of the companies have independent directors who have served on the board for more than 9 years, a fall from 59% in 2012. However, the scenario on long-serving independent directors is unique in Malaysia, as the Malaysian Code on Corporate Governance 2012, under Recommendation 3.2, allows an independent director who has served the board for more than 9 years to be redesignated as a non-independent director who may continue to serve the board. In addition, Recommendation 3.3 of the code also permits the board to justify and seek shareholders' approval if it wishes to retain this director as an independent director.

Figure 26 shows the strengths and areas of improvement in the Bonus and Penalty Area.

**Figure 26** Strengths and Areas for Improvement in the *Bonus and Penalty* Area



### STRENGTHS

- There is a longer notice period for the annual general meeting (at least 28 days).
- The number of female independent directors on company boards has increased.



### AREAS FOR IMPROVEMENT

- Pyramid ownership and crossholding structures exist.
- Independent directors serve more than 9 years.



## Conclusions and Recommendations

The overall findings of the assessment of the top 100 companies in Malaysia show an improvement in the companies' corporate governance practices as evidenced by the increase in the overall Level 1 performance by 15.09% compared to 2012. This is a positive development amid the increasing expectation for Malaysian companies to improve their corporate governance practices in line with the recommendations of the Corporate Governance Blueprint, Malaysian Code on Corporate Governance 2012, revised Listing Requirements, and the expectations enjoined in the ASEAN Corporate Governance Scorecard.

However, there are areas that warrant further improvement and efforts should be taken by the Malaysian companies to address these gaps. Some of the areas that are recommended for improvements are as follows:

- publishing of AGM minutes on the company's website, including the policies, procedures, and insights on the conduct of the meeting as well as the voting results;
- approval by shareholders of total directors' remuneration, including the allowances, benefits in kind, and other emoluments, instead of only directors' fees as mandated by laws;
- publishing of directors' profile with clear separation of directorships in listed and unlisted public companies;
- disclosure of more information on Environment, Social, and Governance policies and activities including the whistle-blowing aspects;
- disclosure of more information on corporate objectives, key risks areas (other than financial risks), dividend policy, and remuneration of individual directors;
- disclosure of more information on board assessment including the process and criteria used for the assessment.



**Table 2** Corporate Governance: Top 50 Publicly Listed Companies—Malaysia

Companies with Scores of 90 points and above			
No.	Publicly Listed Company Name	No.	Publicly Listed Company Name
1	Axiata Group	7	Maxis
2	Bursa Malaysia	8	Public Bank
3	CIMB Group Holdings	9	RHB Capital
4	IJM Corporation	10	Telekom Malaysia
5	IJM Land	11	Tenaga Nasional
6	Malayan Banking		
Companies with Scores of 80–89 points			
No.	Publicly Listed Company Name	No.	Publicly Listed Company Name
1	British American Tobacco (Malaysia)	9	Malaysian Resources Corporation
2	DiGi.Com	10	Media Prima
3	DRB-HICOM	11	Petronas Chemical
4	Felda Global Ventures Holdings	12	Shell Refining Company (F.O.M.)
5	IJM Plantations	13	Sime Darby
6	LPI Capital	14	UEM Land Holdings (UEM-Sunrise)
7	Malaysia Airports Holdings	15	UMW Holdings
8	Malaysia Marine and Heavy Engineering Holdings		
Companies with Scores of 70–79 points			
No.	Publicly Listed Company Name	No.	Publicly Listed Company Name
1	Alliance Financial Group	13	Hong Leong Financial Group
2	AMMB Holdings	14	IOI Corporation
3	Astro Malaysia Holdings	15	KLCC Property Holding
4	BIMB Holdings	16	KPJ Healthcare
5	Bumi Armada	17	Kulim (Malaysia)
6	Dialog Group	18	Malaysia Building Society
7	Dutch Lady Milk Industries	19	Media Chinese International Limited
8	Fraser and Neave Holdings	20	MISC
9	Gamuda	21	MSM Malaysia Holdings
10	Genting	22	Nestle (Malaysia)
11	Genting Malaysia	23	S P Setia
12	Genting Plantation	24	United Plantations

No. = number.

Note: Companies are listed in alphabetical order in each scoring band.

# THE PHILIPPINES

## Background

In 2013, the Securities and Exchange Commission (SEC) interposed no objection to the designation of the Institute of Corporate Directors (ICD) as the domestic ranking body. The SEC and the ICD then launched an information campaign to publicize and familiarize publicly listed companies (PLCs), other government regulators, and the general investing public with the objectives and mechanics of the ASEAN Corporate Governance Scorecard. The main activities of this campaign were

- orientation sessions for officials of the Bangko Sentral ng Pilipinas, the Insurance Commission, the Governance Commission for Government-Owned and Controlled Corporations, and the Philippine Stock Exchange;
- orientation sessions for PLCs—more than 115 participants representing 72 PLCs attended these sessions;
- introduction of the ASEAN Corporate Governance Scorecard at the Annual Investor Forum of the ICD; and
- a working session that included a status report on the ASEAN Corporate Governance Scorecard initiative within the region, as well as cases of best practices adopted by leading PLCs to improve their ASEAN Corporate Governance Scorecard scores.

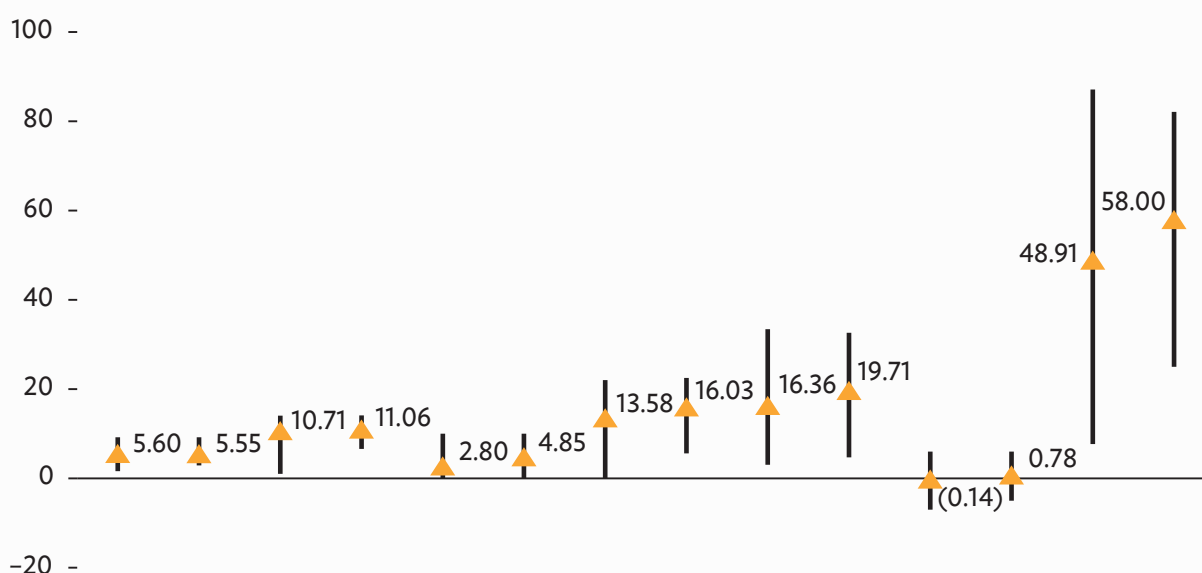
The SEC required all PLCs to issue an annual corporate governance report which is intended to consolidate all of the governance policies and procedures of each PLC into one report for easy reference. The reports were to be submitted by 30 June 2013. On 2 October, the SEC further required all PLCs to post their annual corporate governance reports on their corporate websites.

The ICD mobilized its fellows and partner organizations (the Institute of Internal Auditors Philippines and the Chartered Financial Analyst Society of the Philippines) to score all 252 PLCs. The top PLCs by market capitalization were submitted to the governance experts of other ASEAN domestic ranking bodies (DRBs) for peer review. As part of the agreement with the ASEAN Capital Markets Forum, the ICD peer-reviewed 70 ASEAN PLCs.

## Overall Analysis

The average corporate governance scores of the top 94 Philippine PLCs by market capitalization rose from 48.91 points in 2012 to 58 points in 2013.

**Figure 27** Scores in Various Corporate Governance Categories



	Rights of Shareholders		Equitable Treatment of Shareholders		Role of Stakeholders		Disclosure and Transparency		Responsibilities of the Board		Bonus and Penalty		Total Score	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
max	9.20	9.20	14.06	14.10	10.00	10.00	22.02	22.50	33.42	32.60	6.00	6.00	87.12	82.10
min	1.60	2.90	1.00	6.60	0.00	0.00	0.00	5.60	3.04	4.70	(7.00)	(5.00)	7.68	25.00
mean	5.60	5.55	10.71	11.06	2.80	4.85	13.58	16.03	16.36	19.71	(0.14)	0.78	48.91	58.00

▲ = mean, ( ) = negative.

As shown in Figure 27, of the five corporate governance categories, the most dramatic improvement in average scores on a year-on-year basis was in the Role of the Stakeholders (4.85 points in 2013 compared with 2.80 points in 2012), Disclosure and Transparency (16.03 points in 2013 up from 13.58 points in 2012), and Responsibilities of the Board (19.71 points in 2013 versus 16.36 points in 2012). Average scores in all corporate governance categories improved except for Rights of Shareholders, which decreased slightly to 5.55 points in 2012 from 5.60 points in 2013.

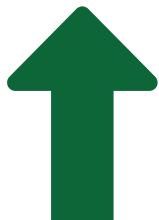
## Part A: Rights of Shareholders

### Strengths and Areas for Improvement

The Rights of Shareholders category determines the PLC's attitude toward the shareholders especially to those other than with a controlling interest, i.e., the minority and the institutional shareholders. It ensures that the corporate governance framework protects and facilitates the exercise of all shareholders' rights. It uses indicators like the attitude of the PLC to the Annual Stockholders Meeting and voting rights given to shareholders on matters of fundamental concerns to the corporation.

The Philippine PLCs remain strong in providing the basic rights to its shareholders. They allow sufficient time in informing their shareholders about the matters to be taken up on the ASM. The time and venue of the ASM were chosen to make it convenient for the shareholders to attend. However, this year's performance of Philippine PLCs for this category shows no improvement (Figure 28). Our PLCs need to make their minutes of ASM available on their website. The minutes should include the required information such as opportunities for shareholders to raise questions and details of voting result.

**Figure 28** Strengths and Areas for Improvement in *Rights of Shareholders*



#### STRENGTHS

- The locations of annual stockholders' meetings (ASMs) are easily accessible.
- Companies provide at least 21 days' notice for all resolutions.
- Companies make the result of the votes taken during the most recent ASM for all resolutions publicly available by the next working day.



#### AREAS FOR IMPROVEMENT

- Minutes of ASMs are not disclosed.
- Opportunities for shareholders to ask questions and/or raise issues during ASMs are not evident.
- Some companies do not pay dividends within 30 days after being declared and approved.
- Most companies do not vote by poll for all resolutions during their ASMs.
- Approving, dissenting, and abstaining votes for each agenda item of the ASM are not disclosed.
- Most companies do not disclose that they have appointed an independent party to count and/or validate the votes at the ASM.
- Companies have not provided rationales and explanations for each agenda item that requires shareholders' approval in the notice of ASM and circulars, and/or the accompanying statement.

## Part B: Equitable Treatment of Shareholders

### Strengths and Areas for Improvement

This category ensures fair treatment of all shareholders and has virtually the same coverage as the first chapter, the Rights of Shareholders. It, however, has a more specific focus on the protection of minority shareholders, i.e., those shareholders who do not enjoy a controlling interest in the PLC.

The result for this category of Philippine PLCs shows only a slight improvement as the PLCs slowly improve the information they include in the notices of ASMs aligning it to regional best practices.

**Figure 29** Strengths and Areas for Improvement in *Equitable Treatment of Shareholders*



#### STRENGTHS

- Notices of annual stockholders' meetings (ASMs) are in English.
- Auditors seeking election or reelection are identified in the notice of ASM.
- Resolutions in the ASM deal with only one item; i.e., there is no bundling of several items into the same resolution.



#### AREAS FOR IMPROVEMENT

- Directors are not required to report their dealings in company shares within three business days.
- Companies have no policy requiring a committee of independent directors to review material or significant related party transactions.
- The profile of candidates to the board does not specify directorships in other listed companies.
- Some companies do not disclose the amount payable for final dividends in the notice of ASM.
- Notices of ASMs do not mention the company's dividend policy.

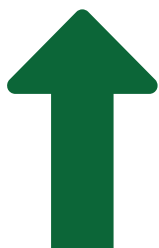
## Part C: Role of Stakeholders

### Strengths and Areas for Improvement

After due emphasis has been given to the rights of shareholders, including the protection of the rights of minority shareholders, attention is properly shifted to other stakeholders, i.e., other parties that have nonequity stakes in the PLCs. Several of these stakeholders are specifically cited (customers, suppliers, environment, community, creditors, and employees). Not only policies but also activities to respect, defend, and promote the rights of these other stakeholders need to be laid out, articulated, and undertaken.

