The Centre for International Governance Innovation

# WORKING PAPER

Emerging Economies

# Scorecard on Corporate Governance in East Asia


STEPHEN Y.L. CHEUNG
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Working Paper No.13
December 2006


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Stephen Y.L. Cheung
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## Author Biography

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Dr. Jang has served as an advisor or consultant to the Presidential Commission for Financial Reform, the World Bank, the Financial Supervisory Commission, the Fair Trade Commission, the Korea Stock Exchange, and the Financial Development Committee of Ministry of Finance and Economy, and is extensively published in academic journals around the world.

## Abstract

The far reaching economic effects of the 1997 Asian financial crisis underscore the importance of structural reforms in the governance of the East Asian business sector. This paper measures the progress of corporate governance reforms in nine East Asian economies towards the guidelines established by the Pacific Economic Cooperation Council (PECC), as revealed empirically through two surveys. The first survey is a stock-taking exercise to take note of on-going reforms in corporate governance rules and regulations, while the second covers perceptions of the implementation and enforcement of corporate governance rules as seen by fund managers and analysts. This study indicates a divergence between the regulatory environment and market perceptions of corporate governance practices in the countries sampled. The survey results also show that, although the nine economies do not differ significantly in the corporate governance rules and regulations they have put in place, there is a significant difference in terms of market perceptions of their corporate governance practices. More than an academic exercise, this study is meant to share the experiences of corporate governance reform among East Asian economies.

## 1. Introduction

Academic researchers, practitioners, and regulators have come to recognize the importance of good corporate governance - a vigilant board of directors, timely and adequate disclosure of financial information, meaningful disclosure about the corporation, and transparent ownership - in enhancing the well-being of the corporate sector. At the national level, promotion of good corporate governance practice improves the ability of domestic firms to attract more investment from the international investment community.

The Asian financial crisis of 1997 underscored the importance of structural reforms in the governance of the region's business sector. Since then, various initiatives have been undertaken to promote such reforms. In 2001, ministers of the Asia-Pacific Economic Cooperation countries endorsed guidelines for good corporate governance practices as set out by the Pacific Economic Cooperation Council (PECC).[1] The international investment community has also developed several indices to measure the state of corporate governance. For example, Standard and Poor's Transparency and Disclosure Index[2] assesses the transparency and disclosure practices of corporations around the world, while the Crédit Lyonnais Corporate Governance Index[3] applies some major corporate governance factors - including discipline, transparency, independence, accountability, responsibility, fairness, and social awareness - to rate corporations in different markets.

This study measures the progress of corporate governance reforms in nine East Asian economies - China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand - through two survey questionnaires. The first survey is a stock-taking exercise of on-going reforms of corporate governance rules and regulations, and is based on five corporate governance principles developed by the Organisation for Economic Co-operation and Development (OECD).[4] A corporate

[1] See Pacific Economic Cooperation Council (PECC), *Guidelines for Good Corporate Governance Practices* (Singapore: PECC, 2001).
[2] Standard and Poor's, "Transparency and Disclosure: Overview of Methodology and Study Results - United States" (New York: Standard and Poor's, 2002).
[3] Crédit Lyonnais Securitiers Asia, "Saints and Sinners: Who's Got Religion?" *Corporate Governance Watch* (Hong Kong: CLSA, April 2001).
[4] Organisation for Economic Co-operation and Development (OECD), *Principles of Corporate Governance* (Paris: OECD, 2004).

governance specialist from each of the nine economies completed the survey with the assistance of the local regulatory agency; we then checked their answers against information from OECD reports. The questionnaire was not intended to measure any individual company's governance practices; rather, its objective was to provide a broader reference on corporate governance reform in the sample economies. It is thus perfectly possible to find a well-governed company in a market with less stringent corporate governance practices.

The second survey covers perceptions of the implementation and enforcement of corporate governance rules in the nine Asian economies as seen by fund managers and analysts. The questionnaire, which was sent to fund managers and analysts through investment fund associations, is simpler than the one used in the first survey.

It is important to recognize the scope of this project. Although the first survey focuses on corporate governance requirements in the sample economies, it does not try to assess the enforceability of these requirements. In contrast, the second survey provides the market's perception of the quality of corporate governance practices in these economies. Thus, the two surveys complement each other in that the first measures how well you think you perform while the second measures how well the market thinks you perform.

It is also necessary to recognize the differences between economies, and to understand that corporate governance practices and their reform cannot be viewed in isolation. Therefore, one should interpret the performance of any individual economy with great caution. Moreover, this project is not meant to be a figure-pointing exercise, but aims to share the experience of corporate governance reform in East Asian economies.

The two surveys yield different results, in that the rankings as determined by the evaluation of rules and regulations are not consistent with the rankings investors give for the quality of corporate governance practices. One possible explanation is that, in some economies, corporate governance rules and regulations are not enforced. Another possibility is that, although some economies that practice poor corporate governance have introduced new rules and regulations, there may be a time-lag between the introduction of reforms and the market's perception that reforms have taken place.

Another interesting finding is that, although the variation in scores on corporate governance rules and regulations is not statistically significant among the nine economies, there are significant differences in the market's perception of the quality of their corporate governance.

The rest of the paper is organized as follows. The next two sections describe the methodology and findings of the first survey. This is followed by the methodology and findings of the second survey, and a concluding section.

## 2. Survey One: Corporate Governance Rules and Regulations

### Evaluation Methodology

The first survey, a questionnaire on rules and regulations constructed following the *OECD Principles of Corporate Governance* and conducted between May and July 2005, is organized into five areas: the rights of shareholders; equitable treatment of shareholders; the role of stakeholders; disclosure and transparency; and responsibilities of the board. We also based the survey on relevant questions from the OECD's *White Paper on Corporate Governance in Asia*[5] and added a number of others that were not in the White Paper, for a total of 103 questions altogether, divided among the

Table 1: Distribution of Questions in the First Survey, by Area of Evaluation

| | Area of Evaluation | | | | | |
|---|---|---|---|---|---|---|
| | Rights of Shareholders | Equitable Treatment of Shareholders | Role of Stakeholders | Disclosure and Transparency | Board Responsibilities | Total |
| Number of questions in the survey | 39 | 12 | 4 | 20 | 28 | 103 |
| Number of questions used to evaluate corporate governance | 16 | 9 | 2 | 15 | 13 | 55 |

[5] Organisation for Economic Co-operation and Development (OECD), *White Paper on Corporate Governance in Asia* (Paris: OECD, 2003).

five corporate governance principles as shown in Table 1. Of the 103 questions, however, only 55 were used to evaluate corporate governance rules and regulations; the remaining 48 were omitted from the evaluation either because they were intended only to verify the fundamental structure of corporate governance or because they were irrelevant to the evaluation. (For a complete list of the questions, see Appendix 1; for a summary of responses, see Appendix 2.)

**Survey One Findings**

The questions in the first survey were intended to assess the regulatory reform of corporate governance in the selected East Asian economies according to five OECD principles noted above. The findings indicate that there is little variation in the approaches of these economies to the rights of shareholders and the equitable treatment of shareholders, but considerable variation in rules and regulations covering board responsibilities and the role of stakeholders, and mixed results in the disclosure and transparency category.

*Rights of Shareholders*

*"The corporate governance framework should protect and facilitate the exercise of shareholders' rights."*[6]

Certain common requirements are generally accepted as the fundamental building blocks for protecting the rights of shareholders, regardless of the type of legal and regulatory system the economy employs:

- the presentation of audited annual reports and the disclosure of unaudited semi-annual reports and quarterly financial statements;
- the requirement of a minimum period of notice for shareholder meetings;
- the allowance of proxy voting;
- the disallowance of multiple voting shares;
- the right of shareholders to vote on the appointment and removal of directors, the authorization of share capital changes, amendments to the company's articles or statutes, and major corporate transactions (acquisitions, disposals,

[6] OECD, *Principles of Corporate Governance*, 18.

mergers, takeovers);

- the ability of shareholders to nominate candidates for the position of director; and
- the ability of shareholders to propose agenda items at shareholder meetings.

