

OECD Conference:
Corporate Governance in Asia

The Importance of Transparency and Disclosure

Presented by Brian S. Brown
Seoul, Korea - March 1999

Today's Discussion

- An effective disclosure regime and the areas requiring further development in the Asian context
 - OECD Principles, US vs Asian issues, typical objections to more disclosure
- Non-financial disclosures relevant to the governance of enterprises
 - Governance and risk management, value drivers
- Concerns relating to external auditing
 - Independence, standards, key audit processes

OECD Disclosure Principles

- Annual, interim, and material events disclosure of:
 - Financial and operating results
 - Company objectives
 - Major share ownership and voting rights
 - Directors and senior management, and their remuneration
 - Material foreseeable risk factors
 - Material issues regarding other stakeholders
 - Governance structure and policies
- High quality standards for financial and non-financial disclosure
- Annual external audit under professional standards
- Fair, timely and cost-effective access by users

US vs Emerging Market Issues

SEC Chairman's Earnings Management Agenda

- "Big bath" restructuring charges
- Creative acquisition accounting
- "Cookie jar" reserves
- Premature revenue recognition
- Immaterial accounting misapplications

Role of Accounting Disclosure in East Asia Crisis*

- Related party lending and borrowing
- Foreign currency debt
- Derivative financial instruments
- Segment information
- Contingent liabilities
- Banking industry

* UN Conference on Trade and Development in 12/98



Typical objections include ...

- Disclosure is seen as a compliance task where only the minimum is presented and then somewhat grudgingly
- Family oriented businesses say corporate governance is hinder-some to their objective of making money
- Fear of disclosing competitive information as competitors will use it
- The market will always expect it and punish bad news

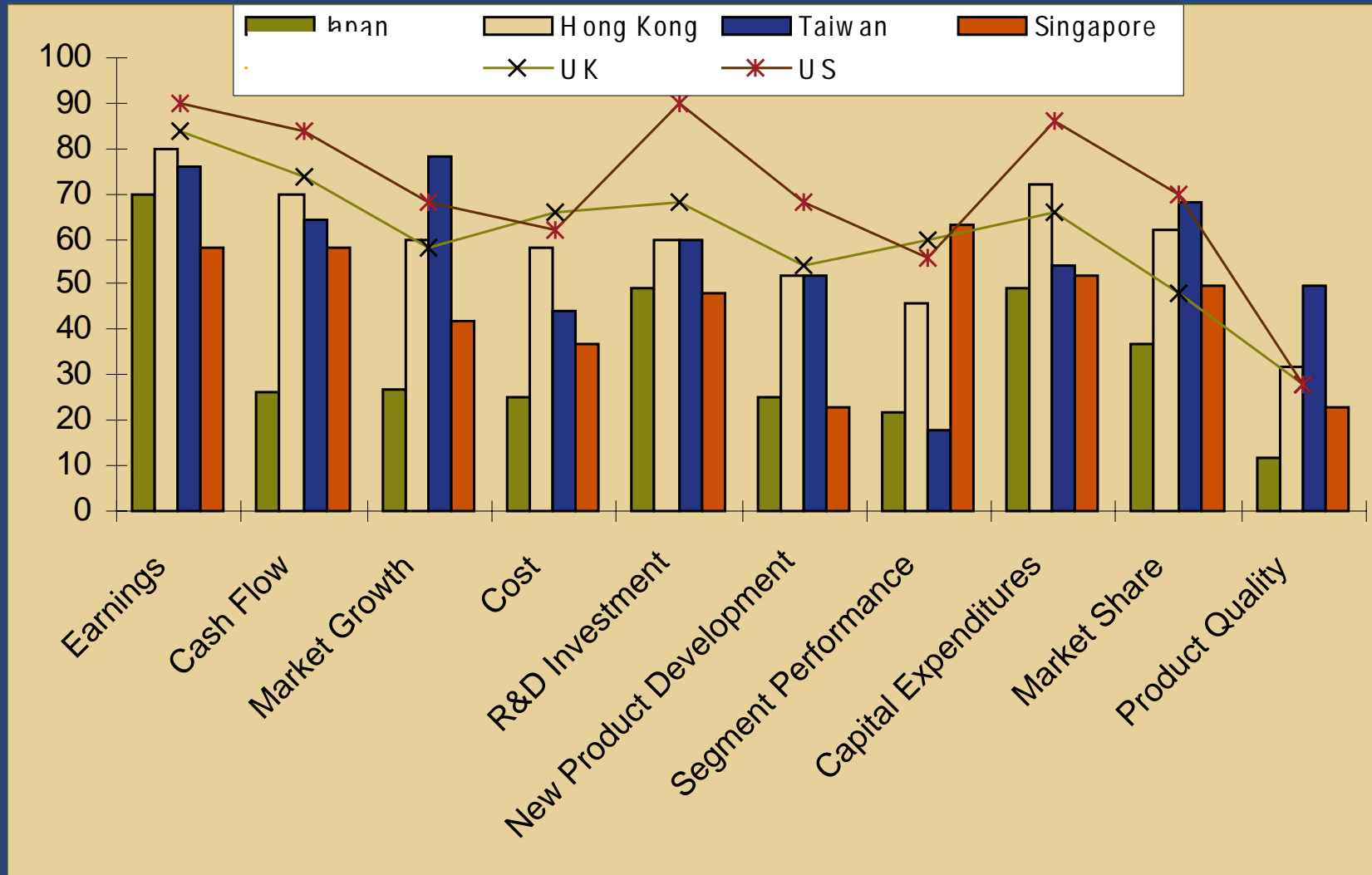
Non-financial disclosures ...

- Traditional accounting is increasing of limited usefulness and does not always provide needed information
- Non-financial disclosures include:
 - Strategies
 - Board members and policies
 - Compensation
 - Risk management policies
 - Compliance with code of best practice
 - Value drivers such as:
 - New product development
 - Customer retention
 - Market share and growth
 - Product quality
 - Employee satisfaction

CaIPERS principles provide a market focused approach ...

- Accountability
 - Open and accessible about condition of company and performance of management team
 - Disclose how key decisions are made, including those for executive compensation, strategic planning, nomination, appointment and assessment of directors
- Transparency
 - Report compliance with code of best practice and explain reasons for variations
- Long Term Vision
 - Have a long-term strategic vision with shareholder value at the core and executive compensation aligned to long term performance

Investors' view of adequacy of value driver information



Source: PwC / MORI survey on ValueReporting™

Evidence good corporate governance does lead to increase shareholder value

- CalPERS attributes
 - US\$ 150 million in increased value
 - from -66% to +52% against S&P 500
- Business Week survey
 - Top 25 returned 28% (50% better than S&P average)
 - Lowest 25 returned just 5%

Concerns relating to external auditing

- Independence
 - Audit committees
 - Professional and firm ethical standards
- Common standards
 - International accounting standards
- External audit processes
 - Risk based auditing
 - Quality assurance process

Would the market pay for a zero audit failure standard?

Some Final Thoughts

- Global capital markets will insist upon clear, relevant financial information
- Capital has no memory, it will flow where it sees reward and understands the risks
- Volatility is the inevitable by-product of a global, highly competitive, fast-paced marketplace

Solutions require the sustained commitment to high standards, constant improvement and adaptation to ever changing business environment