



Corporate Governance in Asia

- OECD Principles and beyond -

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Topics of Discussion

- **The OECD Principles of Corporate Governance and Asian Roundtable on Corporate Governance**
- **Characteristics of Corporate Governance in Asia**
- **Beyond the OECD Principles**

Adoption of the OECD Principles

- **At the height of Asian Financial Crisis of 1997-98, G7 asked the OECD to develop international standards on corporate governance**
- **The Principles were adopted by OECD Ministers in 1999 following a process involving inputs from not only OECD governments, but also a number of non-OECD countries, the World Bank, IMF, BIS the business sector, investors trade unions and professional organizations.**

The OECD Principles

- **Core Five Area**
 - The Rights of Shareholders
 - The Equitable Treatment of Shareholders
 - The Role of Stakeholders
 - Disclosure and Transparency
 - The Responsibilities of the Board
- **The Preamble of the Principles**
 - No single model of good corporate governance
- **The Principles need to be interpreted and implemented to take into account the specificities of the national system, the legal and cultural traditions, and the markets.**

Dissemination of the OECD Principles

International Level

- **FSF: 12 core international standards**
- **IFIs including World Bank and EBRD: country assessment**

Regional Level

- **APEC / PECC : Guideline for Good Corporate Governance**

National Level

- **Many Asian countries have adopted their own codes of corporate governance
ex. Singapore, Korea, China . . .**

Regional Corporate Governance Roundtables

- **The Roundtables are organized by the OECD in close cooperation with the World Bank, the IFC, the Global Corporate Governance Forum and key regional partners.**
- **Five RTs established: Asia, Latin America, Eurasia, Russian and South East Europe.**
- **Five meetings over three-year period**
- **Using the OECD Principles as a framework for discussion**
- **White Paper as a final product, which formulates common policy objectives, reform priorities and recommendations.**

Asian Corporate Governance Roundtable

- **3 meetings in the past**
 - **Seoul, March 1999: Overview of Asian Corporate Governance**
 - **Hong Kong, May 2000: Transparency and Disclosure**
 - **Singapore, April 2001: The Role of Stakeholders and the Responsibilities of Board**
- **4th Meeting will take place in Bombay on June 10-12, focusing on Shareholder Rights and the Equitable Treatment of Shareholders**
- **White Paper to be adopted in early 2003**
- **Information available on *www.oecd.org***

Characteristics of Asian Corporate Governance

- **Deficiencies in the corporate governance regimes of Asian economies may have aggravated the 1997-98 Asian crisis, while they may have not been a cause of the crisis**
- **The Asian corporate governance and finance landscape**
 - **Concentrated corporate ownership**
 - **High leverage ratio with dominance of bank finance**

Concentrated Corporate Ownership

- **Concentrated corporate ownership is not unique only to Asia**

Sweden for example

- a traditionally family-dominated ownership
- well advanced corporate governance structure

- A case of Hong Kong

- most listed companies are controlled by families.
- high standards in corporate governance
- a sophisticated and strong legal system

- **Concentrated corporate ownership by itself does not necessarily lead to poor corporate governance system.**

- **Other deficiencies combined with concentrated ownership would have contributed to the aggravation of the crisis.**

Major issues of concern

- **The need to strengthen disclosure requirements, particularly related-party transactions and insider trading**
- **The need to clarify and strengthen the fiduciary duty of directors to act in the interest of all shareholders**
- **The need to provide shareholders who suffer financial losses with a private right of action against the controlling shareholders and directors**
- **The need to ensure that regulators have the capacity to enforce regulations and monitor companies with the respective requirements**
- **The need to establish effective mechanism for corporate restructuring including insolvency framework**

Dominance of bank finance and the role of banks in corporate governance

- **Anglo-Saxon type market based model**
 - well developed equity market and culture
 - banks maintain arms' length relationship with customer companies
- **Bank centered model**
 - shareholder banks take main responsibilities for most of financial transactions and in turn increase controlling power

ex. “hausbank” system in Germany
“main bank” system in Japan

Prescriptions for Banking Sector in Asia

- **Changing lending behavior away from relationship-oriented one**
- **Strengthening monitoring and assessment capability of banks**
- **Removing explicit or implicit government guarantee on bank loans**
- **Enhancing their own corporate governance**
- **Strengthening bank supervision**



Beyond the OECD Principles

- **Form vs Substance**

- **Companies need to be made aware that good corporate governance is in their long-term self-interest.**

- **Companies that truly embrace good corporate governance are more likely to comply with the spirit rather than just the letter of corporate rules.**

Beyond the OECD Principles (continued)

- **Enforcement**

- Regulatory agencies**

- should be endowed with strong power to carry out their monitoring and enforcement functions,
 - should be ensured to be able to impose credible sanctions in cases of non-compliance, and
 - should be equipped with sufficient financial and human resources.

- Shareholders awareness and activism**

- Legal infrastructure**

- Effective remedial measures
 - Effective court system

Beyond the OECD Principles (continued)

- **Flexibility**

- **One-size cannot fit all as all companies operate under different conditions and these conditions are likely to change over time.**

- **Corporate governance system needs to be sufficiently flexible in order to accommodate changing needs and circumstance.**



Thank you very much.