The nine East Asian economies differ, however, in their regulations on shareholders' rights. On advance notice of shareholder meetings, for example, China and Taiwan require 30 days' notice of annual general meetings, the longest period among the nine economies, while South Korea and the Philippines require fourteen days' notice and Thailand just seven. Clearly, a longer period of notice would better enable shareholders to participate in meetings and cast their votes either by mail or by proxy. This is particularly true for foreign shareholders, who can vote only through custodians.

Common shareholders are most protected in Hong Kong and China, which are the only economies in the sample that do not allow nonvoting shares. At the same time, only Hong Kong, Indonesia, and South Korea permit voting by mail; elsewhere, the inability of shareholders to vote by mail is a significant impediment to their ability to cast votes.

Shareholders have the right to approve transactions with related parties that exceed a certain amount in all the sample economies except South Korea and Taiwan; the former requires only board approval for all related party transactions regardless of the amount of the transaction.

As for other shareholders' rights, shareholders may nominate director candidates in all the sample economies except Thailand, where the ability of minority shareholders to be represented on the board is thus limited. Shareholders in all nine economies may propose agenda items for shareholder meetings, but the number of shares they need to hold in order to do so differs across the economies. For example, in Thailand, a shareholder must own at least one-third of the shares issued to propose an agenda item, while the Philippines has no minimum shareholding requirements.

Derivative lawsuits by shareholders are allowed in all the sample economies except China and Hong Kong, where legal action by shareholders is limited. In Singapore, in contrast, any shareholder may file a derivative lawsuit, regardless of the number of shares held. Only Malaysia, the Philippines, and South Korea permit class action lawsuits. Such lawsuits are one of the most effective legal means to deter abusive management practices and to recover any loss when shareholders' interests are damaged by such practices.

Finally, shareholders do not have the right to vote on the appointment or removal of auditors in the Philippines and Taiwan.

*Equitable Treatment of Shareholders*

*"The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights."*[7]

Generally accepted features of the equitable treatment of shareholders are:

- laws that define "insiders";
- the requirement that insiders disclose their transactions;
- laws that explicitly define penalties, including fines and imprisonment, for the violation of insider trading regulations; and
- a legal and regulatory framework that requires disclosure of related party transactions.

As with shareholders' rights, the nine economies differ in their regulations on the equitable treatment of shareholders. For example, only Indonesia, the Philippines, South Korea, Taiwan, and Thailand permit cumulative voting, which is an effective way to allow minority shareholders to elect their choice of director - particularly valid in economies, like most of those in East Asia, where ownership is concentrated.

All nine economies require the disclosure of insider trading. However, China, the Philippines, and Taiwan do not specify how soon such trading should be disclosed, an important point since delayed disclosure creates information asymmetry in the market and does not allow minority shareholders to protect their interests effectively. Insider trading is an offence carrying civil liabilities in all economies but Indonesia.

[7] Ibid, 20.

*The Role of Stakeholders*

*"The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises."*[8]

Four main factors are generally considered in assessing the role of corporate stakeholders:

- the availability of employee stock ownership plans (ESOPs) or other long-term employee incentive plans;
- the disclosure of details of employees' safety and welfare;
- the according of first priority to employees' wages and benefits in the event of insolvency; and
- the disclosure of any event related to environmental issues.

Once again, practice on these issues varies considerably among the nine economies. Only South Korea requires ESOPs, while only China, the Philippines, and South Korea require the disclosure of details of employees' safety and welfare. The priority given to employees' wages and benefits in the event of insolvency is unclear in both Malaysia and Thailand, while only China, Indonesia, the Philippines, and Thailand require that companies disclose events related to environmental issues.

*Disclosure and Transparency*

*"The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company."*[9]

Features of an acceptable system of corporate disclosure and transparency include the provision of an annual report that includes general information on the company and its main business, audited annual financial and accounts, the basis of remuneration

[8] Ibid, 21.
[9] Ibid, 22.

of board members, consolidated financial reports, and information on the structure and practice of corporate governance within the firm. In addition, directors' shareholdings and transactions in the company's stock need to be disclosed, and the company's financial statements must be audited externally.

As with other corporate governance principles, regulations on disclosure and transparency differ among the nine East Asian economies. For example, all nine require the disclosure of directors' remuneration, although in some cases this may be presented in aggregate rather than for each individual director. Shareholders cannot obtain minutes of board meetings in Hong Kong, Malaysia, Singapore, or Thailand, which, in the absence of some other form of disclosure or a system that ensures checks and balances on board meetings, makes it difficult for shareholders to find out how the board operates. Moreover, Hong Kong does not require annual reports include personal details of directors.

As for ownership disclosure, only Taiwan does not require the disclosure of shareholders with at least 5 per cent of the company's shares. China, Malaysia, the Philippines, Singapore, and Thailand require the disclosure not only of shareholders with 5 per cent or more of shares but also the top ten shareholders, regardless of the percentage of shares they hold. Even more liberally, Hong Kong, Indonesia, Malaysia, and Singapore do not require disclosure of management shareholdings, which risks the ineffective monitoring of insider trading by the market and regulators. Another issue is the rotation of auditing firms, which is mandatory only in Indonesia, the Philippines, and South Korea, and in Thailand only for banks. Finally, board members' attendance do not have to be disclosed in Hong Kong, Indonesia, Taiwan, or Thailand, again making it difficult for shareholders to monitor board activities.

*Board Responsibilities*

*"The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders."*[10]

The final corporate governance principle the first survey looked at is in the area of the responsibilities of the company's board of directors. Once again, regulations

[10] Ibid, 24.

differ among the nine economies. For example, only China, Hong Kong, and Malaysia require a code of ethics or business conduct. Such a mandatory code does not ensure better corporate governance but certainly encourages it, and increases the confidence of stakeholders that the company is operating ethically.

Indonesia, Malaysia, and South Korea have no regulations on the minimum number of required board meetings, while China requires at least two and the Philippines twelve such meetings. China, Malaysia, and the Philippines also require continuing training or education for directors.

As for committees of the board, only Taiwan requires an audit committee, while only China, the Philippines, and Singapore require compensation and nomination committees (South Korea also requires that the board include a nomination committee).

All nine economies require the presence of outside directors (or independent directors) on the board, although Taiwan applies this requirement only to companies listed since 2002 and only Taiwan does not specify the minimum number of outside directors that is required. Moreover, the disclosure of remuneration of outside directors (independent directors) is required in all economies but Indonesia and Thailand.

The Philippines, South Korea, Taiwan, and Thailand regulate how much stock may be issued to directors, while China, Malaysia, and Thailand have guidelines on the number of corporate boards on which an individual director, whether inside or outside the firm, may serve. South Korea and Taiwan limit the number of directorships only for outside directors.

### Scoring the Findings of Survey One

The purpose of scoring rules and regulations on corporate governance is to determine which of them are necessary to ensure good practices. It is important to note, however, that the scoring outcomes *do not* reflect the quality of corporate governance each economy practises. In addition, the outcomes depend heavily on which rules or regulations are included in the scoring and how much weight each is assigned. In other words, the outcomes we report are *subjective* judgments and may not necessarily reflect the true state of the quality of corporate governance in each economy.

*Method of Scoring*

Two types of questions on rules and regulations are included in the scoring. The first type of question is that where a "yes" answer is desirable in ensuring better corporate governance. For such questions, we assign a value of 1 if the answer is "yes" and zero if the answer is "no." The second type of question is that where a "yes" answer is considered undesirable. Accordingly, here we assign a value of 1 if the answer is "no' and zero if the answer is "yes."

