



The Second Asian Roundtable on Corporate Governance

**The Role of Disclosure in Strengthening Corporate Governance and
Accountability**

Co-hosted by:

Hong Kong Society of Accountants

The Stock Exchange of Hong Kong Limited

and

Securities & Futures Commission

Island Shangri-La Hotel, Hong Kong, China

31 May – 2 June 2000

Co-sponsored by:

The Government of Japan

The Global Corporate Governance Forum



With the participation of representatives of:

APEC

International Accounting Standards Committee

International Federation of Accountants

International Forum for Accountancy Development

IOSCO

Day 1 – Wednesday, 31 May, 2000

Registration

8:30 a.m. – 9:00 a.m.

Introductory session

9:00 a.m. – 9:30 a.m.

Welcoming remarks

- ◆ Mr. Rafael Hui Si-Yan, The Acting Financial Secretary, Hong Kong Special Administrative Region
- ◆ Mr. Seiichi Kondo, Deputy Secretary General, OECD
- ◆ Mr. Itaru Umezu, Consul-General of Japan in Hong Kong, Japan

9:30 a.m. – 10:30 a.m.

Recent developments in corporate governance and disclosure

Chairperson: Mr. Seiichi Kondo, Deputy Secretary General, OECD

Presentations:

- ◆ Recent developments in governance in the OECD area, Mr. Stephen Davis, Davis Global Advisors, United States
- ◆ Key issues in governance in Asia, Mr. Il Chong Nam, Fellow, Korea Development Institute
- ◆ The relationship between disclosure and governance, Mr. Laurence Fok, Senior Executive Director, Stock Exchange of Hong Kong Limited

10:30 a.m. – 11:00 a.m.

Coffee break

Session I

Boards of directors and their role in overseeing disclosure

Chairperson: Mr. Edward K. F. Chow, Chairman, Corporate Governance Committee of Hong Kong Society of Accountants

11:00 a.m. – 12:30 p.m.

Part I. The responsibilities of the board

Presentations:

- ◆ The role of the board in overseeing financial reporting and disclosure, Mr. Hideki Kanda, Professor of Law, Tokyo University, Japan
- ◆ Board responsibility for internal control and risk management, Mr. Kiattisak Jelatianranat, Chairman, Institute of Internal Auditors of Thailand
- ◆ The relationship between the board, the audit committee and external auditors, Ms. Gloria L. Tan Climaco, President & Chief Executive Officer, Crown Equities Corporation, Philippines
- ◆ General discussion

12:30 p.m. – 2:00 p.m.

Lunch hosted by the Hong Kong co-hosts

Speaker: Mr. Vincent Cheng, Vice Chairman and CEO, Hang Seng Bank, Hong-Kong

2:00 p.m. – 3:30 p.m.

Part II. The relevance of audit committees in Asia

Presentations:

- ◆ Current requirements and practice with respect to audit committees, Mr. Mak Yuen Teen, Associate Professor, National University of Singapore
- ◆ The role of the audit committee in financial reporting, Mr. Deepak M. Satwalekar, Managing Director, Housing Development Finance Corporation/Chairman of Infosys Audit Committee, India
- ◆ Independence and effectiveness of audit committees, Mr. Richard Moore, Partner, PricewaterhouseCoopers, Global Risk Management Solutions, Thailand
- ◆ General discussion

3:30 p.m. – 4:00 p.m.

Coffee break

4:00 p.m. – 5:30 p.m. *Part III. Generic requirements for public companies: Mode, frequency and timing of disclosure and communication with shareholders*

Presentations:

- ◆ Reporting to shareholders, Mr. Pratip Kar, Executive Director, Securities and Exchange Board of India
- ◆ Shareholder meetings and communication at shareholder meetings, Mr. Herwidayatmo, Chairman, Capital Market Supervisory Agency, Indonesia
- ◆ Public and press announcements and disclosures, Ms. Estella Ng, Senior Director, Listing Division, the Stock Exchange of Hong Kong Limited
- ◆ General discussion

7:30 p.m. – 8:30 p.m.

Welcoming Cocktail

Speaker: Mr. P.M. Kam, President, Hong Kong Society of Accountants

8:30 p.m. – 10:30 p.m.

Dinner hosted by the Hong Kong co-hosts

Speaker: Mr. Michael Klein, Director, World Bank

Day 2 – Thursday, 1 June, 2000

Session II

Accounting and audit

Chairperson: Mr. Gerald A. Sumida, General Counsel, Asian Development Bank

9:00 a.m. – 10:30 a.m.