This year's result for this category shows improvement indicating that an increasing number of Philippine PLCs are now including specific references to care for these stakeholders. More PLCs have a separate corporate social responsibility, sustainability section, and report. However, this category remains to be where Philippine PLCs receive the lowest score. Most of them still need to adopt a system of rewards, recognition, and remuneration that promotes and incentivizes long-term performance (beyond short-term financial returns). The officers and employees of the PLCs are their major other stakeholders. Since they are internal to the PLCs, they are entitled to more than their fair share of attention and care. The key issues of concern with regard to officers and employees should include at least health, safety, and overall welfare as well as training and development (investment in their learning and growth).

**Figure 30** Strengths and Areas for Improvement in *Role of Stakeholders*



#### STRENGTHS

- Most companies disclose policies and activities in their annual report or company website that describe in detail their interactions with the communities where they do business.
- Most companies have a separate corporate responsibility report or section, or sustainability report or section.



#### AREAS FOR IMPROVEMENT

- Most companies do not have a reward or compensation policy for employees that accounts for the performance of the company beyond short-term financial measures.
- Most companies have not published relevant information on training and development programs for their employees.
- Most companies have not published information relating to health, safety, and welfare of their employees.
- Most companies have not disclosed their policy or procedures to protect from retaliation an employee or person who reveals illegal or unethical behavior.
- Most companies either do not have or have not disclosed their policy and activities relating to supplier and contractor selection or their efforts to address customer welfare and safeguard creditors' rights.

## Part D: Disclosure and Transparency

### Strengths and Areas for Improvement

Disclosure is one of two major demands of modern corporate governance. There is a presumption in corporate governance that fuller and more transparent disclosure is a major effective deterrent against corporate governance malpractices. The chapter on disclosure identifies the items PLCs must disclose to the general public to better secure observance of good corporate governance practices.

Philippine PLCs scored better this year on this category. The annual corporate governance report that the Philippine SEC required from the PLCs helped make the necessary information available to the public. In addition to last year's strong areas, more PLCs disclose clearly the details of their RPTs with the help of the annual corporate governance report.

**Figure 31** Strengths and Areas for Improvement in *Disclosure and Transparency*



#### STRENGTHS

- Financial performance indicators are disclosed in the annual reports.
- Companies use the following modes of communication:
  - quarterly reporting, and
  - company website.
- Audit fees are disclosed in the annual report.
- The nature and value of each material or significant related party transaction is disclosed.
- Audited financial reports and annual reports are released within 120 days from the financial year-end.



#### AREAS FOR IMPROVEMENT

- Most companies do not mention the following in their annual reports:
  - details of the whistle-blowing policy,
  - training and/or continuing education program attended by each director during the year,
  - details of remuneration of each member of the board of directors,
  - nonfinancial performance indicators,
  - corporate objectives, and
  - details of attendance of directors at board meetings.
- Proof of media and analysts' briefings are not disclosed.
- Most companies do not disclose the trading of directors in company shares.
- Some companies do not disclose their policies involving the review and approval of related party transactions.
- The profile of directors in the annual report does not specify directorships in other listed companies.



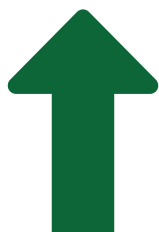
## Part E: Responsibilities of the Board

### Strengths and Areas for Improvement

The second major demand of modern corporate governance is for the Board of Directors to step up the plate and actively take on the role—the duties and responsibilities—that the laws, rules, and regulations vest upon them. The board has the original task, which carries with it the fiduciary duty, of managing the affairs of the PLC. The first concern that has to be fully addressed is the formulation of a corporate governance policy and within it the definition of board responsibilities.

This is one category where Philippine PLCs show significant improvement, increasing the total average score in this category from 16.36 to 19.71. Although there are items that remain to be a challenge to Philippine PLCs such as increasing the number of independent directors to 50% of the board, more and more PLCs are adopting international best practices to be at par with regional standards. Some of the activities they undertake are improving their board protocols, committee charters, and regular review of their corporate strategies.

**Figure 32** Strengths and Areas for Improvement in *Responsibilities of the Board*



#### STRENGTHS

- Most companies have nomination and remuneration committees.
- Company secretaries are trained in legal, accountancy, or company secretarial practices.
- Profiles of the members of the audit committee are disclosed in the annual report.
- Most companies have a vision and mission statement.



#### AREAS FOR IMPROVEMENT

- Independent directors do not make up at least 50% of the board of directors.
- Nonexecutive directors do not meet separately without any executives present.
- The chair of the board is not an independent director.
- Most companies have not set a limit of five board seats in publicly listed companies that an individual director or commissioner may hold simultaneously.
- Most nomination and remuneration committees are not comprised of a majority of independent directors.
- Most companies do not require a minimum quorum of at least two-thirds for board decisions.
- The term limit of independent directors is more than 9 years.
- The annual report does not contain a statement from the board of directors or audit committee commenting on the adequacy of the company's internal controls and risk management systems.
- Most companies do not disclose that the board of directors takes the lead in the review of annual corporate strategy.
- Most companies do not disclose when the vision and mission was last reviewed.

## Bonus and Penalty

In addition to the above issues and points which are included in the questionnaire for the ASEAN CG Scorecard, there are a few preferred practices which are highly recommended, and for which additional or bonus points are awarded to those PLCs that decide to adopt them. If there are bonus points to be gained from adopting the preferred practices, there are also penalty points given for poor practices.

This year's result will show an increase in the average bonus points received by Philippine PLCs. More companies released their notices of meeting with explanatory circulars 1 month before the ASM.

**Figure 33** Strengths and Areas for Improvement in the *Bonus and Penalty* Area



### STRENGTH

- The companies release notices of annual general meetings (with detailed agendas and explanatory circulars), as announced to the exchange, at least 28 days before the date of the meeting.



### AREA FOR IMPROVEMENT

- Some companies have independent directors who have served for more than 9 years.

## Conclusions and Recommendations

The improvement in scores for the top 100 Philippine publicly listed companies (PLCs) is the result of the annual corporate governance report and the efforts of the Institute of Corporate Directors (ICD) to educate them on the methodology of the ASEAN Corporate Governance Scorecard. The Securities and Exchange Commission (SEC) remains committed to good corporate governance among PLCs and will take more steps to encourage them to be fully compliant with international standards.

Part of the reason for the relatively low scores of PLCs is the lack of adequate disclosures compared to their counterparts in other ASEAN countries, particularly on company websites. There is a perception that potential investors have difficulty navigating mainly due to the variety of formats and content employed from company to company. It is hoped that these issues will be addressed by 2015 as more companies gain a greater awareness of the corporate governance scorecard and its process, and the SEC introduces a template and common content for websites. Their scores are also expected to improve over time in line with the ICD's experience with a previous scorecard project.

The thrust in 2014 will be a continuation of the strategy that has, so far, borne fruit: an aggressive information campaign coupled with regulatory support from the government institutions involved.

A significant concern is that the average score for all PLCs (a total of 252 companies listed in the Philippine Stock Exchange) dipped slightly from 53.8 points to 51.1 points in 2013. We foresee a challenge in ensuring that the score will improve because the performance of the rest of the population of the companies might pull down the overall average score. This is despite the top 100 PLCs significantly improving their performance by 2015 when they will be ranked with their ASEAN peers.

**Table 3** Corporate Governance: Top 50 Publicly Listed Companies—The Philippines

No.	Publicly Listed Company Name	No.	Publicly Listed Company Name
1	Aboitiz Equity Venture	26	Megawide Construction Corporation
2	ABS-CBN Corporation	27	Metro Pacific Investments Corporation
3	Anchor Land Holdings	28	Metropolitan Bank and Trust Company
4	Ayala Corporation	29	Pepsi-Cola Products Philippines
5	Ayala Land	30	Petron Corporation
6	BDO Unibank	31	Philex Mining Corporation
7	Bloomberry Resorts Corporation	32	Philex Petroleum Corporation
8	Cebu Holdings	33	Philippine Bank of Communications
9	Century Properties Group	34	Philippine Long Distance Telephone Company
10	China Banking Corporation	35	Philippine Savings Bank
11	COL Financial Group	36	Philweb Corporation
12	D&L Industries	37	RFM Corporation
13	East West Banking Corporation	38	Rizal Commercial Banking Corporation
14	Energy Development Corporation	39	Rockwell Land Corporation
15	Far Eastern University	40	San Miguel Corporation
16	First Gen Corporation	41	San Miguel Pure Foods Company
17	First Philippine Holdings Corporation	42	Security Bank Corporation
18	Globe Telecom	43	Semirara Mining Corporation
19	GMA Network	44	SM Investments Corporation
20	International Container Terminal Services	45	SM Prime Holdings
21	JG Summit Holdings	46	Starmalls
22	Lepanto Consolidated Mining Company	47	STI Education Systems Holdings
23	Lopez Holdings Corporation	48	The Philippine Stock Exchange
24	Manila Electric Company	49	Union Bank of the Philippines
25	Manila Water	50	Vista Land and Lifescapes

No. = number.

Note: The companies are arranged alphabetically.

 Unless otherwise stated, the source for all figures and tables in this chapter is the Institute of Corporate Directors, Philippines.

# SINGAPORE

## Background

In 2012 alone, Singapore has been recognized as having the best corporate boards in Asia by the World Economic Forum in its *Global Competitiveness Report 2011–2012*, as well as the best corporate governance performance in Asia by the Asian Corporate Governance Association in its *Corporate Governance Watch 2012* report. These accolades come against the backdrop of ongoing reviews of Singapore's corporate governance regulations.

**Figure 34** Corporate Governance Framework in Singapore



Singapore's corporate governance rules and regulations are made up of the Companies Act (Chapter 50), the Securities and Futures Act of 2001 (Chapter 289), the Singapore Exchange (SGX) Listing Rules as well as the Code of Corporate Governance (2012), as illustrated in Figure 34. The Monetary Authority of Singapore and the SGX are the two main bodies overseeing corporate governance practices of Singapore's publicly listed companies (PLCs).

The Companies Act is the overarching legal framework for corporate Singapore and it sets out the fiduciary duties of directors. It has recently undergone a review, with new recommendations approved, and is in the process of being drafted into law. The Securities and Futures Act is the legislation that sets out the mandatory responsibilities of all companies in Singapore with regard to capital markets.

The Singapore Exchange regulates Singapore PLCs through its listing rules, which provide guidance on important governance matters such as related party transactions (RPTs), periodic reporting, and disclosure of material information. The listing rules also require PLCs to comply with, or explain deviations from, the Code of Corporate Governance. PLCs that fail to do so and do not respond to subsequent queries satisfactorily may face disciplinary action.

The changes to the corporate governance rules and regulations in the past few years, including the 2011 amendments to the Listing Rules, the 2012 revision of the Code of Corporate Governance, and proposed changes to the Companies Act, reflect Singapore's commitment to remain relevant in a rapidly evolving business environment. Furthermore, the mix of mandatory rules (Companies Act, Securities and Futures Act, and Listing Rules) and the best practice guidelines detailed in the Code of Corporate Governance, reflects the importance of striking a balance between keeping up with global best practices and allowing for some flexibility in applying corporate governance principles to companies of different sizes and industries.

## Overall Analysis

### Methodology Overview

The summary of the 2012 and 2013 ASEAN Corporate Governance Scorecard mechanism is provided in Figure 35. It is important to note that the absolute scores between the 2012 and 2013 scorecard are not strictly comparable because the highest possible score is 142 points for the 2013 scorecard, compared to 117 points for the 2012 scorecard. As the scoring mechanism and number of items in Level 2 (*Bonus and Penalty*) of the scorecard were revised in 2013, changes in Singapore PLCs' scores can only be assessed by comparing the Level 1 scores. The Level 1 weighting remained constant at 100 points between the 2 years despite some changes in the items and assessment criteria.

**Figure 35** Summary of ASEAN Corporate Governance Scorecard Mechanism

2012 Scorecard		2013 Scorecard	
Level 1 Maximum	100 points	Level 1 Maximum	100 points
Level 2 Maximum	17 points	Level 2 Maximum	42 points
Maximum Total Score	117 points	Maximum Total Score	142 points

ASEAN = Association of Southeast Asian Nations.

### Default Items

The scorecard is primarily based on Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance 2004, whereas the Code of Corporate Governance 2012 is the primary reference for Singapore PLCs. While there are some differences in emphasis between the OECD principles and Singapore Code of Corporate Governance 2012, there are many areas of similarity. This is demonstrated by the fact that 17 of the scorecard items are default items for Singapore PLCs. These 17 items are met by all Singapore PLCs as they are mandatory requirements stated in Singapore's corporate laws, rules, and regulations.

