ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

OECD OCDE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Summary note from the Asian Roundtable on Corporate Governance

Summary Note
Second Meeting of the Asian Roundtable on Corporate Governance
May 31 - June 2, 2000

This note provides a brief summary of the results of the Second Asian Roundtable on Corporate Governance which was held in Hong Kong between the 31st of May and the 2nd of June 2000. The Asian Roundtable on Corporate Governance is one of three regional roundtables organised under the auspices of a far-reaching co-operation agreement between the OECD and the World Bank, whose objective is to promote better governance world-wide. The Roundtables use the OECD Principles as their conceptual framework.

The purpose of this year's second Asian Roundtable was to explore the role of disclosure in corporate governance. The meeting focused on three broad aspects of disclosure, the role of the board of directors in overseeing disclosure, accounting and audit standards and their implementation, and non-financial disclosure. It also included a session on a number of current international initiatives to improve the quality of global disclosure and to develop international benchmarks for disclosure.

The Roundtable was organised in close co-operation with the World Bank and the Asian Development Bank, who are both long-term partners of the OECD in this exercise. The local co-hosts were the Hong Kong Society of Accountants, the Securities & Futures Commission of Hong Kong and the Hong Kong Stock Exchange. The Japanese government provided additional sponsorship.

Some 150 high-level participants from Asian securities exchange commissions, stock exchanges, government, academia, trade unions, international organisations, business and investment institutions attended. Participating non-OECD countries were China, Hong Kong China, Chinese Taipei, India, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Member-country participation came from Australia, Canada, France, Japan, Mexico, New Zealand, South Korea, the United Kingdom, and the United States.

The group broadly endorsed the future work plan outlined by the Secretariat. It agreed to develop a set of recommendations for action to improve governance in the region and draft a "white paper". The group also agreed to hold next year's third meeting of the Roundtable during the first two weeks of April 2001 in Singapore. The topic of the next meeting will be "The role of boards of directors and stakeholders".

A number of further recommendations were made. It was felt that Roundtable discussions should devote more time to implementation (since the broad outlines of reform appear to be understood). Numerous participants felt that it was important for the Asian corporate world to take greater ownership for change. Greater business involvement in the deliberations of the Roundtable was encouraged in order to educate and encourage practical implementation.

A more detailed synthesis of the meeting conclusions will be made available shortly.

Conclusions

Following are some preliminary conclusions:

> **Disclosure is a key mechanism for encouraging better corporate governance.** Ultimately, the motivation for better transparency is a better cost of capital for companies. Investors will be more willing to commit their capital if they feel they have been appropriately informed regarding a company's prospects and risks. The Roundtable also acknowledged the importance of transparency to society at large.

Weak disclosure regimes played an important role in the Asian crisis. While weak disclosure was not a root cause of the Asian crisis, increased transparency with respect to financial performance, leverage, ownership and related parties, might have given the markets and policy makers and sufficient warning to develop a more timely and considered response.

Much has been achieved since the Asian crisis. Many countries in the region are moving from "merit based" systems (where requirements for listing are set by regulators) to disclosure based regulation (under which the investor takes greater responsibility for evaluating the risks of investment). Most countries have introduced audit committees, and improved standards for accounting and audit. Laws, regulations and regulatory institutions are largely in place.

Despite these positive developments, it was felt that the rapid recovery of Asian economies after the crisis could lead to dangerous complacency. Policy makers should thus be vigilant and pursue structural reforms, while investors should keep up the pressure for more transparency in Asian corporations.

The existence of adequate rules and standards are insufficient to protect investors. Implementation and enforcement were consistently cited as a principal concern. The difficulty of implementing better governance practices was illustrated by the introduction of audit committees. Few countries have enough qualified independent directors for committees to effectively fulfil their responsibilities. Directors are not yet aware of their responsibilities nor do they know how to fulfil them. Furthermore, while there is general agreement that audit committees require independent directors there is no commonly accepted definition of independence. Definitions and rules need to be tightened. Many participants expressed concern that some reforms were changes in form rather than substance.

There was broad consensus on the need for high quality internationally comparable standards for accounting that allow for comparison of financial statements. Most participants agreed that there was still considerable latitude for improving implementation on a national level. Similar concerns were expressed with respect to audit standards and audit practice.

It is difficult to form a clear picture of a company in the absence of good non-financial disclosure. Some of the issues that are covered in non-financial disclosure are fundamental to understanding the opportunities and risks of investment. **N**umbers alone present an incomplete and, possibly, misleading picture. In particular, better disclosure of related parties, ownership structures and governance policies was deemed uneven in most markets in the region and needs to be pursued.

Scepticism with respect to transparency and disclosure are deeply rooted in the business culture of the region. Attitudes among managers will be difficult to change. Companies--except for a small group of leaders--have not accepted the value of transparency. There was, nevertheless, the perception that markets will increasingly make their need for greater transparency felt.

Despite its importance, disclosure is not a panacea. There are certain prerequisites for a disclosure-based regulation to function. One is the presence of a well-developed capital market, in particular, active and interested investors. There are real costs to disclosure that need to be considered.

Corporate governance and public sector governance go hand in hand. The prospects for improving corporate governance are significantly diminished where standards for public sector governance are not upheld. Public sector governance provides the context for corporate governance, and both the public and private sectors have important roles to play.

A number of significant international initiatives are underway. The goals of these initiatives range from developing and promulgating international standards on accounting, audit and securities market regulation to improving the ability of private and public sector bodies to monitor and enforce their standards. Policy makers and companies will need to be aware of these international initiatives.