Part I. The role of accounting standards

Presentations:

- ◆ A comparison of accounting standards in the region, Mr. Zubaidur Rahman, Chief Executive Officer, Millenium Consulting Company Ltd., Bangladesh
- ◆ Issues in implementing accounting standards, Raja Arshad Uda, Chairman, Malaysian Accounting Standards Board
- ◆ Towards a single set of standards and the application of international standards, Dr. Zhang Wei Guo, Chief Accountant, Chinese Securities Regulatory Commission
- ◆ General discussion

10:30 a.m. – 11:00 a.m.

Coffee break

11:00 a.m. – 12:30 p.m.

Part II. The role of the external audit

Presentations:

- ◆ The external audit: What kind of assurance does the market need?, Mr. Peter Dey, Chairman, Morgan Stanley, Canada
- ◆ Audit standards and their implementation, Mr. Robert Kutsenda, Partner, Arthur Andersen, United States
 - The adequacy of existing audit standards
 - Implementing national and international auditing standards
 - Legends as a short-term solution
- ◆ Regulation of the audit profession, Mr. Tsuguoki Fujinuma, Chairman, IFAC
 - The role of the accounting and audit profession: Auditor independence, the application of ethical standards and maintaining standards of quality
 - The role of the regulators
 - Implementing improved audit practices in the longer-term
- ◆ General discussion

12:30 p.m. – 2:00 p.m.

Lunch hosted by the Hong Kong co-hosts

Speaker: Mr. Andrew Sheng, Chairman, Hong Kong Securities & Futures Commission

Session III

Non-financial disclosure

Chairperson: Ms. Christine Wallich, Director: Infrastructure, Energy and Financial Sector Department (West) and Head of the Private Sector Group, Asian Development Bank

2:00 p.m. – 3:30 p.m.

Presentations:

- ◆ Reporting on governance structures and policies, Mr. Jamie Allen, Secretary General, Asian Corporate Governance Association, Hong Kong China
 - Information on capital structures, major ownership and voting rights
 - Information on board structure, key executives and their remuneration packages
- ◆ Management discussion and analysis (or business review) in the Annual Report, and disclosure of company environmental and ethical policy, and mission and value statements, Mr. Roger Adams, Head of Technical Services, Association of Chartered Certified Accountants (ACCA)
- ◆ Related party transactions and risk, Prof. Hasung Jang, Director, Center for Finance and Banking Research, Korea University, Korea
- ◆ General discussion

3:30 p.m. – 4:00 p.m.

Coffee break

Session IV

Roundtable discussion: Perspectives on disclosure

4:00 p.m. – 6:00 p.m.

Moderator: Mr. Douglas Naismith, Senior Director, Fidelity Investment Management (H.K.) Ltd.

- ◆ *Media:* Mr. Mark L. Clifford, Asia Regional Editor, Business Week
- ◆ *Financial analysts:* Mr. James Soutar, Hong Kong Institute of Financial Analysts
- ◆ *Corporates:* Mr. Chumpol Nalamlieng, President, Siam Cement
- ◆ *Preparers:* Mr. Zaenal Soedjais, President, Indonesian Institute of Accountants/Director, PT Asean Aceh Fertilizer
- ◆ *Regulators:* Mr. Siow Kim Lun, Director Market Supervision, Securities Commission of Malaysia
- ◆ *Trade unions:* Mr. Yoon Youngmo, Director, International Affairs, Korean Confederation of Trade Unions (KCTU)
- ◆ *Legal:* Mr. Lucien Wong, Partner, Allen & Gledhill, Singapore
- ◆ *Bank regulators:* Mr. Gerald Edwards, Deputy Associate Director, Board of Governors of the Federal Reserve System, Basle Committee on Banking Supervision, United States
- ◆ General discussion

7:30 p.m. – 9:30 p.m.

Dinner hosted by the Hong Kong co-hosts

Speaker: Mr. Chumpol Nalamlieng, President, Siam Cement

Day 3 – Friday, 2 June, 2000

Session V

Current initiatives and conclusions

Chairperson: Ms. Joanna Shelton, Senior Fellow, Maureen and Mike Mansfield Center, University of Montana, and former Deputy Secretary General, OECD

9:00 a.m. – 10:30 a.m.

Part I. Current initiatives to improve disclosure

Presentations:

- ◆ *APEC*, Ms. Veronique Ingram, General Manager, Corporate Governance and Accounting Policy Division, Australian Treasury
- ◆ *IFAD*, Mr. Jacques Manardo, Global Managing Partner – Strategic Clients, Member of world-wide Executive Committee of Deloitte & Touche Tohmatsu
- ◆ *IOSCO*, Mr. Andrew Procter, Chairman, Committee on Implementation of Objectives and Principles of Securities Regulation and Commission Member, Hong Kong Securities & Futures Commission
- ◆ *World Bank*, Mr. Jules Muis, Vice President and Controller
- ◆ *Financial Stability Forum*, Mr. Warren Gorlick, Financial Policy Advisor, US Treasury
- ◆ *IASC*, Mr. Stig Enevoldsen, Chairman, International Accounting Standards Committee
- ◆ General discussion