We assign a letter, A to E, to each of the five areas of corporate governance and a number to each question in each area, as Appendix 2 shows. We then assign a value of 1 to each question. Scores are then determined according to a five-step process.

First, the value of 1 that we assign to each question is allocated equally to each sub-question. Thus, for example, each of the three sub-questions under question A.3 is allocated a value of 1/3 (if the answer is "yes" for desirable questions).

Second, we calculate the total value earned by the sub-questions, which yields the total value for each of the questions.

Third, we calculate the total value for each of the five main areas of corporate governance (A, B, C, D, and E). For example, since there are seven questions about the rights of shareholders, this area has a maximum assigned value of seven, which would be obtained if the respondent answers "yes" to all sub-questions in the area.

Fourth, we calculate the ratio of each economy's earned value to the total possible value. For example, if an economy earns a value of 6 for item A (the rights of shareholders), then the ratio is 6/7. Likewise, since item B (the equitable treatment of shareholders) has a total possible score of 4, answering "yes" to three of the four questions in this area would yield a ratio of 3/4.

Finally, we calculate the overall score for each East Asian economy by assigning weights to the five corporate governance items, as shown in Table 2. To check the sensitivity of the weights we assign, we apply two different weight schemes.

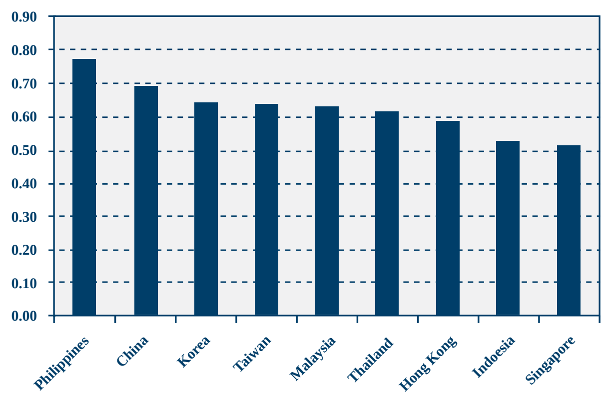
Table 2: Weighting Schemes for Scoring Answers to Survey One

| | Area of Corporate Governance | | | | | |
|---|---|---|---|---|---|---|
| | Rights of Shareholders | Equitable Treatment of Shareholders | Role of Stakeholders | Disclosure and Transparency | Board Responsibilities | Sum |
| Weight 1 | 30% | 10% | 5% | 15% | 40% | 100% |
| Weight 2 | 20% | 20% | 10% | 20% | 30% | 100% |

*Weighted Scoring Results*

Figures 1 and 2 summarize the results of the weighted scores for survey answers on corporate governance rules and regulations. In both weighting schemes, China and the Philippines rank first and second, respectively, and Singapore ranks at the bottom, although it should be noted that the differences in scores among the nine economies are not statistically significant.

Figure 1: Rating Results, Weighting 1




Because the choice of weighting scheme may affect the relative importance of the five categories of corporate governance factors, we verified the robustness of the results by giving equal weights to each of the five categories. The results, presented in Table 3, show that the rankings of the nine economies do not differ from those of the weighted schemes.

Figure 2: Rating Results, Weighting 2

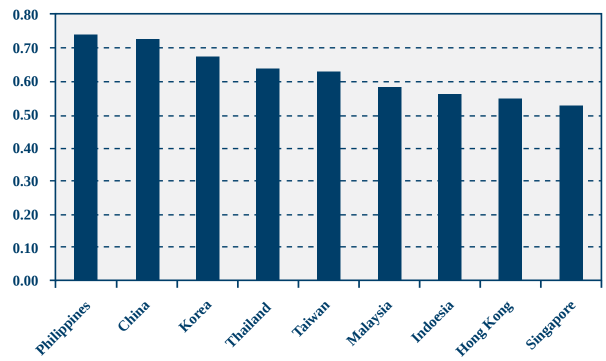



Table 3: Equally Weighted Scores for East Asian Economies, by Area of Corporate Governance

| Rank | | Rights of Shareholders | Equitable Treatment of Shareholders | Role of Stakeholders | Disclosure and Transparency | Board Responsibilities | Sum |
|---|---|---|---|---|---|---|---|
| 1 | Philippines | 0.889 | 0.667 | 0.500 | 0.833 | 0.722 | 3.611 |
| 2 | China | 0.544 | 1.000 | 0.500 | 0.778 | 0.722 | 3.544 |
| 3 | South Korea | 0.671 | 0.917 | 0.500 | 0.778 | 0.519 | 3.384 |
| 4 | Thailand | 0.639 | 1.000 | 0.500 | 0.528 | 0.537 | 3.204 |
| 5 | Taiwan | 0.921 | 0.917 | 0.000 | 0.778 | 0.361 | 2.976 |
| 6 | Indonesia | 0.698 | 0.938 | 0.500 | 0.472 | 0.315 | 2.923 |
| 7 | Malaysia | 0.698 | 0.750 | 0.000 | 0.528 | 0.648 | 2.624 |
| 8 | Singapore | 0.833 | 1.000 | 0.000 | 0.528 | 0.204 | 2.565 |
| 9 | Hong Kong | 0.778 | 0.750 | 0.000 | 0.417 | 0.537 | 2.481 |

Table 4 summarizes the performance of the economies in each of the five categories, which serves to identify areas in need of improvement. As the table shows, the Philippines ranks first in "rights of shareholders", "disclosure and transparency", and "board responsibilities", while Singapore ranks first in "equitable treatment of shareholders" and China ranks first in "role of stakeholders".

Table 4: Rankings of East Asian Economies, by Area of Corporate Governance

| Rank | Rights of Shareholders | Equitable Treatment of Shareholders | Role of Stakeholders | Disclosure and Transparency | Board Responsibilities |
|---|---|---|---|---|---|
| 1 | Taiwan | Singapore | Thailand | Philippines | Philippines |
| 2 | Philippines | Thailand | China | China | China |
| 3 | Singapore | China | Indonesia | South Korea | Malaysia |
| 4 | Hong Kong | Indonesia | South Korea | Taiwan | Thailand |
| 5 | Indonesia | Taiwan | Philippines | Thailand | Hong Kong |
| 6 | Malaysia | South Korea | Singapore | Singapore | South Korea |
| 7 | South Korea | Hong Kong | Taiwan | Malaysia | Taiwan |
| 8 | Thailand | Malaysia | Hong Kong | Indonesia | Indonesia |
| 9 | China | Philippines | Malaysia | Hong Kong | Singapore |

## 3. Survey Two: Investors' Perceptions of Corporate Governance Practices

The second survey, which was conducted in July and August 2005, covers the evaluation of corporate governance practices by investors in each of the nine East Asian economies. A total of 25 investors - 17 fund managers and 8 analysts - participated in the survey. Although the respondents are only a sample of all those who have investment exposure in the nine economies, we have no reason to believe that they are biased toward any particular economy.

The survey consists of two sections: ten questions about the quality of corporate governance practices, and two questions about the identity of the respondent. We score each of the questions in the first section on a scale of 1 to 5, where 5 represents the best practice or the respondent strongly agrees with the statement given, and 1 represents the worst practice or the respondent strongly disagrees. Appendix 3 presents a sample questionnaire.

The most important of the ten questions in section 1 of the survey is the first, which asks respondents to evaluate the overall quality of corporate governance practices in the nine economies (the remaining questions evaluate the quality of specific areas of corporate governance). The results of responses to question 1 are presented in Table 5, and the total scores for all ten questions are presented in Figure 3.