## Market Capitalization and Industry Profile

For the 2013 assessment, 30 April 2013 had been set as the cut-off date. Based on the April 2013 issue of the monthly statistical report published by the Singapore Exchange, there were a total of 771 PLCs listed on the SGX (excluding global depositary receipts, hedge funds, and debt securities), with an approximate total market capitalization of S\$1 trillion. The data to shortlist the top 100 Singapore PLCs by market capitalization has been downloaded from Bloomberg Professional service. The top 100 Singapore PLCs represent 13% of the total number of Singapore PLCs and account for 55% of the total market capitalization (Figure 36).

**Figure 36** Market Capitalization of the Top 100 Singapore Publicly Listed Companies

Description	Total Singapore PLCs	Top 100 Singapore PLCs
Number of PLCs	771 <sup>a</sup>	100
Market Capitalization (S\$million)	998,720.0 <sup>a</sup>	552,626.3 <sup>b</sup>

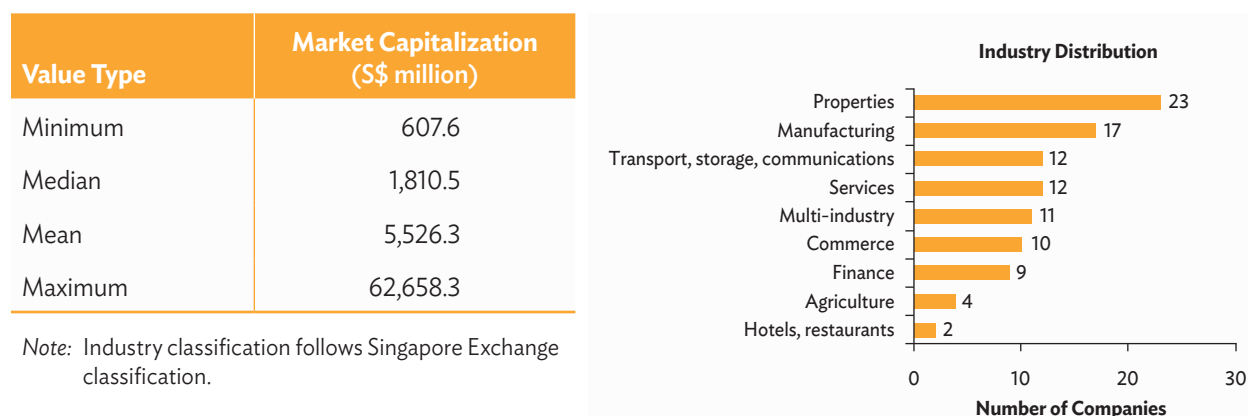
PLC = publicly listed company.

<sup>a</sup> Data extracted from the Singapore Exchange Statistical Report, April 2013; excludes global depositary receipts, hedge funds, and debt securities.

<sup>b</sup> Data extracted from Bloomberg Professional service as of 30 April 2013.

From the initial top 100 Singapore PLCs, three PLCs were subsequently excluded due to their highly volatile share prices during the period of assessment. The excluded PLCs were replaced by the next three PLCs on the market capitalization ranking list. The market capitalization and industry distribution of the final 100 PLCs are illustrated in Figure 37.

**Figure 37** Profile of the Top 100 Singapore Publicly Listed Companies, 30 April 2013



## Key Findings

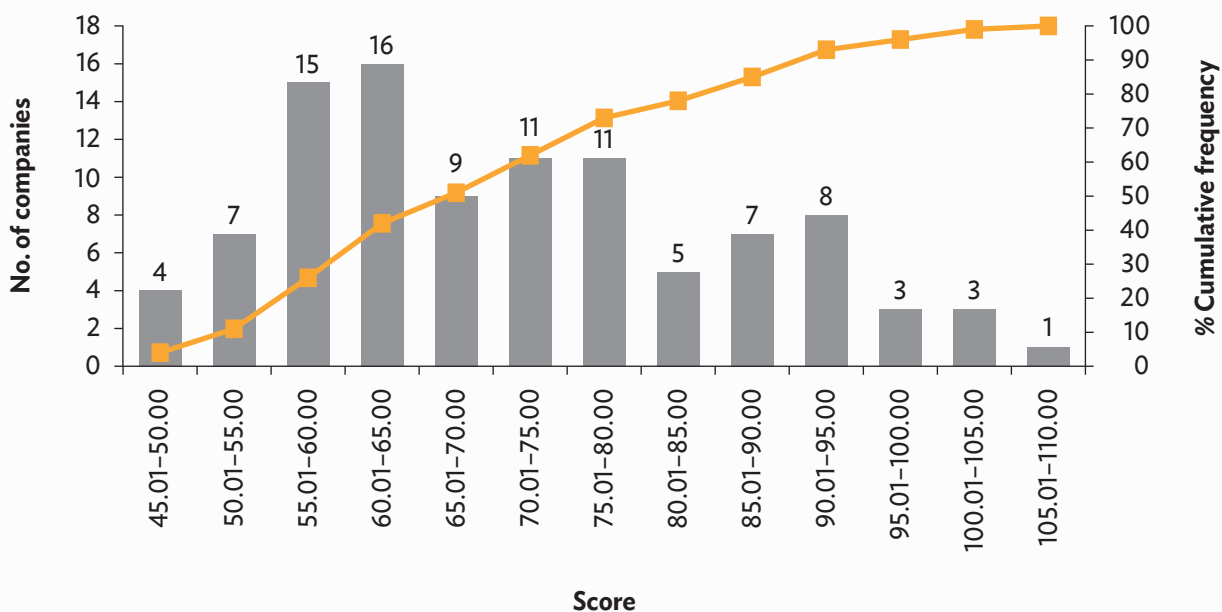
Figure 38 provides the results of 100 Singapore PLCs assessed in 2013. These PLCs scored between 46.8 points and 105.0 points, from a maximum possible score of 142.0 points. Approximately half the PLCs scored more than 70 points.

**Figure 38** Summary Results of Top 100 Singapore Publicly Listed Companies

Summary Results of 2013 Singapore Top 100 Publicly Listed Companies	
Statistics	Results (Of a maximum score of 142 points)
Minimum	46.8
Median	69.6
Mean	71.7
Maximum	105.0

Figure 39 illustrates the distribution of the total scores for 2013. The top five Singapore PLCs with highest total scores arranged in alphabetical order are DBS Group Holdings, Oversea-Chinese Banking Corporation, Singapore Exchange, Singapore Press Holdings, and Singapore Telecommunications (see Table 4).

**Figure 39** Distribution of Top 100 Singapore Publicly Listed Companies by Total Score



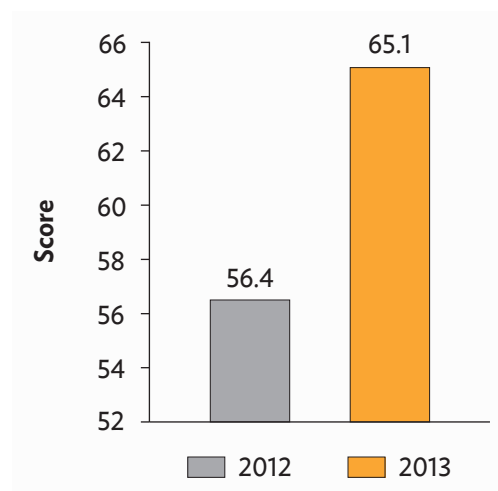
## Comparison of 2012 and 2013 Results

Comparing Level 1 scores alone, Singapore's PLCs scored better in 2013 than in 2012, as illustrated in Figure 40.

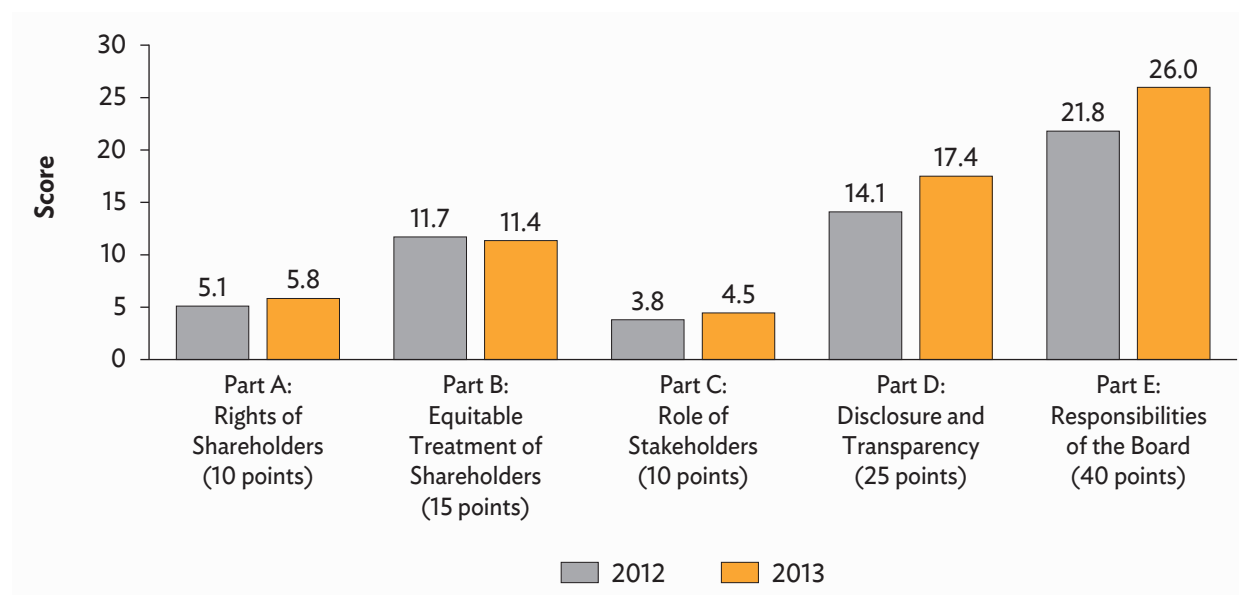
Many Singapore PLCs have made changes to their disclosed corporate governance practices in line with the requirements of the Code of Corporate Governance 2012. These improvements have been captured as strengths in the 2013 ASEAN Corporate Governance Scorecard.

Figure 41 provides the detailed breakdown of the Level 1 scores in 2012 and 2013. The greatest improvement is observed in Part D (Disclosure and Transparency) and Part E (Responsibilities of the Board). These two parts contributed significantly to the 8.7% increase in the overall Level 1 score.

**Figure 40** Average Level 1 Score of the Top 100 Singapore Publicly Listed Companies (out of 100 points)



**Figure 41** Comparison of Mean Scores by Each Component





## Part A: Rights of Shareholders

### Strengths and Areas for Improvement

The rights of shareholders are strongly incorporated in Singapore's regulatory framework. Of the 17 default items, 9 are located in this section. Two examples of how shareholders' rights are embedded into Singapore's regulatory framework are as follows. All shareholders have the right to participate in decisions concerning fundamental corporate changes. For any substantial merger, acquisition, or takeover, the board is required to appoint an independent party to evaluate the fairness of the terms and conditions of the transaction for shareholders' approval.

Singapore PLCs scored better in this section than in 2012. More PLCs conducted voting by poll instead of by a show of hands. PLCs also did well in the administration of annual general meetings (AGMs), with most conducting their AGMs in easily accessible locations and providing detailed explanations of agenda items. All PLCs announced the results of their most recent AGM by the next working day.

However, many PLCs did not publish detailed minutes of AGM proceedings. The written records often did not include questions and answers or the list of board members who attended the most recent AGM. Many PLCs did not state whether their chief executive officer (CEO) and chair attended the AGM. More importantly, many PLCs did not disclose details relating to the voting process and vote tabulation procedures used, or whether there was third-party validation of votes. More comprehensive documentation and disclosure of AGMs is encouraged for better communication with shareholders.

**Figure 42** Strengths and Areas for Improvement in *Rights of Shareholders*

#### STRENGTHS

- Boards appoint an independent party to evaluate fairness of the terms and conditions of the transaction in case of substantial mergers, acquisitions, and/or takeovers.
- Most Singapore publicly listed companies (PLCs) held their annual general meeting (AGM) in easy-to-reach locations.
- All Singapore PLCs announced their most recent AGM outcomes by inclusion of all the resolutions.
- All Singapore PLCs provided the rationale and explanation for each agenda item requiring shareholders' approval in the notice of AGM and/or circulars.
- All Singapore PLCs announced the voting results taken during the most recent AGM for all resolutions by the next working day.

#### AREAS FOR IMPROVEMENT

- Documentation of questions and answers was inadequate in most Singapore PLCs' AGM minutes.
- Few Singapore PLCs disclosed voting and vote tabulation procedures used in the AGMs.
- Few Singapore PLCs disclosed whether an independent party had been appointed to count and/or validate the votes at AGMs.
- Few Singapore PLCs disclosed their AGM attendance by all board members including the chair, chair of the audit committee, and the chief executive officer.