Part II. Conclusions by Chairs and Moderator

- ◆ Mr. Edward K. F. Chow, Chairman, Corporate Governance Committee of Hong Kong Society of Accountants
- ◆ Ms. Christine Wallich, Director: Infrastructure Energy and Financial Sector Department (West) and Head of the Private Sector Group, Asian Development Bank
- ◆ Mr. Gerald A. Sumida, General Counsel, Asian Development Bank
- ◆ Mr. Douglas Naismith, Senior Director, Fidelity Investment Management (H.K.) Ltd.
- ◆ *Final comments:* Ms. Joanna Shelton, Senior Fellow, Maureen and Mike Mansfield Center, University of Montana, and former Deputy Secretary General, OECD

10:30 a.m. – 11:00 a.m.

Coffee break

Session VI:

11:00 a.m. – 12:30 p.m.

Future work

Chairperson: Mr. William Witherell, Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

- ◆ Future work of the Roundtable, Mr. Stilpon Nestor, Head of Division, Corporate Affairs Division, OECD
 - Asian Roundtable White Paper
 - Future work
 - Location of next meeting

End of Roundtable

Meeting Procedure

1) The Roundtable is divided into five broad areas. The introductory session will provide the context for the Roundtable's deliberations. After the welcoming remarks, two presentations will serve to update participants on recent trends in governance both globally and in the Asia region. The link between disclosure and corporate governance will be explored.

2) The next three sessions are devoted to substantive issues. Session I covers the role of the board of directors in overseeing disclosure and communications with a particular focus on the role of audit committees. Session II covers accounting and audit standards and will consider problems in implementing standards. The role of the external audit will also be discussed. Session III will address the non-financial disclosure that is relevant for the governance of the corporation.

Each of the panels within these sessions will have three speakers who will make presentations of 20 minutes in length. The panellists' presentations will be followed by a 30-minute period reserved for questions and answers and general discussion.

3) Session IV will follow an interview format. A moderator will elicit views on disclosure from a variety of panellists by directing questions at them. The purpose of the session is to present a broader range of perspectives on disclosure in a dynamic interchange. The views of the media, trade unions, regulators, preparers and others will be heard.

4) Session V turns to concrete projects. It is designed to familiarise the participants with a number of international initiatives dealing with disclosure and to elicit some feedback. Work underway at APEC, IASC, IOSCO, IFAC, the International Forum for Accountancy Development, the World Bank and the Financial Stability Forum will be presented and discussed.

At the end of Session V, the Chairs will have the opportunity to summarise the meeting and draw their conclusions. Their summaries will close the substantive part of the meeting.

5) The final session will be devoted to a discussion of the future work of the Roundtable.

6) One of the objectives of the Roundtable is to create an open and active dialogue in a collegial atmosphere. All participants are encouraged to speak and ask questions during the periods allotted to general discussion.

Annotations and issues for discussion

This section of the agenda provides general background for discussion.

Introductory Session:

The first part of the meeting will identify developments in governance since the last OECD meeting on corporate governance in Asia in March of 1999. Some observers suggest that while better disclosure could not have prevented the events of 1997 and 1998, it might have given policy makers and the markets sufficient warning to develop an appropriate response. This seems to be born out by recent policy initiatives designed to improve transparency in enterprise performance and governance practices. The presentations should touch upon the extent to which poor disclosure might have affected the governance of Asian companies and contributed to the Asian financial crisis.

Issues: What has been the traditional view of disclosure and transparency in Asia and what role did disclosure play in the recent financial crisis? Has there been increasing acceptance and use of disclosure as a tool for enhancing governance and protecting investors? In Malaysia the stock exchange seems to have embraced the concept of disclosure based regulation. What have some of the broader trends been in the use of disclosure as a regulatory tool?

Session I: Boards of directors and their role in overseeing disclosure

It is increasingly felt that companies themselves should ensure that the information they provide to market participants gives a true and fair view of the enterprise. In some countries, the board of directors is considered to have the overall responsibility for communications. Many investors look to the board to provide assurances that monitoring systems are in place, that they function correctly and that appropriate accounting, audit and disclosure standards are applied. In practice, the responsibility of the board in overseeing disclosure may just be gaining acceptance. Changes in board structures and procedures--the establishment of audit committees and/or reconsideration of the relationship between the board and the internal and external auditors--may be required in order for boards to better fulfil their obligations.

Issues: Did boards traditionally have the responsibility for overseeing disclosure in companies or was this responsibility primarily in the hands of the executive? Are perceptions changing with regard to the board's responsibility in this area? If so, what changes have been put into effect? In particular, have there been changes in the relationship between the board and external auditors? Have there been changes in the relationship of the board and the internal audit/compliance function?