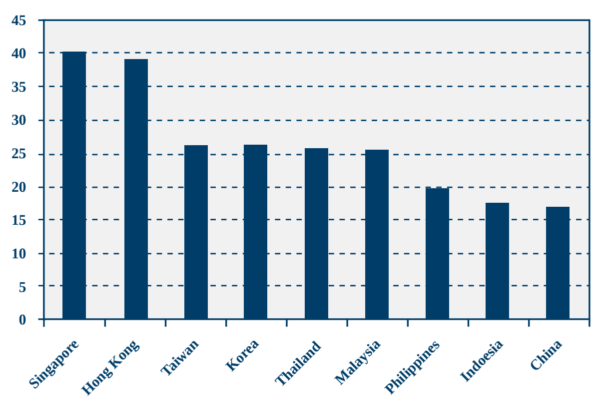
Table 5: Investors' Perceptions of the Overall Quality of Corporate Governance Practices in East Asian Economies

| Rank | | Average | t-value | p-value | Observations |
|---|---|---|---|---|---|
| 1 | Singapore | 4.00 | - | - | 25 |
| 2 | Hong Kong | 3.88 | 0.53 | 0.598 | 25 |
| 3 | South Korea | 2.68 | 5.55 | 0.000 | 25 |
| 4 | Malaysia | 2.60 | 0.42 | 0.674 | 25 |
| 5 | Taiwan | 2.60 | 0.00 | 1.000 | 25 |
| 6 | Thailand | 2.50 | 0.45 | 0.652 | 24 |
| 7 | Philippines | 2.08 | 1.64 | 0.109 | 24 |
| 8 | China | 1.72 | 1.57 | 0.123 | 25 |
| 9 | Indonesia | 1.57 | 0.78 | 0.439 | 21 |

**Note:** The t-value is a test statistic of the difference in average scores between two economies sitting next to each other in the table. For example, the t-value in the Hong Kong row tests whether the average score for Hong Kong is statistically different from the average score for Singapore. The p-value provides the statistical significance of the t-value.

As the table shows, in the perceptions of investors, Singapore and Hong Kong rank first and second overall on the quality of their corporate governance practices, with scores of 4.0 and 3.88, respectively, out of maximum of 5, while Indonesia and China rank lowest and second-lowest, respectively. The rankings based on responses to question 1 are consistent with those reflecting the overall scores for all ten questions about corporate governance practices, as shown in Figure 3.

Figure 3: Total Scores for All Ten Questions about Investors' Perceptions of the Quality of Corporate Governance Practices in East Asian Economies



Respondents to the second survey were divided into two groups, fund managers and analysts, to see if their perceptions of corporate governance practices in the nine economies differed. As Figures 4 and 5 show, the two groups have fairly similar perceptions, and the country rankings are consistent with the results shown in Figure 3. As demonstrated by these three figures, Singapore and Hong Kong consistently rank in the top group in all 10 questions, and China and Indonesia in the lower group. Although not shown, the variation in average scores for each of the ten questions is statistically significant, just as for overall perceptions presented in Table 5.

Figure 4: Total Scores for All Ten Questions, Perceptions of Fund Managersin East Asian Economies

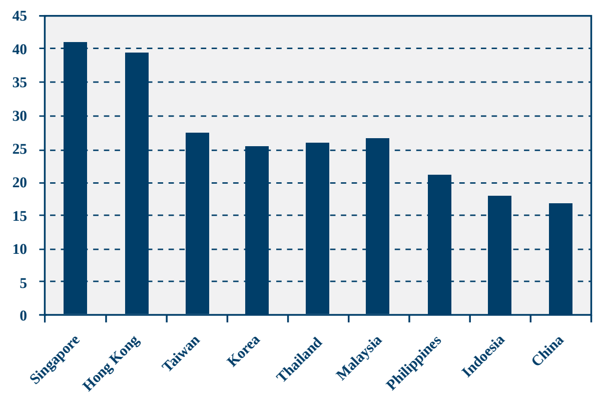
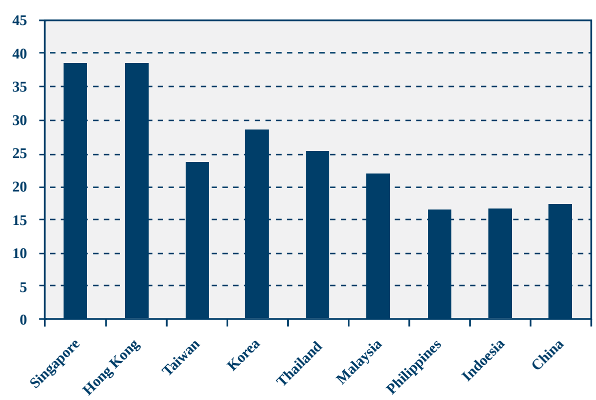



Figure 5: Total Scores for All Ten Questions, Perceptions of Analysts



## 4. Conclusion

Two surveys of corporate governance in nine East Asian economies - one on corporate governance rules and regulations and another on investors' perceptions of corporate governance practices - reveal the existence of a significant gap between rules and practices in the nine countries.

In theory, at least, the Philippines and China appear to adhere most closely to principles of corporate governance as set out by the OECD, while Singapore and Indonesia (or Hong Kong, depending on how one weights scores) fare most poorly in implementing corporate governance reforms. In the perceptions of analysts and fund managers who deal in the real world of the marketplace, however, Singapore and Hong Kong rank highest in the quality of their corporate governance practices, while China and Indonesia perform relatively poorly. Put another way, there is not a significant correlation between the rules and regulations pertaining to corporate governance in the nine economies and how corporate governance is actually practiced in each economy.

One implication of these survey results is that, although East Asian economies have introduced new rules and regulations to improve corporate governance, particularly in the wake of the 1997 Asian financial crisis, such reforms are not being enforced in some economies as they should be. It is important to note, however, that there is no indication of causality between corporate governance rules and regulations and corporate governance practices.

Another implication of the survey results is that, with a regulatory framework for corporate governance now in place, the nine East Asian economies should concentrate their efforts on implementing and enforcing those rules and regulations if they really intend to improve their corporate governance practices.

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## Appendix 1. Survey One: List of Questions

Questions that are included in the scoring are marked in the column, "Scoring Item." Questions that are considered undesirable if the answer is "yes" are marked in the column, "Reverse Item."

| Questions | Scoring Item | Reverse Item |
|---|---|---|
| **A. Rights of Shareholders?** | | |
| **1. What periodic information are listed companies required to disclose?** | | |
| 1.1 Annual reports? | | |
| 1.2 Unaudited semi-annual reports? | | |
| 1.3 Quarterly financial statements? | ✓ | |
| 1.4 Minutes of annual general meetings (AGMs)? | | |
| 1.5 Attendance records of annual general meetings? | | |
| 1.6 Reports of audit committee (if the company has one)? | | |
| **2. Convening of shareholder meetings** | | |
| 2.1 Time of notice (days before meeting)? | ✓ | |
| 2.2 Thresholds for requesting or convening extraordinary general meetings (EGMs) of shareholders, including number of shares, number of shareholders, and minimum holding period required? | | ✓ |
| 2.3 Legal minimum number of shareholders needed (quorum) to attend EGM? | | ✓ |
| 2.4 Are nonvoting shares allowed? | ✓ | ✓ |
| 2.5 Are multiple voting shares allowed? | | ✓ |
| **3. Can shareholders vote by:** | | |
| 3.1 Proxy? | ✓ | |
| a. Any document required? | | ✓ |
| b. Any notarization required? | | ✓ |
| 3.2 Mail? | ✓ | |
| 3.3 Other means (such as electronic voting)? Please specify | ✓ | |
| **4. Do shareholders have the right to vote on:** | | |
| 4.1 Appointment/removal of directors? | ✓ | |
| 4.2 Appointment/removal of auditors? | ✓ | |
| 4.3 Authorizing of share capital? | | |
| 4.4 Issuing of share capital? | | |
| 4.5 Dissapplication of preemption rights? | | |
| 4.6 Amendments to company articles or statutes? | | |
| 4.7 Remuneration of board members? | ✓ | |
| 4.8 Major corporate transactions (acquisitions, disposals, mergers, takeovers)? | ✓ | |
| 4.9 Transactions with related parties? | ✓ | |
| Size of related-party transactions subject to shareholders' voting? | | ✓ |
| 4.10 Can shareholders nominate candidates for director? | | ✓ |
| If yes, what are the requirements to do so (such as the number of shares or shareholders required to make such nominations)? | | ✓ |
| 4.11 Can shareholders propose agenda items at shareholder meetings? | ✓ | |
| If yes, what are the requirements to do so (such as the number of shares or shareholders required to make such proposals)? | | ✓ |
| **5. What is the minimum number of shares required to approve:** | | |
| 5.1 Appointment of directors? | | ✓ |
| Removal of directors? | | ✓ |