## Part B: Equitable Treatment of Shareholders

### Strengths and Areas for Improvement

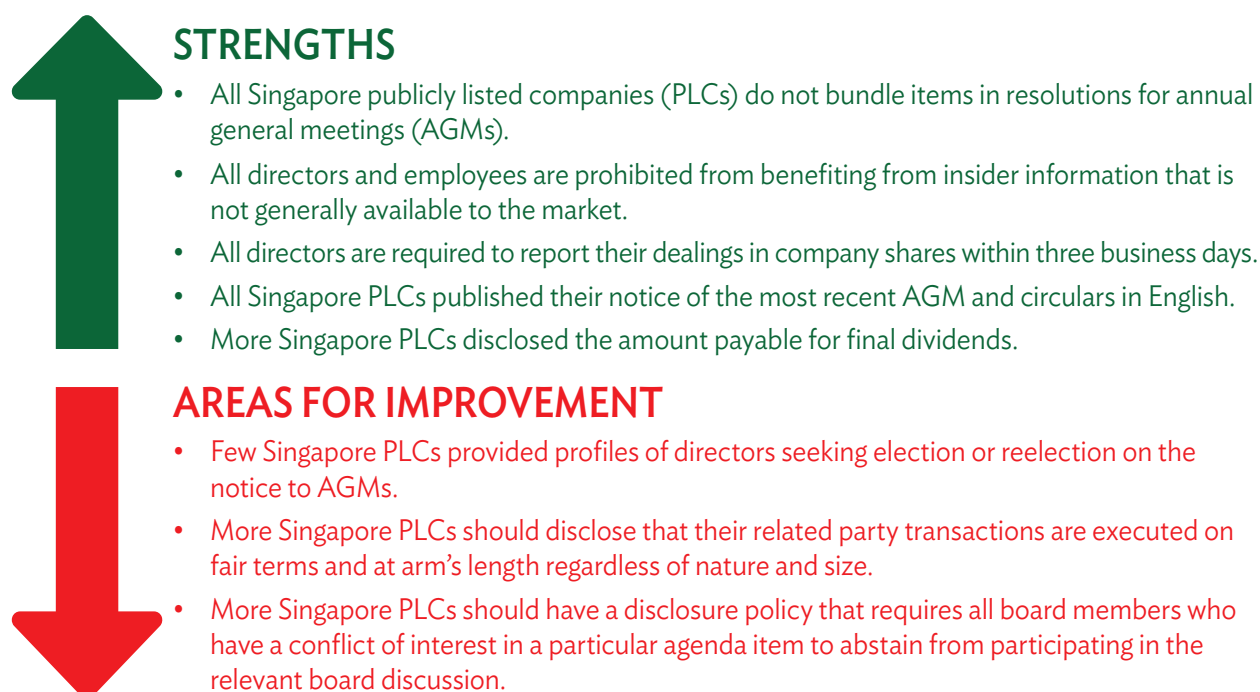
Singapore's corporate governance regulatory framework supports equitable treatment of shareholders, as evidenced by the "one share, one vote" principle. This means that each ordinary shareholder is entitled to one vote per share.

Of the 17 questions in this section, 7 are classified as default items. These shareholder protection items include regulations on insider trading and related (interested) party transactions (RPTs). Both directors and employees are prohibited from benefiting from insider information that is not generally available to the public. Directors have to report any dealings in company shares within three working days and disclose any conflicts of interest in transactions. Interested party transactions exceeding 5% of the PLC's latest audited net tangible assets also require shareholders' approval.

The Singapore PLCs assessed have done well in the past 2 years in providing adequate and timely notices of their AGMs. They avoided bundling multiple resolutions in their AGM agenda. More PLCs disclosed the final amount payable in their reports where dividends are declared. All notices and circulars are published in English, as it is the working language in Singapore.

Notwithstanding the above, Singapore PLCs can further improve the level of disclosure in their notice of AGM and related circulars. More PLCs can provide detailed explanation of their dividend policy and include at least a basic profile of directors seeking election or reelection in these materials. In addition, more Singapore PLCs should disclose that their RPTs are executed on fair terms and at arm's length, regardless of their nature or size.

**Figure 43** Strengths and Areas for Improvement in *Equitable Treatment of Shareholders*



## Part C: Role of Stakeholders

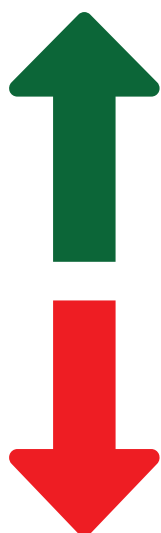
### Strengths and Areas for Improvement

The rights of stakeholders can be better addressed by companies that practice sustainable business practices and sustainability reporting. The Singapore Exchange plans to set up a committee to encourage PLCs to disclose their sustainability initiatives. It published the *Guide to Sustainability Reporting for Listed Companies* in 2011, followed by *An Investor's Guide to Reading Sustainability Reports* in May 2013. The Code of Corporate Governance 2012 also recommended that the board “considers sustainability issues, e.g., environmental and social factors, as part of its strategy formulation.”

In general, Singapore PLCs made steady progress between 2012 and 2013 on the role of stakeholders. There was substantial improvement in the number of PLCs publicly disclosing policies and efforts in areas such as customer and employee welfare, and staff training and development. Most PLCs disclosed activities undertaken to engage with the community and took measures to ensure that their value chains are environmentally friendly. Many PLCs also had in place a reward or compensation policy that considered nonfinancial performance of the company beyond short-term financial measures. Coinciding with related changes in the Code of Corporate Governance, more PLCs had a comprehensive whistle-blowing policy in place, including procedures for complaints by employees concerning illegal and unethical behavior in the company, and protection from reprisal for those who reported such behavior.

Many PLCs did not explicitly disclose policies related to certain key stakeholder rights. One possible reason could be that the legal system in Singapore already provides comprehensive protection of the basic rights of these stakeholders, through laws including the Consumer Protection (Fair Trading) Act, the Prevention of Corruption Act, and the Workplace Safety and Health Act. In this context, PLCs may feel that, where standards are already enacted legally, they do not necessarily have to be reinforced by

**Figure 44** Strengths and Areas for Improvement in Role of Stakeholders



#### STRENGTHS

- More Singapore publicly listed companies (PLCs) reported their efforts to interact with the communities and to keep their value chain environmentally friendly.
- More Singapore PLCs have in place a reward or compensation policy to recognize performance beyond short-term financial measures.
- Most Singapore PLCs have a comprehensive whistle-blowing policy in place.

#### AREAS FOR IMPROVEMENT

- More Singapore PLCs should disclose policies and efforts in areas such as customer welfare, employee welfare, and staff training and development.
- More Singapore PLCs should provide contact details via the company's website or annual report, which stakeholders can use to voice their concerns and/or complaints about possible violation of their rights.

company policy or disclosure. PLCs can, however, achieve better corporate governance beyond legal compliance by having clear policies on these issues, and providing accessible channels for stakeholders to voice their concerns and report any violations of their rights.

## Part D: Disclosure and Transparency

### Strengths and Areas for Improvement

Singapore PLCs scored well in the area of disclosure and transparency. Many items were standard practices implemented by all the PLCs assessed. For example, all PLCs disclosed the number of board of directors' (BOD) meetings held during the year, had quarterly reports, and released their audited annual financial report in a timely manner.

All PLCs were transparent about their ownership structure, and publicly disclosed direct and indirect shareholdings of substantial shareholders and directors, as well as details such as their parent or holding company, subsidiaries, associates, and joint ventures. All Singapore PLCs disclosed both audit and nonaudit fees for external auditors.

Singapore PLCs can further improve their disclosure and transparency practices to ensure their annual reports are more comprehensive. For example, PLCs can include details such as their corporate objectives and nonfinancial performance indicators.

**Figure 45** Strengths and Areas for Improvement in *Disclosure and Transparency*



#### STRENGTHS

- Most Singapore publicly listed companies (PLCs) disclosed the number of board of directors' and committee meetings held during the year, and attendance details of each director.
- All Singapore PLCs provided quarterly reports.
- All Singapore PLCs released their audited annual financial report within 120 days from the financial year end.
- All Singapore PLCs disclosed direct and indirect (deemed) shareholdings of major and or substantial shareholders and directors.
- All Singapore PLCs disclosed their audit and non-audit fees.
- Most Singapore PLCs provided financial performance indicators.

#### AREAS FOR IMPROVEMENT

- More Singapore PLCs should disclose corporate objectives, nonfinancial performance indicators, and dividend policy in annual reports.
- More Singapore PLCs should disclose the trading of the company's shares by insiders in their annual reports.

## Part E: Responsibilities of the Board

### Strengths and Areas for Improvement

Of the five scorecard components, Singapore PLCs made the most improvement in the section on Responsibilities of the Board. This may be due to revisions in the Singapore Exchange Listing Rules in 2011 and the Code of Corporate Governance in 2012.

The revision to the Singapore Exchange Listing Rules requires the BOD and the audit committee to review and comment on the adequacy of the company's internal control and risk management systems. As a result, Singapore PLCs scored better on the risk oversight items compared to the previous year. In line with the new regulations, most PLCs provide disclosure on the adequacy of their internal control and risk management systems.

Singapore PLCs scored better in the area of board structure, especially on board independence. Most PLCs had independent directors that made up at least 50% of their boards—an improvement on 2012. More PLCs disclosed that their independent directors are independent from management and major shareholders. In addition, PLCs had fewer busy directors. That is, there is a decrease in the number of independent directors holding more than five directorships, as well as a decrease in the number of executive directors holding more than two directorships. All Singapore PLCs have three subcommittees: an audit committee, a remuneration committee, and a nominating committee. Most of these committees have a majority of independent directors, including the committee chairs.

**Figure 46** Strengths and Areas for Improvement in *Responsibilities of the Board*



#### STRENGTHS

- All Singapore publicly listed companies (PLCs) clearly stated roles and responsibilities for the chair and the board in their terms of reference.
- Most Singapore PLCs provided disclosure by the board or audit committee on the adequacy of internal control and risk management systems.
- Most Singapore PLCs have a majority of independent directors on boards and committees.
- Singapore PLCs have fewer independent directors holding more than five directorships.
- Singapore PLCs have fewer executive directors holding more than two directorships.
- Singapore PLCs have comprehensive terms of reference for audit committees, remuneration committees, and nominating committees.



#### AREAS FOR IMPROVEMENT

- Few Singapore PLCs conducted annual evaluations for chief executive officers and individual board members.
- Singapore PLCs should disclose more details on remuneration policy and practices.
- More Singapore PLCs should provide disclosure on succession planning.

However, there is still room for improvement in this section. Although most PLCs conducted annual board evaluations, many do not conduct formal annual evaluation of CEOs and individual board members. There is also generally poor disclosure on detailed remuneration of executive and non-executive directors, as well as details of succession planning for senior management.

## Conclusions and Recommendations

Singapore PLCs' corporate governance practices are generally guided by the local framework, which may differ in focus from the scorecard's methodology. Despite this, Singapore PLCs have made improvements in 2013, as illustrated by the 9% increase in their overall Level 1 scores from the previous year.

Nevertheless, Singapore PLCs still have several areas for improvement. These are as follows:

- **Communication with shareholders.** Singapore PLCs can improve by publishing more comprehensive AGM minutes for greater accountability. Generally, Singapore PLCs' AGM results are well documented and disseminated in a timely manner. However, the disclosure of the AGM process is often overlooked. Questions by shareholders, answers by the board and management, and meeting details such as the attendance of the board and management, may not be sufficiently communicated.

Other than providing more information in their AGM minutes, PLCs could also improve communication of their dividend policies and profiles of directors seeking election or reelection in their notice of AGM and related circulars.

- **Stakeholder engagement.** PLCs are encouraged to engage their stakeholders by providing sustainability reporting. Sustainability reporting is gaining traction among Singapore PLCs. This can be observed in their engagement with several groups of stakeholders such as employees, creditors, and communities. Singapore PLCs should build upon their current best practices and extend these engagements to their business associates. They could also provide accessible channels for stakeholders to voice their concerns.
- **Performance and compensation of chief executive officer and board members.** Few PLCs have provided adequate disclosure on evaluations of their CEOs and individual board members. As the chief executive officer (CEO) and board members are in strategic leadership positions, it is important for PLCs to establish assessment criteria for evaluating their CEOs and board members.

Another area for improvement is transparency in the area of remuneration for CEOs and board members. Their compensation should be aligned with company performance. Having a greater level of transparency in remuneration matters allows shareholders to be better informed about the factors concerning the appointment and reappointment of CEOs and board members.