In some countries, audit committees serve to provide further assurances to investors regarding systems of control and the veracity of information. Depending on national practice, audit committees may be responsible for selecting the external auditor, receiving and approving the report of the auditor and communicating the results to shareholders. They may also be responsible for alerting the executive of irregularities in systems of control. While there appears to be a trend towards the introduction of audit committees in the Asia region, the structure and responsibilities of audit committees differ widely. In particular, countries differ in their approaches to improving the ability of committees to make objective, independent judgements. Some companies and regulators are introducing rules to increase the level of independence of committees. Suggested changes include increasing the number of non-executive directors, adjusting lines of reporting for the external and internal auditor, and requiring non-executives to be chairs.

Issues: What are recent developments with respect to the introduction of audit committees in Asian countries? What have been some of the results/problems associated with their introduction? Have there been any benefits to date? What measures are being introduced to increase the effectiveness of audit committees, e.g. rules to increase independence? Are there alternatives to audit committees that are being contemplated? To what extent have voluntary and mandatory approaches been used?

Session II: Accounting and audit

Accounting is the basic language of business and the primary means by which information on company performance is communicated to market participants. However, the information that is disclosed to investors is only as good as the standards under which information is compiled. There is general agreement that standards need to be of sufficiently high quality to fully inform the investment community regarding their investment decisions. Yet, even where high quality standards exist, their implementation may prove difficult in practice. This is because proper application of standards implies sufficient training and expertise of accountants, and the existence of institutional structures that maintain and improve the quality of the profession. The public sector and the private sectors have complementary responsibilities with respect to standard setting and the application of accounting standards. National standard setting bodies usually determine accounting standards while the accounting profession and companies must apply standards when putting together financial statements. In addition, there must be proper incentives to ensure high quality reporting. One of the key incentives is the existence of a large and sophisticated investment community. Finally, accounting standards are increasingly moving towards some level of harmonisation. Investors, in particular, tend to agree that the use of international standards that allow for comparisons between companies of different countries is desirable.

Issues: What was the state of accounting standards before the Asian crisis? How have standards been developed and implemented? Did accounting standards have any impact on the way the crisis unfolded? What specific types of information appeared to be lacking or were poorly reported? What has been done at the policy level in response to problems? What has been done by the accounting profession and companies? What have some of the problems been in implementing improved standards? Are there still gaps in accounting standards and their implementation that need to be filled? What is the relationship between national standards and international standards? How can the quality of standards be improved and maintained? What are the respective roles of the public and private sectors?

The other key element in the disclosure of financial information is the financial audit. The auditor plays an important role in verifying accounting information and in providing some level of assurance to the investment community regarding the veracity of financial information. Audit practices vary depending upon the country in which the audit is conducted. As a consequence the quality of the assurance that investors receive also varies.

As with accounting standards, the application of high-quality audit standards serves to provide added confidence to investors. In addition, the quality of reporting is enhanced when the auditor adheres to standards of independence and ethical behaviour when preparing the audit report. Like accounting standards, there is increasing appreciation of the need for a set of high quality international standards.

Policy makers may specify the need to apply specific standards and/or may specify rules for ensuring auditor independence. The profession itself is understood to have a responsibility towards the public interest in the conduct of the audit. One of the key objectives of this session is to explore the extent to which the statutory audit provides needed assurances and what could be done to improve the level of confidence in financial statements.

Issues: What kinds of audit standards exist and how are they applied? What rules exist to ensure the independence of the auditor and the auditor's ethical conduct? How do these rules work in practice? What kinds of improvements are being made both in standards and in their implementation? To what extent are international audit standards of relevance and value in the Asian region? What has been the approach to regulating the profession? Have changes been introduced, why and to what effect? What should the role of the public sector be in encouraging high quality audit, and what is the role of the profession?

Sessions III: Non-financial disclosure

Accounting statements cover only part of the disclosure obligation of the company to the investment community and to regulators. Additional disclosure on ownership structures, voting rights, the identity of management and the board of directors, the remuneration of management, the frequency and timing of disclosure, and many other issues may be required by regulatory bodies or by stock exchanges. Of particular interest in the Asian context is disclosure of related party transactions. Disclosure of risk is also considered to be of great importance.

Issues: To what extent are disclosures made regarding capital structures, major ownership of companies and voting rights? To what extent is information on boards provided, in particular, data on directors, and key executives and their remuneration? Do companies disclose sufficient information on related parties and risks? Are there further areas that require consideration such as disclosure of take-over defences, company environmental and ethical policies or policies regarding stakeholders? Are there any particular regulatory concerns that need to be addressed?