| | | |
|---|---|---|
| 5.2 Appointment of auditors? | | ✓ |
| Removal of auditors? | | ✓ |
| 5.3 Authorizing of share capital? | | ✓ |
| 5.4 Issuing of share capital? | | ✓ |
| 5.5 Dissapplication of preemption rights? | | ✓ |
| 5.6 Amendments to company articles or statutes? | | ✓ |
| 5.7 Remuneration of board members? | | ✓ |
| 5.8 Major corporate transactions (acquisitions, disposals, mergers, takeovers)? | | ✓ |
| 5.9 Transactions with related parties? | | |
| **6. How can shareholders seek redress if their rights are violated?** | | |
| 6.1 Derivative action /derivative lawsuit? | ✓ | |
| If yes, what are the requirements to do so (such as the number of shares or shareholders required to make such proposals)? | | ✓ |
| 6.2 Class action lawsuit? | ✓ | |
| If yes, what are the requirements to do so? (such as the number of shares or shareholders required to make such proposals)? | | ✓ |
| **7. Are staggered election terms allowed?** | ✓ | ✓ |

## B. Equitable Treatment of Shareholders?

| | | |
|---|---|---|
| **1. Is one share, one vote required? (Different from convening EGM)** | ✓ | |
| **2. Is cumulative voting allowed for minority shareholders when they vote for elections of directors or outside directors?** | ✓ | |
| **3. Insider trading** | | |
| 3.1 Does the law define who insiders are? | | |
| 3.2 Are insiders required to disclose their transactions? | ✓ | |
| 3.3 Within how many days must insider trading transactions be disclosed? | | ✓ |
| 3.4 Penalties attached to the offence of insider trading | | |
| Civil liability? (If so, please specify the amount) | ✓ | |
| Fines? (If so, please specify the amount) | ✓ | |
| Imprisonment? | ✓ | |
| **4. Related party transactions** | | |
| 4.1 Does the legal and regulatory framework require disclosure of the transaction? | ✓ | |
| 4.2 Must related-party transactions be approved by shareholders? | ✓ | |
| 4.3 Within how many days must transactions be disclosed? | | |
| 4.4 Are related persons required to abstain from voting on transactions? | ✓ | |

## C. Role of Stakeholders?

| | | |
|---|---|---|
| **1. Employees' rights** | | |
| 1.1 Must terms of employees' safety and welfare be disclosed? | | |
| 1.2 What priority do employees' wages and benefits have in the event of insolvency? | | |
| 1.3 Is an Employee Share Option Program or other long-term employee incentive plan required? | ✓ | |
| **2. Is disclosure of environmental issues required?** | ✓ | |

## D. Disclosure and Transparency?

| | | |
|---|---|---|
| **1. What information must be contained in the company's annual report?** | | |
| 1.1 General information on the company /main business? | | |
| 1.2 Audited annual accounts? | ✓ | |
| 1.3 Personal details of company directors? | ✓ | |
| 1.4 Basis of board remuneration? | ✓ | |
| 1.5 Operating risks? | | |
| 1.6 Business operation and competitive position? | | |
| 1.7 Consolidated financial reports? | ✓ | |
| 1.8 Management discussion and analysis? | | |
| 1.9 Information on corporate governance (code, structure, practice)? | ✓ | |
| 1.10 Can shareholders obtain minutes of board meetings? | ✓ | |
| If so, what do shareholders require to obtain them? | | ✓ |
| **2. Ownership structure** | | |
| 2.1 Is disclosure of top ten shareholders required? | ✓ | |
| 2.2 Is disclosure of shareholders with 5% or more of shares required? | | |
| 2.3 Is disclosure of director shareholdings required? | ✓ | |
| 2.4 Is disclosure of management shareholdings required? | ✓ | |
| **3. Are directors required to report their transactions of company stock?** | ✓ | |
| **4. Auditing/accounting** | | |
| 4.1 Is external audit of ompany financial statements required? | ✓ | |
| If so, how often (annually/semi-annually/quarterly)? | | |
| 4.2 Is internal audit (separate unit) required? | ✓ | |
| 4.3 Is rotation of audit firms mandatory? | ✓ | |
| If so, how should they be rotated? | | ✓ |
| **5. Are companies required to maintain a website with up-to-date information?** | ✓ | |
| 5.1 Does the website include information on business operations? | | |
| 5.2 Does the website include financial statements? | | |
| 5.3 Does the website include press releases? | | |
| 5.4 Does the website include information on shareholding structure? | | |
| 5.5 Does the website include information on organization structure? | | |
| 5.6 Does the website include information on corporate group structure? | | |
| 5.7 Is the annual report downloadable? | | |
| 5.8 Is the annual report provided in both the local language and English? | | |
| **6. Are attendance records of board members disclosed?** | ✓ | |

## E. Board Responsibilities?

| | | |
|---|---|---|
| **1. Are the following documents required:** | | |
| 1.1 Corporate governance-related rules? | ✓ | |
| 1.2 Code of ethics or business conduct? | ✓ | |
| 1.3 Corporate mission? | | |
| **2. Which board committees must be established under current law or regulations?** | | |
| 2.1 Audit committee? | ✓ | |
| 2.2 Compensation committee? | ✓ | |
| 2.3 Nomination committee? | ✓ | |
| **3. Quality of the audit committee report** | | |
| 3.1 Attendance? | | |

| | | |
|---|---|---|
| 3.2 Internal control? | | |
| 3.3 Management control? | | |
| 3.4 Proposed auditors? | | |
| 3.5 Financial report review? | | |
| 3.6 Legal compliance? | | |
| 3.7 Conclusion or opinion? | | |
| **4. Board composition** | | |
| 4.1 Is there a limit on the number of directors? | | ✓ |
| 4.2 Is there a minimum number/proportion of independent non-executive directors (INEDs)? | ✓ | |
| 4.3 Is the separation of chairman and chief execitive officer required? | ✓ | |
| **5. What is the minimum number of board meetings to be held per year?** | ✓ | |
| **6. Directors' qualifications** | | |
| 6.1 Minimum professional experience required? | | |
| 6.2 Do laws or regulations require continuing training for directors? | ✓ | |
| 6.3 Minimum professional experience required for INEDs? | | |
| 6.4 Is continuing education required for INEDs? | | |
| **7. Is a specific investor relations person required?** | ✓ | |
| **8. Remuneration of board members** | | |
| 8.1 Is disclosure of remuneration of directors required? | ✓ | |
| 8.2 Is disclosure of remuneration of INEDs required? | | |
| 8.3 Is there a regulation that governs directors' stock options? If so, please specify | | |
| **9. Limitations on directors' service** | | |
| 9.1 Is there a limit to the number of boards on which an individual executive director may serve? | ✓ | |
| 9.2 Is there a limit to the number of boards on which an individual outside director may serve? | ✓ | |
| **10. What is the maximum election term for board members?** | ✓ | |