- **Transparency of succession planning process.** To improve accountability to shareholders, Singapore PLCs should disclose details of succession planning for the CEO, senior management, and board. This is important for business continuity.

**Table 4** Corporate Governance: Top 50 Publicly Listed Companies—Singapore

No.	Publicly Listed Company Name	No.	Publicly Listed Company Name
1	Ara Asset Management	26	Oversea-Chinese Banking Corporation <sup>a</sup>
2	Biosensors International Group	27	SATS
3	Bukit Sembawang Estates	28	Sembcorp Industries
4	Bumitama Agri	29	Sembcorp Marine
5	CapitaLand	30	Sheng Siong Group
6	CapitaMalls Asia	31	SIA Engineering
7	China Aviation Oil (S) Corporation	32	Singapore Airlines
8	China Fishery Group	33	Singapore Exchange <sup>a</sup>
9	City Developments	34	Singapore Post
10	ComfortDelGro Corporation	35	Singapore Press Holdings <sup>a</sup>
11	DBS Group Holdings <sup>a</sup>	36	Singapore Technologies Engineering
12	Del Monte Pacific	37	SingTel <sup>a</sup>
13	Fraser and Neave	38	SMRT Corporation
14	Global Logistic Properties	39	StarHub
15	Great Eastern Holdings	40	STATS ChipPac
16	Haw Par Corporation	41	Tat Hong Holdings
17	Hong Leong Finance	42	Thai Beverage
18	Keppel Corporation	43	Tiger Airways Holdings
19	Keppel Land	44	United Engineers
20	Keppel Tele and Tran	45	United Overseas Bank
21	M1 Limited	46	Venture Corporation
22	Metro Holdings	47	WBL Corporation <sup>b</sup>
23	Neptune Orient Lines	48	Yeo Hiap Seng
24	Noble Group	49	Ying Li International Real Estate
25	Olam International	50	Yoma Strategic Holdings

No. = number.

Note: The companies are arranged alphabetically.

<sup>a</sup> Top five Singapore publicly listed companies by total score.

<sup>b</sup> WBL Corporation is in the process of privatization.



# THAILAND

## Corporate Governance Framework

Publicly listed companies (PLCs) in Thailand have evolved around the Public Limited Companies Act, the Securities and Exchange Act, and the Civil and Commercial Code. These laws have provided the strong foundations, institutional settings, supervisory framework, and enforcement rules for the Thai capital market.

The secondary level of regulatory requirements governing corporate governance practices in Thailand consists of listing rules by the Stock Exchange of Thailand, and regulatory notifications by the Securities and Exchange Commission.

The tertiary level of corporate governance compliance operates on a comply-or-explain basis. The Stock Exchange of Thailand initially issued the 15 Principles of Good Corporate Governance in 2002 and then amended these into the Principles of Good Corporate Governance for Listed Companies in 2006. The 2006 principles were revised again to accommodate recent developments and were introduced to Thai PLCs in January 2013 to further ensure sound corporate governance practices in the country.

During 2012–2013, the Thai Institute of Directors improved the corporate governance assessment criteria in the Corporate Governance Report of Thai Listed Companies project, to ensure its effective implementation in 2014 and to bring it into line with tougher ASEAN corporate governance standards. The main focus of the revised criteria is to provide a consistency between the disclosure of corporate governance policies (form) and the effective implementation of such policies (substance). This is to enable Thai listed companies to advance their corporate governance practices further toward international levels.

## Overall Analysis

The ASEAN Corporate Governance Scorecard 2013, using the assessment criteria embodied in 209 questions, reviewed the corporate governance practices of the top 100 Thai listed companies by market capitalization (as of 30 April 2013) that posted their annual reports in English on their websites.



## Corporate Governance Performance by Category

The overall average corporate governance score in 2013 is 75.39 points, with a maximum score of 104.17% and a minimum score of 46.03%. The overall average corporate governance score in 2013 is eight points higher than in 2012.

Analysis of the corporate governance score of the 100 largest listed companies across the five categories showed that scores were highest in the Equitable Treatment of Shareholders category, followed by the Rights of Shareholders, Disclosure and Transparency, and Responsibilities of the Board categories. The Role of Stakeholders category recorded the lowest average score.

## Corporate Governance Performance by Score Range

Of 100 PLCs, four companies achieved a score of 100 points or above, and 29 received a score of 80–99 points (Figure 47). Most companies obtained a corporate governance score in the range of 60–79 points. The remaining eight companies attained scores of 50–59 points and two companies received a score of less than 50 points.

**Figure 47** Corporate Governance Performance by Score Range

Score Range	Number of Companies
100 or above	4
90–99	13
80–89	16
70–79	30
60–69	27
50–59	8
Less than 50	2
<b>Total Number of Companies</b>	<b>100</b>

## Corporate Governance Performance by Industry Group

The finance sector obtained the highest average score of 86 points, followed by technology and telecommunication with 83 points, and energy and utilities with 81 points. The consumer goods sector exhibited the narrowest range of scores, suggesting the least variation in corporate governance practices among peer companies. In contrast, the range between the minimum and maximum scores in the energy and utilities sector suggested a high variation of governance practices among peers (Figure 48).

**Figure 48** Corporate Governance Performance by Industry Group

Industry Group	Number of Companies	Score		
		Average	Maximum	Minimum
Finance	13	85.54	102.13	64.96
Technology and telecommunication	9	82.99	97.56	73.18
Energy and utilities	16	81.08	104.18	50.08
Consumer services	14	74.00	95.62	54.92
Property	24	71.86	98.82	53.50
Consumer goods	14	68.72	77.61	60.17
Industries	8	67.21	85.63	46.03
Health care	2	61.11	73.67	48.55

## Corporate Governance Performance by Market Capitalization

To measure corporate governance performance by company size, the PLCs were classified into four groups by market capitalization (Figure 49).

In general, the average score increases with the market capitalization. Larger companies have on average better corporate governance performance than their smaller counterparts. However, the best companies in all market capitalization groups were able to receive the maximum corporate governance score of more than 90 points.

**Figure 49** Corporate Governance Performance by Market Capitalization

Range of Market Capitalization (million baht)	Number of Companies	Score		
		Average	Maximum	Minimum
600,000–1,000,000	4	93.4	98.20	82.40
100,000–599,999	24	79.33	104.18	60.17
60,000–99,999	11	80.08	91.75	64.96
10,000–59,999	61	71.80	102.13	46.03

## Part A: Rights of Shareholders

### Strengths and Areas for Improvement

The Rights of Shareholders category aims to assess whether the company recognizes shareholders' rights in its business affairs. A well-governed firm must ensure that shareholders' rights are well facilitated. Shareholders should be able to exercise their ownership rights, including the right to receive dividends, to participate in the annual general meeting (AGM), and to elect the company's directors.

Figure 50 shows the strengths and areas for improvement in Rights of Shareholders. Most Thai PLCs allow their shareholders to elect directors individually, provide the opportunity for shareholders to ask questions at the AGM with a record of the questions and answers in the minutes, and name the board members attending the AGM. Also, many listed companies disclose the outcome and voting results, including approving, dissenting, and abstaining votes for each agenda item, by the next working day. Their notices to call a shareholders' meeting also provide the rationale and explanation for each agenda item. These practices exhibit good governance practices of Thai PLCs in allowing shareholders to participate and exercise their rights at the AGM.

Regarding areas for improvement, only some Thai listed companies propose all forms of director remuneration for shareholder's approval at the AGM. Also, more Thai listed companies should be encouraged to appoint an independent party to count the votes at AGMs.

**Figure 50** Strengths and Areas for Improvement in *Rights of Shareholders*

## STRENGTHS

- Shareholders are allowed to elect directors individually.
- Names of board members attending the annual general meeting (AGM) are disclosed in the AGM minutes.
- AGM minutes show that there is an opportunity for shareholders to ask questions and record the questions and answers.
- The voting results, including approving, dissenting, and abstaining votes, are disclosed for each agenda item.
- The outcome of the AGM is disclosed by the next working day.
- The rationale and explanation for each agenda item is provided in the notice of AGM.



## AREAS FOR IMPROVEMENT

- All forms of director remuneration should be proposed for shareholders' approval in the AGM.
- Independent parties have not yet been appointed to count votes at AGMs.

## Part B: Equitable Treatment of Shareholders

### Strengths and Areas for Improvement

The Equitable Treatment of Shareholders category addresses whether minority (noncontrolling) shareholders are treated fairly and equally with the controlling shareholders. The AGM process, for example, should enable all shareholders to participate in the meeting without undue complexity. In addition, outside shareholders should be protected from possible (tunneling) actions by the controlling shareholders acting directly or indirectly through the use of material nonpublic information and related party transactions (RPTs).

Figure 51 summarizes the important observations in this category. Most Thai PLCs issue the notice of shareholders' meeting with full details of the auditor and dividend agenda, and without bundling several items into the same agenda. Most of them also disclose that their RPTs are fair and at arm's length.

However, only some Thai PLCs disclose information on the date of first appointment and directorship in other listed companies of individuals seeking director election or reelection in the notice to call an AGM.

**Figure 51** Strengths and Areas for Improvement in *Equitable Treatment of Shareholders***STRENGTHS**

- There is no bundling of several items into the same agenda in the notice.
- Details of the auditor and dividend are provided in the notice of call to annual general meeting.
- Companies disclose that related party transactions are fair and at arm's length.

**AREA FOR IMPROVEMENT**

- Companies should disclose information about date of first appointment and directorship in other publicly listed companies of individuals seeking director election or reelection in the notice of call to annual general meeting.

## Part C: Role of Stakeholders

### Strengths and Areas for Improvement

The Role of Stakeholders category addresses the issues of corporate responsibilities to all stakeholders. The goal of corporate responsibility is to encourage a positive impact through the company's activities in relation to the environment, consumers, business partners, employees, communities, creditors, and other stakeholders. This category examines the company's policies and practices pertaining to the acknowledgement and treatment of their stakeholders.

Figure 52 presents the strengths and areas for improvement in the Role of Stakeholders category. Most Thai PLCs have set a policy on the treatment of stakeholders and have a separate corporate responsibility report or a distinct corporate responsibility section in the annual report.

However, companies should disclose not only the written policies, but also what has been done during the year. They should report the actual activities, statistics, and figures corresponding to effective implementation of the published policies. Many companies still fall short in the disclosure of practices relating to the health, safety, and welfare of employees, and to the staff training and development program. In addition, only some companies have procedures for dealing with complaints from employees about illegal and unethical behavior, and a policy or procedure for protecting whistle-blowers from retaliation.

**Figure 52** Strengths and Areas for Improvement in *Role of Stakeholders*

## STRENGTHS

- There is a policy on the treatment of stakeholders.
- There is a separate corporate responsibility report or section in the annual report.



## AREAS FOR IMPROVEMENT

- There is a lack of disclosure of practices dealing with customer welfare, supplier selection, environmentally friendly value chain, community interactions, and creditors' rights.
- There is a lack of disclosure of information relating to employees' health, safety, and welfare, as well as on training and development.
- Procedures for dealing with complaints by employees concerning illegal and unethical behavior should be disclosed.
- A policy or procedure should be provided to protect a person who reveals illegal or unethical behavior from retaliation.

## Part D: Disclosure and Transparency

### Strengths and Areas for Improvement

The Disclosure and Transparency category concentrates on the accuracy, completeness, and punctuality of corporate information disclosure. Companies should disclose material corporate information in a timely and cost-effective manner through a variety of channels to reach all interested and relevant parties. Firm ownership structure, RPTs, and financial and other information about company performance are all significant items to disclose.

Figure 53 presents the strengths and areas for improvement in Disclosure and Transparency practices. Most Thai PLCs disclose the policy and full details of RPTs, corporate group structure, and audit fees in the annual report. In addition, most of them disclose company information and contact details of investor relations on their website.

**Figure 53** Strengths and Areas for Improvement in *Disclosure and Transparency*

## STRENGTHS

- Websites are of good quality.
- Corporate group structure is disclosed.
- Policy and details of related party transactions are disclosed.
- Audit fees are disclosed.
- Contact details of investor relations are disclosed.



## AREAS FOR IMPROVEMENT

- There is a lack of disclosure of direct and indirect shareholdings of the board and senior management.
- There is a lack of disclosure of trading in the company's shares by directors and senior management.
- There is a lack of disclosure of corporate objectives and nonfinancial performance indicators in the annual report.
- There is a lack of disclosure of directors' date of first appointment, directorship in other listed companies, and training and education obtained in the most recent financial year in the annual report.

## Part E: Responsibilities of the Board

### Strengths and Areas for Improvement

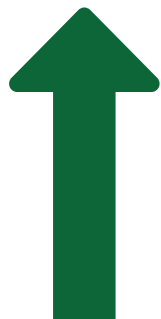
The Responsibilities of the Board category addresses the duties, responsibilities, and accountabilities of the board of directors (BOD) to the shareholders and other stakeholders. By taking into account the interests of all stakeholders, the BOD must apply high ethical standards to the business to effectively fulfill their responsibilities. The board is mainly responsible for guiding corporate strategy, monitoring managerial performance, preventing conflicts of interest, and achieving a decent return for shareholders.

