



# An Introduction to the Corporate Governance Development in China

----the Domestically- listed Companies As an Example

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# Presentation Structure

1. An Overview of China's Stock Market
2. The Corporate Governance Development
3. Challenges and Suggestions

# Quick Facts of the Chinese Stock Market—As of the end of 2008

- No. of domestic listed companies (A, B shares):1625
- Total shares issued: 2452.29 billion shares
- Total stock market cap:12.13 trillion RMB
- Total stock trading volume:2358.81 billion RMB

In recent years, a few major reforms have been carried out and have touched upon the fundamental market structural issues of China's capital markets.

# Some of the Major Reforms

- Non-tradable Share Reform
- Improving the Quality of Listed Companies
- Restructuring Securities Firms
- Strengthening Institutional Investors
- Further Liberalizing the Issuance Procedures
- Improving the Legal and Regulatory Frameworks

# Focal Points of Corporate Governance in China

- Shareholders' General Meetings
- Board of Directors
- Supervisory Committees
- The Introduction of Incentive Structure
- Independent Directors
- Improved Information Disclosure

# Some of the Major Rules and Measures

- The Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies, Aug.2001
- The Code of Corporate Governance for Listed Companies, Jan.2002
- The Measures for the Administration of the Equity Incentives of Listed Companies (Trial Implementation), Dec.2005
- The Guidelines on Articles of Association of Listed Companies, Amended in 2006
- The Rules for General Meeting of Shareholders of Listed Companies, Mar.2006

# Independent Directors

- Account for at least 1/3 of the membership of a company's Board of Directors.
- Include at least 1 professional in accounting.
- Compensation, audit, nomination and other committees, if established under the Board, shall be chaired by an independent director and shall be constituted by a majority of independent directors.
- Provide independent opinions on substantial events such as the nomination, appointment or removal of directors, appointment or removal of senior managers, compensation of directors and senior managers, substantial connected transactions.

# Managerial Stock-based Incentive Mechanism

- Equity incentives include restricted stocks and stock option plans
- Independent directors be excluded from any stock incentive scheme
- Total underlying shares involved in incentive schemes shall not exceed 10%
- Independent directors shall provide independent opinions on the fairness and impact of proposed stock incentive schemes
- File with CSRC after the scheme is approved by the Board , and convene a shareholder meeting for review and adoption if no objection from CSRC

# Strengthening Information Disclosure

- Since 1999, the supervision of listed companies gradually shifted from administrative approval to information disclosure
- Formulated “The Administrative Measures for the Information Disclosure of Listed Companies” in Feb.2007
- Improving transparency of operations of listed companies, enhancing the quality of information disclosed as well as the effectiveness of supervision

# Non-tradable Share Reform

- Non-tradable shares problem: over 2/3 of the total shares were non-tradable through the auction system of the exchange market and only 1/3 of the shares were tradable
- History: a lack of consensus on shareholding systems in the early days; a lack of awareness of how to manage state assets through capital market
- Hampered the development of Corporate Governance
- Reform started in 2005 and has overall successfully finished
- A decisive leap in the corporate governance development and pave the way for future innovations and other capital market reforms

# Some Remaining Problems

- controlling shareholders of some listed companies directly intervene in companies daily business.
- Governance in some listed companies only exists on paper, but not in reality; general meetings, board meetings and supervisory board meetings all become a mere formality.
- In some state-controlled listed companies, ownership structures are unclear and management takes control
- Unsatisfactory integrity of senior management in some listed companies.

# Corporate Governance in the Future

- Improving the effectiveness of independent directors
- Encouraging listed companies to strengthen internal controls, and reinforce self assessments and external audits
- Establishing and improving incentive structure
- Encouraging institutional investors to exercise external supervision

The End