## Appendix 2. Survey One: Summary of Questions and Answers, by Country

### A. Rights of Shareholders

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **What periodic information are listed companies required to disclose?** | | | | | | | | | |
| 1.1 | Annual reports? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.2 | Unaudited semi-annual reports? | Yes | Yes (audited financial reports) | Yes | Yes | NP | Yes | Yes (cumulative quarterly statements) | Yes | Yes (for financial institutions) |
| 1.3 | Quarterly financial statements? | Yes | Yes | Yes for growth enterprise market; no for main board-listed companies | Yes (for listed companies) | Yes | Yes | Yes | Yes (if market capitalization > S$75 million) | Yes (audited statements for listed companies) |
| 1.4 | Minutes of annual general meetings (AGMs)? | Yes | Yes | No | No | No | Yes | | Yes | Yes |
| 1.5 | Attendance records of AGMs? | Yes | Yes | No | No | No | Yes | | Yes | Yes |
| 1.6 | Reports of audit committee (if the company has one)? | No | No | No | Yes | Yes | Yes | | No | Yes |
| **2** | **Convening of shareholder meetings** | | | | | | | | | |
| 2.1 | Time of notice (days before meeting)? | 30 days | AGM: 20/30 days; EGM: 10/15 days | AGM: 21 days; EGM: 14/21 days | 28 days for announcement; 14 days for invitations | 14 days | AGM: 21 days; EGM: 14/21 days | 15 business days for AGM, EGM | 14/21 days | 7 days; 14 days for certain EGM matters |
| 2.2 | Thresholds for requesting or convening extraordinary general meetings (EGMs) of shareholders, including number of shares, number of shareholders, and minimum holding period required? | 10% of voting rights to request directors to convene EGM | 3% of outstanding shares | 5% to request directors to convene EGM; if directors refuse, then >1/2 of the aggregate voting rights of all the requisitionists | 10% to request EGM | 3% of voting rights to request directors to convene an EGM | 10% of voting rights or issued and paid-up capital | None, unless otherwise provided in by-laws approved by shareholders | 10% of paid-up capital | 20% of issued shares or 25 shareholders holding 10% |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 2.3 | Legal minimum number of shareholders needed (quorum) to attend EGM? | None | 50% of voting shares (67% for special resolution) | 2 persons | 50% of voting shares (67% for special resolution) | 50% of voting shares | 2 persons | >50% of outstanding capital stock | 2 members | 1st call: 25 persons or 50% of shareholders holding 33%; 2nd call: none |
| 2.4 | Are nonvoting shares allowed? | No | No | No | No | Yes | No | No | No | No (nonvoting depositary receipts possible) |
| 2.5 | Are multiple voting shares allowed? | No | No | No, except for existing companies qualifying under limited grandfathering provisions in the listing rules | No | No | No | No | Not for publicly listed companies | Not for common shares |
| **3** | **Can shareholders vote by:** | | | | | | | | | |
| 3.1 | Proxy? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| | a. Any document required? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| | b. Any notarization required? | No | No | Yes | Yes | No | Yes | No | No | Yes |
| 3.2 | Mail? | No | Yes | Yes | No | Yes | No | No | Yes | No |
| 3.3 | Other means (such as electronic voting)? Please specify | No | No | No | No | No | No | No | Yes | No |
| **4** | **Do shareholders have the right to vote on:** | | | | | | | | | |
| 4.1 | Appointment of directors? | Yes, ordinary resolution (>50%) | Yes | Yes, ordinary resolution (>50%) | Yes | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) | Yes |
| | Removal of directors? | Yes | Yes (67% of attending shares for public companies) | Yes, special resolution(75% majority), can be amended to ordinary resolution by not less than >50% | Yes | Yes, special resolution(67% majority) | Yes, ordinary resolution (>50%) | Yes, ≥2/3 of outstanding capital stock entitled to vote | Yes, ordinary resolution (>50%) | Yes, special resolution(75% majority) |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 4.2 | Appointment/ removal of auditors? | Yes | Yes | Yes, ordinary resolution (>50%) | Yes | Yes, ordinary resolution (>50%) | Yes (>50%; 75% if not proposed in notice) | Appointment: ratified at AGM; removal: 2/3 of outstanding capital stock | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) |
| 4.3 | Authorizing of share capital? | Yes | Yes | Yes, ordinary resolution (>50%) | Yes (67% of attending shares for public companies) | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) | Yes, 2/3 of outstanding capital stock entitled to vote | Yes, special resolution(75% majority) | Yes, special resolution(75% majority) |
| 4.4 | Issuing of share capital | Yes | No | Yes, ordinary resolution (>50%) | Yes | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) | Yes, 2/3 of outstanding capital stock entitled to vote, where preemptive rights are not denied and where stock dividend is declared | Yes, ordinary resolution (>50%) | Yes, special resolution(75% majority) |
| 4.5 | Dissapplication of preemption rights? | Yes | No (pre-emptive rights not always applicable, cf. 4.3) | Yes, under the listing rules | | No pre-emption | No pre-emption | Yes, by >50% vote of board and ≥2/3 of outstanding capital stock entitled to vote | No pre-emption rights for public listed companies | No pre-emption rights |
| 4.6 | Amendments to company articles or statutes? | Yes, special resolution (66%) | Yes (67% of attending shares for public companies) | Yes, special resolution (75%) | Yes | Yes, special resolution (67% majority) | Yes, special resolution (75%) | Yes, by >50% vote of board and ≥2/3 of outstanding capital stock entitled to vote | Yes, special resolution(75% majority) | Yes, special resolution(75% majority) |
| 4.7 | Remuneration of board members? | Yes | Yes (>50%) | Yes, ordinary resolution (>50%) at AGM | | Yes, ordinary resolution (>50%) | No | Yes, by >50% vote of board and ≥2/3 of outstanding capital stock entitled to vote | Yes, ordinary resolution (>50%) | Yes, ordinary resolution (>50%) |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 4.8 | Major corporate transactions (acquisitions, disposals, mergers, takeovers)? | Special resolution (>66%) | Yes (67% of attending shares for public companies) | Yes, ordinary resolution | Yes | Yes, special resolution (67% majority) | Yes, if transaction >25% of net tangible assets (ordinary resolution) | Yes, by >50% vote of board and ≥2/3 of outstanding capital stock entitled to vote | Yes | Yes, if transaction >50% of net tangible assets; special resolution (75% majority) |
| 4.9 | Transactions with related parties? | Yes/no, some do not require approval | No | Yes, if the transaction is above the *de minimis* limits | Yes (interested persons shall abstain from voting) | Disclosed in annual report | Yes, ordinary resolution (>50%); interested persons shall abstain from voting | Ratification when interested directors counted in quorum or vote of the board (2/3 majority) | Yes, ordinary resolution (>50%); interested persons shall abstain from voting | Yes, if contract valued at >20% of the total value of assets |
| | Size of related-party transactions subject to shareholders' voting? | Above RMB30 million and 5% of shareholders' equity | | If value transaction>3% of net tangible assets, or HK$10 million | None | | ≥5% of net tangible assets | 2/3 of outstanding capital stock | 5% of net tangible assets | THB10 million, or 3% of net tangible assets |
| 4.10 | Can shareholders nominate candidates for director? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| | If yes, what are the requirement to do so? | 1% of shares for independent directors, >5% of shares for other directors | No special procedure required | 5% or 100 members may request appointment of a director | 10% of legal voting rights | Shareholders holding over >1% of shares for more than 6 months | ≥5% of voting rights, or not less than 100 members holding shares | o special procedure required | 5% of shareholding or 100 members | No special procedure required |