The Responsibilities of the Board category assesses aspect such as the development of the corporate strategy, implementation of the monitoring schemes, the pledge of transparent business practices, the presence of proper financial controls, articulation of prerequisites for director candidates, orientation of new board members and periodic and comprehensive evaluation of their performance, adherence to legal norms and high ethical standards, the undertaking of a careful search to find the most qualified chief executive officer (CEO), and support for and evaluation of the CEO.

Figure 54 shows the strong practices and areas for improvement in the Responsibilities of the Board category. Most Thai PLCs have their own corporate governance policy and code of ethics, and clearly state the roles and responsibilities of the board. In addition, the internal control analysis suggests that most of them have an internal control and risk management system in place. They also have an orientation program for new directors. With regard to the separation of monitoring and management, most companies indicate that the chair of the board is not the CEO. Finally, most companies hold board meetings at least six times a year.

Despite these good governance practices, there are certain areas for improvement. Only some companies disclose the type of decisions requiring board approval, the board diversity policy, the roles and responsibilities of the chair, the policy limiting to five the number of board seats in listed companies that a director may hold at the same time, and the policy limiting the term of independent directors to 9 years. Under the duty of care of the BOD, only some Thai PLCs report the implementation and monitoring of their code of ethics, and the review and monitoring of the implementation of their corporate strategy. In addition, only some boards conduct an evaluation of the board, individual directors, and board committees, and disclose the criteria and process in the annual report.

**Figure 54** Strengths and Areas for Improvement in *Responsibilities of the Board*



## STRENGTHS

- The roles and responsibilities of the board are clear.
- The company's corporate governance policy and code of conduct are disclosed.
- The chair and chief executive officer are separated.
- Board meetings are held at least six times per year.
- Orientation programs are provided for new directors.
- Board provides a review of the internal control and risk management system.



## AREAS FOR IMPROVEMENT

- There is a lack of disclosure of code of ethics with its implementation and monitoring.
- There is a lack of disclosure of the review and monitoring of the implementation of the corporate strategy.
- There is a lack of disclosure of the types of decision requiring board approval.
- There is a lack of disclosure of board diversity policy.
- There is a lack of disclosure of the roles and responsibilities of the chair.
- There is no policy on the term limit of 9 years for independent directors.
- There is no policy on the limit of five seats in publicly listed companies that a director may hold simultaneously.
- There is no evaluation criteria and process for the board, individual directors, and board committees.



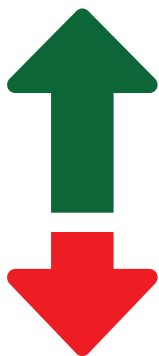
## Bonus and Penalty

The bonus questions recognize and reward companies with internationally accepted governance practices. In contrast, a penalty is recorded for companies with governance practices or violations that are beyond the pale of the good corporate governance paradigm.

Figure 55 shows the strengths and areas for improvement in the Bonus and Penalty area. Most Thai listed companies give their shareholders enough time to prepare for the AGM by releasing the notice of meeting at least 28 days before the date of the meeting. Most Thai firms also release their audited financial statement within 60 days from the financial year end.

To promote director independence, any director who has served on the board beyond 9 years from the date of first appointment should be subject to particularly rigorous review. In the review, the board should also take into account the need to refresh the board membership. The board should also explain why any such director should be considered independent.

**Figure 55** Strengths and Areas for Improvement in the *Bonus and Penalty* Area



### STRENGTHS

- The notice of the annual general meeting, as announced to the Stock Exchange, is released at least 28 days before the date of the meeting.
- The audited annual financial report or statement is released within 60 days from the financial year end.

### AREA FOR IMPROVEMENT

- There are independent directors who have served for more than 9 years.

## Conclusions and Recommendations

Overall, the 2013 findings suggest a continued improvement in the corporate governance practices of Thai PLCs. The average score in 2013 is 75 points, 8 points higher than in 2012. Companies do well in the Rights of Shareholders and Equitable Treatment of Shareholders categories. Specifically, the notice of call to AGM and the AGM minutes are of high quality and have complete details. However, there is still significant room for improvement in the Role of Stakeholders and Responsibilities of the Board categories. The BOD should give particular attention to these governance areas to meet international standards.

To strengthen performance in the Role of Stakeholders category, companies should disclose the written policies and report the activities, statistics, and figures corresponding to effective implementation of the published policies. With regard to the Responsibilities of the Board category, the BOD should emphasize the substance (implementation and procedures) of the written governance policies. After putting a corporate governance policy (form) in place, the company should effectively reveal how it puts the policy into practice (substance).

Greater effort should be made to ensure more consistent information disclosure. The company should prepare a checklist or manual for corporate officers to consistently follow when disclosing corporate governance information to the public. The company should also give more attention to website disclosure, which is an economical and effective channel to disseminate corporate information to investors, and should make its corporate information available in English to facilitate investment by foreign investors.

**Table 5** Corporate Governance: Top 50 Publicly Listed Companies—Thailand

Companies with scores of 90 points and above					
No.	Ticker	Publicly Listed Company Name	No.	Ticker	Publicly Listed Company Name
1	AOT	Airports of Thailand	10	PTTEP	PTT Exploration and Production
2	BCP	Bangchak Petroleum	11	PTTGC	PTT Global Chemical
3	BKI	Bangkok Insurance	12	SAMART	Samart Corporation
4	CPN	Central Pattana	13	SC	SC Asset Corporation
5	IRPC	IRPC	14	SCB	The Siam Commercial Bank
6	KBANK	Kasikornbank	15	SPALI	Supalai
7	MCOT	MCOT	16	TISCO	Tisco Financial Group
8	PSL	Precious Shipping	17	TOP	Thai Oil
9	PTT	PTT			
Companies with scores of 80–89 points					
No.	Ticker	Publicly Listed Company Name	No.	Ticker	Publicly Listed Company Name
1	ADVANC	Advanced Info Service	9	IVL	Indorama Ventures
2	BANPU	Banpu	10	KTB	Krung Thai Bank
3	BAY	Bank of Ayudhya	11	PS	Pruksa Real Estate
4	CIMBT	CIMB Thai Bank	12	RATCH	Ratchaburi Electricity Generating Holding
5	DTAC	Total Access Communication	13	SAMTEL	Samart Telcoms
6	EASTW	Eastern Water Resources Development and Management	14	SCC	Siam Cement
7	EGCO	Electricity Generating	15	SIM	Samart I-Mobile
8	INTUCH	Shin Corporation	16	TCAP	Thanachart Capital
Companies with scores of 70–79 points					
No.	Ticker	Publicly Listed Company Name	No.	Ticker	Publicly Listed Company Name
1	AMATA	Amata Corporation	10	KSL	Khon Kaen Sugar Industry
2	ANAN	Ananda Development	11	MINT	Minor International
3	BBL	Bangkok Bank	12	QH	Quality Houses
4	BECL	Bangkok Expressway	13	THAI	Thai Airways International
5	BIGC	Big C Supercenter	14	THCOM	Thaicom
6	BMCL	Bangkok Metro	15	TMB	TMB Bank
7	CPF	Charoen Pokphand Foods	16	TRUE	True Corporation
8	HEMRAJ	Hemaraj Land and Development	17	VNT	Vinythai
9	KKP	Kiatnakin Bank			

No. = number.

Note: Companies are listed by cluster in alphabetical order. There are 13 further companies earning the scores between 70 points and 79 points that are not listed in the top 50 companies.

# VIET NAM

## Background

Corporate governance in Viet Nam is under the framework of the following principal laws and regulations:

- Law on Enterprise of 2005,
- Law on Securities of 2006,
- Corporate Governance Code 2007 and Amendments 2012,
- Disclosure Rule 2012, and
- Listing rules of the Ho Chi Minh and Hanoi stock exchanges.

There was a significant change in corporate governance regulations in 2012, when the Corporate Governance Code and the Disclosure Rule were substantially revised. The Corporate Governance Code, which was first issued in 2007, was revised through the issuance of Circular 121/2012/TT-BTC, which came into effect in September 2012. Similarly, the Disclosure Rule was revised upon the issuance of Circular 52/2012/TT-BTC and came into effect in June 2012. A new law issued in late 2013 (Decree 108/ND-BTC) is expected to enhance enforcements in the future.

The Corporate Governance Code 2012 is applicable not only to listed companies but also to all public companies. Compared with the previous version, the revised code imposes stricter requirements on corporate governance practices of companies in various areas, especially on the level of disclosure and transparency, and the roles and responsibilities of the boards in ensuring good corporate governance. Preventing conflicts of interest is also a major focus of the new code, which has stricter mechanisms and higher requirements on disclosure. In particular, improvements in corporate governance regulation are visible in the following 10 areas:

- (i) facilitating postal voting and voting in absentia;
- (ii) strengthening timely disclosure of detailed information on candidates to the boards;
- (iii) enhancing disclosure and transparency to prevent conflicts of interest;
- (iv) enhancing disclosure of performance and remuneration of the board of directors (BOD) and supervisory board;
- (v) introducing the concept of independent directors;
- (vi) enhancing the composition of the BOD to ensure board independence and the active functioning of specialized subcommittees;
- (vii) enhancing the role, responsibilities, and independence of the supervisory board;

- (viii) emphasizing the responsibilities of the BOD in developing internal corporate governance rules;
- (ix) emphasizing the role and responsibilities of the corporate secretary; and
- (x) enhancing the involvement of independent auditors.

With the new revision of the Corporate Governance Code, it is now essential for public companies in Viet Nam to improve corporate governance practices and be ready for a regional financial integration.

## Overall Analysis

### The Sample

The sample of publicly listed companies (PLCs) in Viet Nam under the ASEAN Corporate Governance Scorecard was selected from the two stock exchanges, the Ho Chi Minh Stock Exchange and the Hanoi Stock Exchange, on the basis of market capitalization. The largest companies that have investor documents, such as annual reports, available in English were chosen. The final sample for Viet Nam is comprised 40 PLCs with a total market capitalization of \$18.5 billion, representing 63.36% of the total market capitalization of the two stock exchanges at the end of June 2013.

The sample includes 33 companies from the 2012 sample and 7 new companies. Six companies in the 2012 sample were dropped because of merger activity (one bank was merged with another) and the limited availability of English documents after the exit of foreign institutional investors.

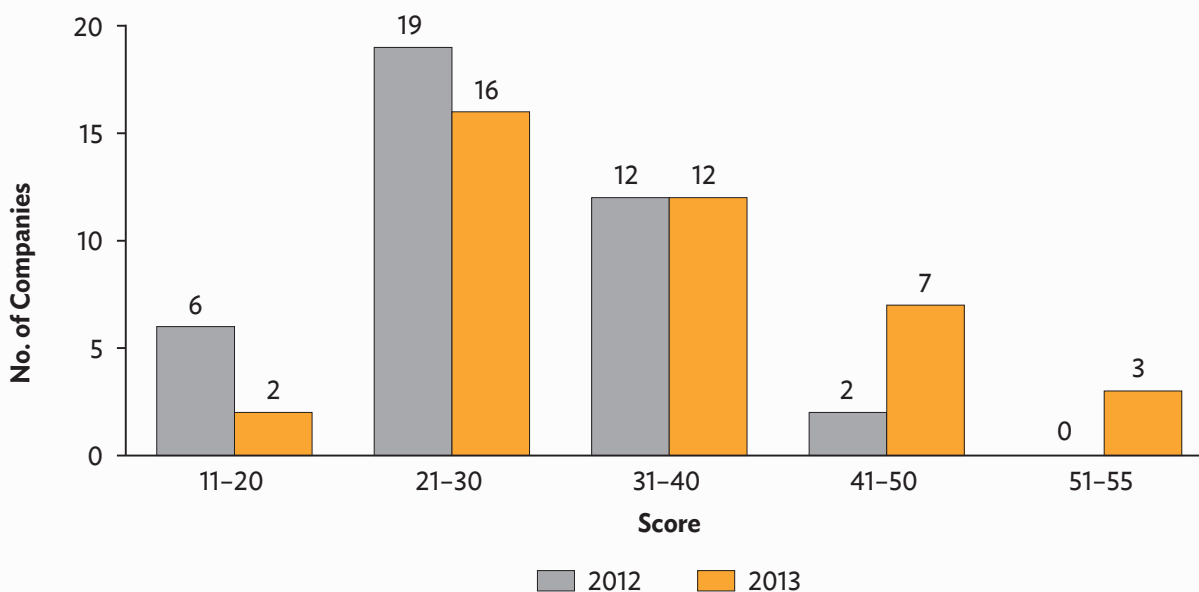
Readers should note PLCs in Viet Nam are generally smaller and their practices are less standardized than most companies in the region. In addition, bigger companies tend to have more resources and a better appreciation of corporate governance, which makes them more committed to investing in it.