| 4.11 | Can shareholders propose agenda itens at shareholder meetings? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| | If yes, what are the requirements to do so? | Minimum holding 5% of total shares | Shareholders may propose contempor-aneous motions at meetings | 5% shares or 100 members | 10% of legal voting rights | Shareholders holding over >1% of shares for more than 6 months | ≥5% of voting rights, or not less than 100 members | No particular requirement | 5% of shareholding or 100 members | 1/3 of issued shares |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **5** | **What is the minimum number of shares required to approve the solution?** | | | | | | | | | |
| 5.1 | Appointment of directors | 50% of attending shares | Yes | Ordinary resolution (>50%) | 1/2 of the total shares with legal voting rights | More than 1/2 of shares attending the AGM and 1/4 of total shares | Ordinary resolution, simple majority | Cumulative voting mandatory for stock corporations, and candidates receiving the highest votes for the position allowed in the articles of incorporation/by-laws are proclaimed elected | Simple majority of members present and voting | As noted in each company's Articles of Association |
| | Removal of directors | 50% of attending shares | Yes (67% of attending shares) | Ordinary resolution (>50%) | 1/2 of the total shares with legal voting rights | More than 2/3 of shares attending the AGM and 1/3 of total shares | Ordinary resolution, simple majority | 2/3 of the Outstanding Capital Stock | Simple majority of members present and voting | 75% of shareholders present, owning more than 50% of outstanding shares |
| 5.2 | Appointment of auditors | 50% of attending shares | No | Special resolution (75% majority), can be amended to ordinary resolution | 1/2 of the total shares with legal voting rights | More than 1/2 of shares attending the AGM and 1/4 of total shares | Ordinary resolution, simple majority; An election of directors shall take place each year. | No particular statutory rule, but by practice external auditors appointed by formal resolution (majority of quorum) in the annual stockholders meeting | Simple majority of members present and voting | 50% of shareholders present and voting at the AGM |
| | Removal of auditors | 50% of attending shares | No | Special resolution (75% majority), can be amended to ordinary resolution | 1/2 of the total shares with legal voting rights | More than 2/3 of shares attending the AGM and 1/3 of total shares | Ordinary resolution, simple majority | No particular statutory rule, but appointment of external auditors usually on an annual basis, and there is usually no need to remove at mid term. | Simple majority of members present and voting | 50% of shareholders present and voting at the AGM |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 5.3 | Authorizing share capital | 2/3 of attending shares | Yes (67% of attending shares) | Ordinary resolution (>50%) | 1/2 of the total shares with legal voting rights | More than 2/3 of shares attending the AGM and 1/3 of total shares | Ordinary resolution, simple majority | Ratification of board resolution providing for increase in Authorized Capital Ratification by 2/3 of Outstanding Capital Stock of board resolution calling for increase | Simple majority of members present and voting | 75% of voting rights of attending shareholders |
| 5.4 | Issuing share capital | 2/3 of attending shares | Yes | Ordinary resolution (>50%) | 1/2 of the total shares with legal voting rights | In principle, It is a resolution of a board of directors. But It can be a resolution of the AGM by company's by-law and if so, the minimum number of 1/2 of shares attending the AGM and 1/4 of total shares are required. | Ordinary resolution, simple majority | Issuance of shares from the unissued Authorized Capital Stock is within board jurisdiction, but must respect pre-emptive rights of stockholders, and there can be no declaration and issuance of stock dividends without prior approval of 2/3 of Outstanding Capital Stock | Simple majority of members present and voting | 75% of voting rights of attending shareholders |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 5.5 | Dissapplication of pre-emption rights | | No | under the listing rules | 1/2 of the total shares with legal voting rights | Resolution by a board of directors | None | Pre-emptive rights of stockholders can only be removed or affected by a formal provision in the articles of incorporation, which can be effected only with the ratificatory vote of 2/3 of outstanding capital stock | Not applicable | Not applicable |
| 5.6 | Amendments to company articles or statute | 2/3 of Attending shares | Yes (67% of attending shares) | Special resolution (75% majority) | Attendance of 2/3 of the total shares with legal voting rights and approved by at least 2/3 of such votes | More than 2/3 of shares attending the AGM and 1/3 of total shares | Special resolution, not less than 75% | Ratification of board resolution providing for an amendment in the articles of incorporation by 2/3 of outstanding capital stock | 75% of members present and voting | 75% of all voting rights of attending shareholders |
| 5.7 | Remuneration of board members | 50% of attending shares | Yes (>50%) | Ordinary resolution (>50%) at AGM | | Simple majority of shares attending the AGM and 1/4 of total shares | Ordinary resolution, simple majority | When not provided for in the By-laws, remuneration of directors needs the approval of majority of the outstanding capital stock | Simple majority of members present and voting | 2/3rds of shareholders present |
| 5.8 | Major corporate transactions (acquisitions, disposals, mergers, takeovers) | 2/3 of Attending shares | Yes (67% of attending shares) | Ordinary resolution | Attended by 3/4 of the total shares with legal voting rights and approved by more than 3/4 of such votes | More than 2/3 of shares attending the AGM and 1/3 of total shares | Special resolution, not less than 75% majority | Ratification by 2/3 of the outstanding capital stock | Simple majority of members present and voting | 75% of voting rights of attending shareholders |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 5.9 | Transaction with related parties | 50% of attending shares | Yes | If the transaction is above the deminimis limits | Attended by at least 1/2 of independent shareholders and approved by more than 1/2 of such votes | Resolution by a board of directors | Ordinary resolution, simple majority | Ratification by 2/3 of the outstanding capital stock | Simple majority of members present and voting | 75% approval needed, if transaction is greater than THB 10 million or 3% of net tangible assets |
| 6 | **How can shareholders seek redress if their rights are violated?** | | | | | | | | | |
| 6.1 | Derivative action /derivative lawsuit? | No | Yes | Yes (under common law, statutory derivate action is expected pursuant to pending changes in companies ordinance) | - | Yes (derivative lawsuit) | Yes | Yes | Yes | Yes |
| | If yes, what are the requirements to do so? | | Shareholders owning 3% of shares within 1 year | | | Shareholders owning more than 1% of outstanding shares | | Limitations under the Supreme Court and the Interim Rules | Any shareholder | Minimum 5 shareholders, or 20% of shares |
| 6.2 | Class action lawsuit? | No | Yes | No | - | Yes | Yes, with procedural limitations | Yes | Yes | In progress (draft bill reviewed by State Council) |
| | If yes, what are the requirements to do so? | | | | | 50 members, 0.01% share | Procedural limitations | Limitations under the Rules of Court and the Interim Rules of Procedure | | |
| 7 | **Are staggered election terms allowed?** | No current specific regulation | No | No | NP | Yes | Yes, once in every 3 years | Not for stock/profit corporations | Yes | Yes, except in case of cumulative voting |