### Performance

Figure 56 presents a comparison of corporate governance performance of reviewed companies during 2012 and 2013 and details the number of firms in five score ranges in 2012 and 2013.

The distribution of reviewed companies is skewed toward lower scores. This shows that many companies still have very low corporate governance performance. There were some improvements in corporate governance practices in 2013. More companies scored in the higher point ranges, while fewer scored in the lower ranges. These are encouraging signs of improvement in the corporate governance practices of companies in Viet Nam.

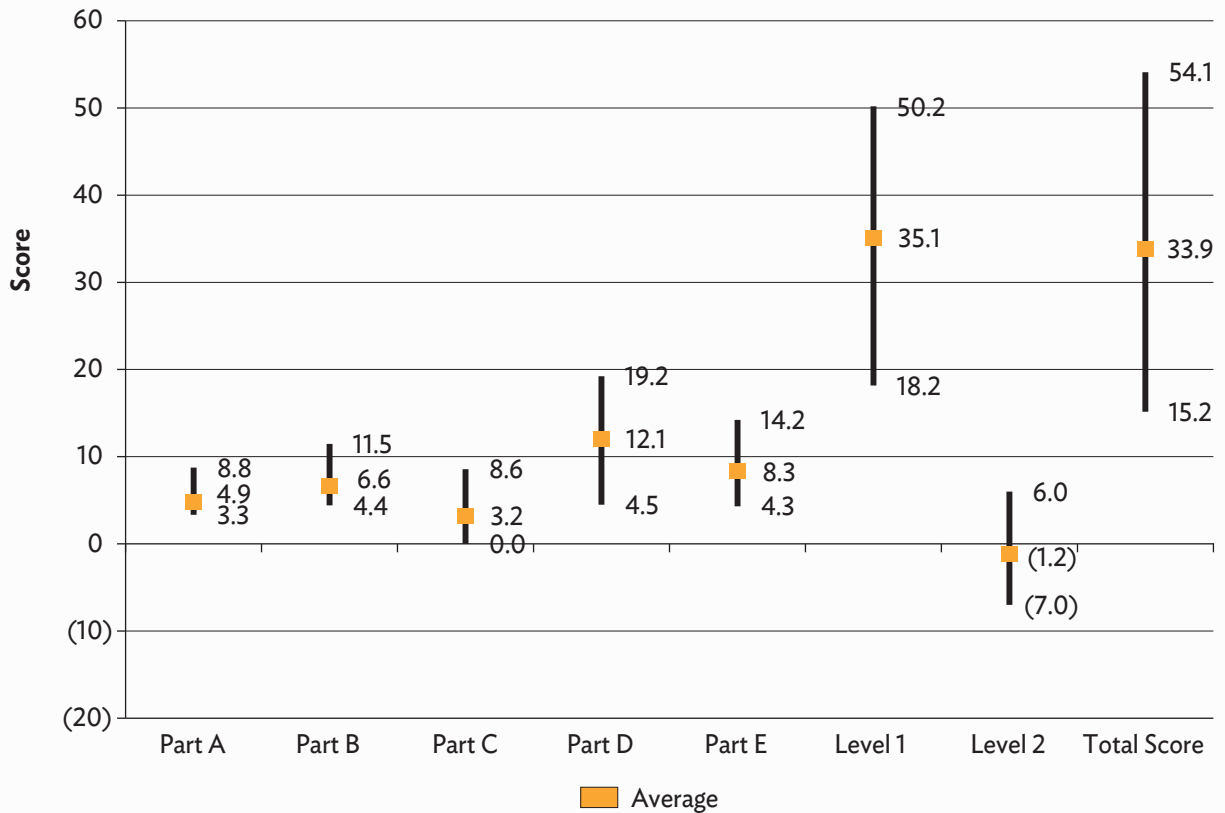
Since 2012, 33 of the companies reviewed moved from lower score ranges to higher score ranges. It is notable that the three companies appearing in the above-50-point range are companies that were involved in the 2012 assessment.

**Figure 56** Distribution of Reviewed Companies by Score Range, 2012 and 2013

## Reasons for Improvements: “Issuance of new codes—the driving forces”

There could be two main reasons for the improvements in corporate governance practices: regulatory enhancement and proactiveness on the part of companies. The improvements may indeed be attributed to the enhancement of corporate governance regulation with the introduction of the two circulars. Detailed area analysis will help to explore the rationales behind the improvements. The performance of reviewed firms in each corporate governance scorecard area is presented in Figure 57.

Overall, the corporate governance performance, as measured by the total score, is below average. The total score ranges from 15.2 points to 54.1 points with an average of 33.9 points. Compared to 2012, with the total score ranging from 14.5 to 46.5 and an average of 28.4, corporate governance performance is slightly enhanced. The reviewed companies achieved Level 1 scores ranging from 18.2 points to 50.2 points with an average score of 35.1 points. Level 1 is important and also challenging for companies as they must do well in all aspects of various activities. Compared to 2012, Level 1 scores had improved. In 2012, Level 1 score ranges from 15.5 points to 46.5 points with an average of 29.4 points. But as illustrated in Figure 57, Level 1 scores had improved as the scores ranged from 18.2 points to 50.2 points with an average of 35.1 points. An improvement in the Level 1 assessment score requires continuous and diligent commitment to corporate governance.

**Figure 57** Corporate Governance Performance in Each Area

( ) = negative.

The Level 2 section includes 30 bonus and penalty questions. Assessment criteria in this section can significantly impact firms that have done well or badly on certain areas. In 2013, Level 2 contributed a maximum of 6 points to total score of one company and also deducted a maximum of 7 points from the total score of another company. A mistake may negate serious efforts a company has spent in all aspects of governance. On average, companies lost 1.2 points in this section.

The most important area in Level 1 is Part E (Responsibilities of the Board), which weighs heavily on the total score. For companies in Viet Nam, this part is the weakest, with scores ranging from 4.3 to 14.2 points, and averaging at 8.3 points. A BOD has key responsibilities in guiding corporate strategy, monitoring management effectively, and being accountable to the shareholders. If a board does not effectively set up and monitor a corporate governance mechanism, the overall governance of firms will be very poor. This area shows only minimal improvement since 2012. The revised Corporate Governance Code emphasizes mechanisms to enhance board composition and responsibilities. Important mechanisms include the requirement for one-third of the BOD to be independent directors, and for boards to have specialized subcommittees and clearer responsibilities in corporate

governance. This is a crucial step for Viet Nam in its corporate governance journey; meeting these goals can greatly enhance company boards' objectivity and effectiveness in monitoring management and accountability to shareholders. However, challenges remain given the small pool of independent directors who are qualified and ready to take on responsibilities, and the lack of awareness of many companies of the benefits of having independent directors on boards. The legal board size limit of 11 members is also an issue because the addition of independent directors to a board might force the exit of current board members.

Despite being the second-lowest-performing area (with an average score of 3.2 points), Part C (Role of Stakeholders) shows wide variation between the best and worst performers. The worst-performing company received a zero score and the best company achieved a score of 8.6 points. The top companies in this area are in the health care and food and beverage sectors. These companies naturally have a willingness to put more effort into corporate social responsibility and enhancing the rights of stakeholders in corporate governance.

There is some optimism about Part D (Disclosure and Transparency). The scores of reviewed companies in this area increased significantly between 2012 and 2013 (from 4.4 points to 4.5, 9.3 points to 12.1, and 13.8 points to 19.2). The new Corporate Governance Code and Disclosure Rule appear to be the reason for this improvement. The new code encourages enhancing (i) transparency to prevent conflicts of interest, (ii) disclosure of performance and remuneration of boards, and (iii) disclosure of information on board candidates. As a result, firms complied and earned higher scores in these areas.

Most of the scores in Part A (Rights of Shareholders) and Part B (Equitable Treatment of Shareholders) increased slightly from 2012. Most of the assessment criteria in these areas are by-laws in the Law on Enterprise. The Part A score, which ranges from 3.3 points to 8.8 points and averages at 4.9 points, is an improvement from the 2012 range of 3.1–7.7 points and 4.1 point average. Part B's score, which ranges from 4.4 points to 11.5 points and averages at 6.6 points, is also an improvement over the 2012 range of 3.5–11.0 points and average of 6.5 points.

In the 2013 sample, 33 companies were included in both of the reviewed lists of 2012 and 2013. Of these companies, five that were on the list of Top 30 companies in 2012 failed to maintain that position in 2013. There were many reasons for this, but the main ones are that these companies fell short in their reporting on Part C (Role of Stakeholders) and did not maintain clean insider trading profiles, and therefore incurred penalty points.



## Part A: Rights of Shareholders

### Strengths and Areas for Improvement

Compared to 2012, the Rights of Shareholders category performed slightly better thanks to the requirements of the Corporate Governance Code 2012, which calls for detailed disclosure of voting and voting tabulation procedures before and after an annual general meeting (AGM). Also, it is encouraging that most of the companies have shared ownership by institutional investors other than controlling shareholders with a share of more than 5%. Institutional investors are believed to take the lead in balancing the power of controlling shareholders.

However, there are many further improvements to be made. A key area is in a company's timely disclosure of materials and documents in English so that foreign investors can practice their rights. The rational explanation and information for each agenda item should be included in AGM notices to allow shareholders to make informed decisions. After the AGM, the resolutions must be published promptly on the company's website with comprehensive information on detailed voting results. Currently, AGM minutes are rarely available; and if they are, the contents are often incomplete and contain limited information about the attendance of board members and top executives in the AGM. Lastly, companies do not pay dividends within 30 days after declaration or approval.

**Figure 58** Strengths and Areas for Improvement in *Role of Stakeholders*



#### STRENGTH

- There are substantial institutional investors to balance controlling shareholders.

#### AREAS FOR IMPROVEMENT

- AGM notices lack rational explanations and information, especially in English.
- AGM notices are not released at least 21 days before the meeting.
- Voting results are not disclosed by the next working day.
- AGM minutes are unavailable or not comprehensive, and contain limited information about the attendance of board members and key executives.
- Dividends are paid later than 30 days after declaration or approval.

## Part B: Equitable Treatment for Shareholders

### Strengths and Areas for Improvement

Among shareholder groups, foreign investors are not fairly treated, as most of AGM notices and other company information materials are rarely available in English.

The general practice in Viet Nam is that firms have shares that carry single voting rights, which potentially helps prevent minority shareholders from being expropriated. Proxy voting is feasible as proxy forms are readily available. Though minor strengths are found in AGM notices with resolutions clearly presented in separated items and not as a bundle of several items, these documents are not available in English.

Regarding areas for improvement, companies currently fail to include in their AGM notices important information, such as comprehensive profiles of directors seeking election, date of first appointment, and number of directorships in other public companies; names of auditors seeking appointment or reappointment; and the amount of and rationales for dividends. As it is currently not mandated by law, companies do not require directors' dealings in the company's shares to be reported within three business days. Companies also lack policies on reviewing and approving related party transactions (RPTs) and in ensuring that they are conducted fairly. Companies generally do not have a policy to prevent conflicts of interest such as requiring board members to abstain from meetings that discuss matters relating to their private interests.

**Figure 59** Strengths and Areas for Improvement in *Equitable Treatment of Shareholders*



#### STRENGTHS

- Annual general meeting (AGM) resolutions are presented in single items and not as a bundle of several items.
- Proxy documents are made easily available.



#### AREAS FOR IMPROVEMENT

- AGM notices are not translated into English and are not released on the same date as the local language version.
- AGM notices do not include profiles of directors seeking election.
- Auditors seeking appointment or reappointment are not clearly identified in AGM notices.
- Explanation of dividend policy and disclosure of final dividend are unavailable.
- Directors dealing in company shares are not required to report these dealings within three business days.
- There is a lack of policy on the review, approval, and conduct of related party transactions.
- Policy requiring directors to abstain from participating in board discussions of matters when they have a conflict of interest is not observed.

## Part C: Equitable Treatment for Shareholders

### Strengths and Areas for Improvement

Despite many efforts being undertaken to promote and create greater awareness of corporate social responsibility, the concept remains new to companies in Viet Nam. Nonetheless, several good practices were found. For instance, firms interact with their communities; and they build good policies on employees' health and safety, and training and development.

However, companies in Viet Nam need to put significant effort into further improving policies and practices to protect customer's health and safety, safeguarding creditor's rights, and building and implementing anticorruption policies. Strengthening the criteria for selecting suppliers is also important to ensure that companies' value chains are environmentally friendly or promote sustainable development.

Although most companies have good policies on employees' health and safety, and training and development, relevant information on their practices is poorly reported. Companies also lack a reward and compensation policy for long-term, deserving performers.

With respect to stakeholder protection, companies fail to disclose contact details to which stakeholders can voice concerns and lodge complaints about rights violations. Companies also have weak policies and procedures for allowing employees to voice complaints about illegal and unethical behavior, and most have no policies and procedures to protect whistle-blowers.

**Figure 60** Strengths and Areas for Improvement in *Role of Stakeholders*



#### STRENGTHS

- Policies and practices for effectively interacting with communities are generally evident.
- Policies on employees' health and safety, and training and development are well disclosed.



#### AREAS FOR IMPROVEMENT

- Companies lack policies and practices dealing with customers' health and safety, creditor rights protection, and anticorruption activities.
- Companies do not have clear criteria for selecting suppliers.
- Companies fail to provide contact details for stakeholders to raise concerns or lodge complaints about violations of their rights.
- Companies have weak policies and procedures to allow employees to voice complaints about illegal and unethical behavior, and generally lack a whistle-blower mechanism.

## Part D: Disclosure and Transparency

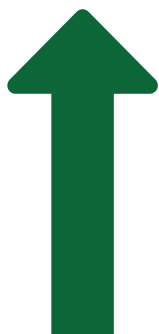
### Strengths and Areas for Improvement

Compared to 2012, disclosure and transparency have made encouraging improvements. Companies realize the importance of annual reports and have used them as a major information channel to their stakeholders. Reasons for this could be traced to the issue of Circular 52 on disclosure. Circular 52 contains a model annual report, in which there is a section called Corporate Governance Report with detailed requirements on the disclosure of insiders' transactions with companies, insiders' dealings in company shares, disclosure of board remuneration, evaluation results of board performance and management performance evaluation, and disclosure of directorships of board members in other public companies. In addition, Circular 121 on the Corporate Governance Code has a requirement on enhancing disclosure of information of board candidates, and this significantly improves quality of AGM notices on board member nominations.

Most companies continue to enhance their disclosure of the identity of the beneficial owners of substantial or major shareholdings and details of the parent or holding company, subsidiaries, associates, joint ventures, and special-purpose entities. Almost all companies also exhibit good practice in providing up-to-date information about the business operations, current and prior years' financial statements and reports, and online availability of annual reports.

Despite these improvements, certain poor corporate governance practices continued to prevail. Gaps between company practices and the new regulations, the ASEAN scorecard assessment criteria, still remain as challenges. The weaknesses indicated that companies lack the right tone from the top in relation to corporate governance. Most of the weaknesses are due to the lack of good corporate governance policies set up by the board. Companies fail to report compliance with the Code of Corporate Governance, and lack clear policies covering the review and approval of significant RPTs, whistle-blowing, and dividend payments. Appreciation of the value of good corporate governance practices is evident, but without executive leadership, changing the mindset and governance culture of companies is a huge challenge.

There have been minimal improvements on the practices of timely disclosure of financial statements and the use of alternative modes of communication such as analyst briefings, press conferences, and media briefings to disclose company information. Although economic downturns and financial difficulties are obstacles, firms are expected to show positive attitudes toward disclosure and transparency, such as a voluntary disclosure on websites of contact details of investor relations departments or the person to whom investors can raise their concerns, or disclosure of the company's constitutive documents such as articles of association. Although there is a requirement in the Disclosure Rule 2012 on disclosure of ownership of insiders and related parties, companies do not truthfully comply and do not disclose indirect ownership of insiders. This is further evidence of low awareness of disclosure and transparency requirements.

**Figure 61** Strengths and Areas for Improvement in *Disclosure and Transparency*

## STRENGTHS

- Companies disclose details of subsidiaries, associates, joint ventures, and special-purpose enterprises or vehicles.
- Companies reveal the identity of major shareholders.
- Companies disclose financial performance indicators.
- Websites have up-to-date information about the business operations, and current and prior years' financial statements and reports; and allow the public to download annual reports.



## AREAS FOR IMPROVEMENT

- Companies generally do not show a stated commitment to full compliance with the Corporate Governance Code.
- Companies do not disclose the policy for the review and approval of major related party transactions.
- Companies do not clearly state the dividend policy and whistle-blower policy.
- Companies lack disclosure of the direct and indirect shareholdings of major shareholders, board members, and key executives.
- Companies do not disclose to the required level details of director biographies, the training and education program for directors, or attendance at board meetings.
- Companies fail to present in detail the breakdowns of remuneration and benefits of the chief executive officer and board members.
- Disclosure of audit and nonaudit fees is very poor.
- The use of various communication media, such as analyst briefings, press conferences, and media briefings, is limited.
- Financial statements are not released on time.
- Company websites have limited information on shareholding in affiliates of the corporate group, annual general meeting notices, and constitutive documents and other materials normally provided in briefings to analysts and media.
- Full contact details of investor relations officers are not disclosed.

## Part E: Responsibilities of the Board

### Strengths and Areas for Improvement

Compared to 2012, minor improvements were observed in this area. As a result of the new regulations, companies have better disclosure practices and boards have exercised their roles and responsibilities as expected. There is evidence to indicate that boards periodically review and approve companies' visions and missions, and that more companies disclose profiles and qualifications of supervisory board members in appropriate detail. Although early encouraging signals have been seen, greater effort should be put into meeting regional standards.

Improving the independence and composition of the board is a crucial area. Although the Corporate Governance Code 2012 requires one-third of the board to be independent, compliance is challenging given the limited pool of qualified independent directors. Having functional committees, nomination and corporate governance, remuneration, and audit committees in the board is an important area for improvement to enhance the effectiveness of the board in advising the management. Annual reports lack important information on the responsibilities and types of decisions of the board, such as guidance and basis for board assessments, and remuneration policies for board members and key executives. Board reports lack information on board assessment and detailed board member meeting attendance.

**Figure 62** Strengths and Areas for Improvement in *Responsibilities of the Board*



#### STRENGTHS

- Boards approve vision and mission.
- Profile and qualifications of audit committee members are better disclosed.



#### AREAS FOR IMPROVEMENT

- Boards lack independence.
- Functional committees are not clearly assigned.
- Board responsibilities and board decisions are poorly defined.
- Companies lack board member appointment criteria and a clear diversity policy.
- Succession planning, orientation programs for new directors, and director training activities are often not mentioned in detail.
- Company reports generally do not mention board appraisal, board members' meeting attendances are not disclosed, and annual performance assessments conducted for key management are not evident.
- Remuneration matters for board members and key executives are not clearly disclosed.
- Directors do not review material control and risk management systems, and many companies have no internal audit function.

Risk oversight is another weak area of board responsibilities. Companies are usually silent on the disclosure of their internal control procedures and risk management systems. There is minimal information about the roles of boards in reviewing companies' material controls in operational, financial, and compliance issues; and companies do not disclose whether they have an internal audit function. Board member development policies are also weak. Little information is available about succession plans, orientation programs for new directors, and training programs for current directors.

## Bonus and Penalty

Bonus items reflect best practices among companies being reviewed. Although it aims to encourage firms to apply best practices, this bonus section is unfavorable to companies in Viet Nam as it is hard for them to earn bonus points due to their limited disclosures and the high standards of the scorecard criteria. Some bonus points were awarded for firms disclosing details of remuneration of the chief executive officer (CEO) and for having a female independent director on the board. One company earned bonus points for having a secure electronic voting system in place to facilitate AGM voting in absentia.

Penalty items indicate the cases of poor corporate governance practices. Companies were penalized most frequently for the criterion on independence of the board. Companies usually fail to identify the independent directors, and some companies are penalized because their directors are recent former CEOs. Further, several cases of pyramidal or crossholding structures received penalty points.

## Conclusions and Recommendations

The 2013 assessment took into account the new regulations in Viet Nam. The issuance of the new Corporate Governance Code and Disclosure Rule in 2012 are expected to generate momentum for improved corporate governance practices in companies in Viet Nam. While corporate governance practices have generally improved during the last 2 years, there is still generous room for further development.

It was noted that some Vietnamese companies practice aspects of good governance that were not disclosed or reported. An understanding of regional corporate governance standards and their adoption as benchmarks would be an important developmental initiative. The concept of corporate governance is still nascent to companies in Viet Nam and much assistance would be needed to inculcate a culture of good corporate governance. The low scores in their corporate governance assessment were attributed to a lack of understanding of how to apply and report good corporate governance practices. At the same time, many companies have good corporate governance practices but think they are internal and should not be disclosed. Therefore, bringing the scorecard and its guidance into firm practice through different mechanisms—from direct coaching to trial assessments where companies can apply the scorecard by themselves—are some important actions. To begin this process, the government should organize events to award and recognize companies that exhibit good corporate governance practices.

It should be emphasized that corporate governance improvements will not be achieved without a strong tone from the board of directors (BOD). Companies vary in the extent of corporate governance culture and practices, and will require a specific agenda to ensure a sustainable corporate governance improvement plan. Improving corporate governance then should be supported by the regulators and other stakeholders, especially institutional investors, intermediaries, governance consulting service providers, and the media.

It is observed that stakeholders may not be fully aware of corporate governance. Therefore, more education should be provided to all company stakeholders, especially directors, key executives, and investors. Professional training for directors and executives, and general corporate governance education for investors can be centrally done by a professional corporate governance institution or can be performed by general education institutions. Public awareness of corporate governance can be enhanced by embedding corporate governance into the educational curriculum of universities and other professional training institutions.

The Government of Viet Nam should encourage universities and institutions of higher learning to take the lead in creating greater awareness on the importance of good corporate governance. It is important not only for companies, but also for the country to improve corporate governance in preparation for financial market integration. The deadline for improvement is nearing as Viet Nam prepares to join the ASEAN Economic Community in 2015 and other larger communities in the long term.



**Table 6** Corporate Governance: Top 30 Publicly Listed Companies—Viet Nam

No.	Ticker	Publicly Listed Company Name	No.	Ticker	Publicly Listed Company Name
1	BVH	Bao Viet Holdings	16	NLG	Nam Long Investment Corporation
2	BVS	Bao Viet Securities Joint Stock Company	17	NTP	Tien Phong Plastic JSC
3	CTG	Viet Nam Joint Stock Commercial Bank for Industry and Trade	18	PGS	Petrovietnam Southern Gas JSC
4	DHG	DHG Pharmaceutical Joint Stock Company	19	PNJ	Phu Nhuan Jewelry Joint Stock Company
5	DPM	Petrovietnam Fertilizer and Chemicals Corporation	20	PVD	Petrovietnam Drilling and Well Service Corporation
6	EIB	Vietnam Export Import Commercial Joint Stock Bank	21	SMC	SMC Investment Trading Joint Stock Company
7	FPT	FPT Corporation	22	SSI	Sai Gon Securities Incorporation
8	GMD	Gemadept Corporation	23	STB	Sai Gon Thuong Tin Commercial Joint Stock Bank
9	HAG	HAGL Joint Stock Company	24	SVC	Saigon General Service Corporation
10	HBC	Hoa Binh Construction and Real Estate Corporation	25	TCM	Thanh Cong Textile Garment Investment Trading Joint Stock Company
11	HCM	Ho Chi Minh City Securities Corporation	26	TDH	Thu Duc Housing Development Corporation
12	HSG	Hoa sen Group	27	TRA	Traphaco Joint Stock Company
13	ITA	Tan Tao Investment and Industry Corporation	28	VCB	Joint Stock Commercial Bank for Foreign Trade of Viet Nam
14	MSN	Ma San Group Corporation	29	VIC	VINGROUP Joint Stock Company
15	NBB	NBB Investment Corporation	30	VNM	Viet Nam Dairy Products Joint Stock Company

No. = number.

*Note:* The companies are arranged alphabetically. Also included in the review in 2013 are the following alphabetically listed companies: Asia Commercial Bank (ACB), BIDV Insurance Corporation (BIC), BaoMinh Insurance Corporation (BMI), CNG Viet Nam Joint Stock Company (CNG), Hoa Phat Group Joint Stock Company (HPG), Kinh Bac City Development Share Holding Corporation (KBC), Kinh Do Corporation (KDC), Minh Phu Seafood Group Corporation (MPC), Dry Cell and Storage Battery Joint Stock Company (PAC), and Refrigeration Electrical Engineering Corporation (REE).

## **ASEAN Corporate Governance Scorecard**

*Country Reports and Assessments 2013–2014*

Corporate Governance (CG) principles provide guidance on how corporations should operate. Adoption of international CG best practices leads to long-term sustainability and resilience, and can be a competitive tool to attract foreign investments. The Asian Development Bank in partnership with the ASEAN Capital Markets Forum have jointly developed the ASEAN Corporate Governance Scorecard, an assessment based on publicly available information and benchmarked against international best practices that encourage publicly listed companies to go beyond national legislative requirements. This report can be used by capital market regulators and other stakeholders as a reference to understand the current CG standards across the region. It is also a useful diagnostic tool to guide improvement of CG standards.

### **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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