## B. Equitable Treatment of Shareholders

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Is one share, one vote required? (Different from convening EGM)** | Yes | Yes | Yes | Yes | Yes | Yes | No | Yes | Yes |
| **2** | **Is cumulative voting allowed for minority shareholders when they vote for elections of directors or outside directors?** | Yes, mandatory for shareholders who own more thean 30% of shares | Yes (default rule) | No | Yes, if provided for by articles of association | Yes | No | Yes | Yes, if provided for by articles of association | Yes (default rule) |
| **3** | **Insider trading** | | | | | | | | | |
| 3.1 | Does the law define who insiders are? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 3.2 | Are insiders required to disclose their transactions? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 3.3 | Within how many days must insider trading transactions be disclosed? | No specific regulation | Change of insiders' shareholdings in previous month to be declared to company on 5th of every month; company to make public no latter than 15th of every month | 3 days | 2 days | 10 days | | No specific regulation | 2 business days | 3 days/1 month |
| 3.4 | Penalties attached to the offence of insider trading | | | | | | | | | |
| | Civil liability? (If so, please specify the liable amount) | Yes, but no detailed regulations | Yes (up to 3 times of the amount of the damage) | Yes | - | Yes (up to the value of shares purchased or sold) | Yes, Penalty up to RM500,000, or 3 times profits made | Yes (up to 3 times profits made or loss avoided, subject to minimum penalties) | Yes (no limit) | Yes (twice the benefits gained from trading, or at least THB500,000; blacklisting) |
| | Fines? (If so, please specify the amount) | Yes (up to value of shares purchased or sold) | Yes (maximum NT$3 million) | Yes (maximum HK$10 million) | Yes (maximum Rp15 billion) | Yes (maximum 20 million won) | Yes (minimum fine of RM1 million) | Yes (not less than P50,000 nor more than P5,000,000) | Yes ($250,000) | Yes (twice the benefits gained from trading or at least THB 500,000; blacklisting) |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| | Imprisonment? | Yes (up to 10 years) | Yes (up to 7 years) | Yes (up to 10 years) | Yes (up to 5 years) | Yes (up to 10 years) | Yes (up to 10 years) | Yes (7–21 years) | Yes (up to 7 years) | Yes (up to 2 years) |
| **4** | **Related-party transactions** | | | | | | | | | |
| 4.1 | Does the legal and regulatory framework require disclosure of the transaction? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 4.2 | What is the minimum amount of transaction that is subject to approval by shareholders? | Above RMB30 million and 5% of shareholders' equity | No (only major corporate transactions) | If value transaction>3% of the net tangible assets, or HK$10 million | All related-party transactions regardless of amount of transaction | Only major corporate transactions | Yes (≥5% of net tangible assets) | None indicated | 5% of net tangible assets | If transaction is greater than THB10 million, or 3% of net tangible assets |
| 4.3 | Within how many days must transactions be disclosed? | No requirement | 5 days | Immediately | Within 2 days | 1 day | Immediately | None indicated | Immediately | |
| 4.4 | Are related persons required to abstain from voting on transactions? | Yes | Yes | Yes | Yes | Yes | Yes | No (in practice, abstention is common) | Yes | Yes |

## C. Role of Stakeholders

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Employees' rights** | | | | | | | | | |
| 1.1 | Must terms of employees' safety and welfare be disclosed? | Yes | No | No | No | Yes | No | Yes | No | No |
| 1.2 | What priority do employees' wages and benefits have in the event of insolvency ? | Second (after fees and costs of bankrupcy proceedings) | Second (after expenses and debts pertaining to the estate in insolvency) | Employees' claims(wages, salaries, severance payments, in lieu of notice, etc.) have priority over claims of ordinary creditors, statutory debts owing to the government and liquidators'/ receivers' fees | Second (after government) | First (for last 3 months' wages, accumulated severance payments for last 3 years and compensation for work-related injuries) | Second (after costs and expenses of winding up, including taxed costs of petitioner, remuneration of liquidator, and costs of audit) | Second (after national government taxes) | First (before secured creditors) | Among the priority claims under Section 130 of Bankrupcy Code |
| 1.3 | Is an Employee Share Option Program or other long-term employee incentive plan required? | No | No | No | No | Yes | No | No | No | No |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **2** | **Is disclosure of environmental issues required?** | Yes | No | No | Yes | No | No | Yes | No | Yes |

## D. Disclosure and Transparency

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **What information must be contained in the company's annual report?** | | | | | | | | | |
| 1.1 | General information on the company /main business? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.2 | Audited annual accounts? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.3 | Personal details of company directors? | Yes (simple introduction) | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.4 | Basis of board remuneration? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.5 | Operating risks? | Yes | Yes | No | Yes | Yes | No | Yes | No | No |
| 1.6 | Business operation and competitive position? | Yes | No | No | Yes | Yes | Yes | Yes | No | No |
| 1.7 | Consolidated financial reports? | Yes (if company is up to disclosure standards) | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.8 | Management discussion and analysis? | Yes | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes |
| 1.9 | Information on corporate governance (code, structure, practice)? | Yes | Yes | Yes | Not prescribed | Yes | Yes | Yes | Yes | Yes |
| 1.10 | Can shareholders obtain minutes of board meetings? | Yes | Yes | No | Yes | Yes | No | Yes | No | No |
| | If so, what do shareholders require to obtain them? | No requirement | | | | No special requirements | Not prescribed | For legitimate purpose consistent with rights as stockholders | | |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 2 | **Ownership structure** | | | | | | | | | |
| 2.1 | Is disclosure of top ten shareholders required? | Yes | Yes | No | No | No | Yes | Yes | Yes | Yes |
| 2.2 | Is disclosure of shareholders with 5% or more of shares required? | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 2.3 | Is disclosure of director shareholdings required? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 2.4 | Is disclosure of management shareholdings required? | Yes | Yes | No | No | Yes | No | Yes | No | Yes |
| 3 | **Are directors required to report their transactions of company stocks?** | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 4 | **Auditing/accounting** | | | | | | | | | |
| 4.1 | Is external audit of company financial statements required? | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| | If so, how often? | Annually | Annually, semi-annually, quarterly | Annually | Annually, semi-annually, quarterly | Annually, semi-annually, quarterly | Annually | At least annually | Annually | Annually; semi-annually for financial institutions |
| 4.2 | Is internal audit (separate unit) required? | Yes | Yes | No | No | Yes | Yes | Yes | No | No |
| 4.3 | Is rotation of audit firms mandatory? | No (China Securities Regulatory Commission is preparing a regulation to mandate rotation of auditors, but not of audit firms) | No (recommended by best-practice principles) | No | Yes | Yes | No | Yes | Yes | No (yes for banks only) |
| | If so, how should they be rotated? | | | | 5 years | Audit partner may not direct the audit for a listed company for more than 4 consecutive years | | 5 years, required by corporate governance code | 5 years | 5 years for banks |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **5** | **Are companies required to maintain a website with up-to-date information?** | Yes | Yes | No | No | No | No | No | No | No |
| 5.1 | Does the website include information on business operation? | | | | | | | | | |
| 5.2 | Does the website include financial statements? | | | | | | | | | |
| 5.3 | Does the website include press releases | | | | | | | | | |
| 5.4 | Does the website include information on shareholding structure? | | | | | | | | | |
| 5.5 | Does the website include information on organization structure? | | | | | | | | | |
| 5.6 | Does the website include information on corporate group structure? | | | | | | | | | |
| 5.7 | Is the annual report downloadable? | | | | | | | | | |
| 5.8 | Is the annual report provided in both the local language and English? | | | | | | | | | |
| **6** | **Are attendance records of board members disclosed?** | No | No | No | No | Yes | No | Yes | No (recommended best practice) | No (included in Securities and Exchange Commission guidelines) |

## E. Board Responsibilities

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Are the following documents required:** | | | | | | | | | |
| 1.1 | Corporate governance-related rules? | Yes | No | Yes | No | Yes | Yes | Yes | Yes | No |
| 1.2 | Code of ethics or business conduct? | Yes | No | Yes | No | No | Yes | No | No | No |
| 1.3 | Corporate mission? | Yes | No | Yes | Yes | No | Yes | No | No | No |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| **2** | **Which board committees must be established under current law or regulations?** | | | | | | | | | |
| 2.1 | Audit committee? | No | No | Yes | Yes, per Jakarta Stock Exchange (JSX) requirements | Yes (if asset >2 trillion won) | Yes | Yes | Yes | Yes |
| 2.2 | Compensation committee? | No | No | No | No, but recommended by National Committee on Corporate Governance | No | No, but recommended by corporate governance code | Yes | No, but recommended best practice | No (recommended) |
| 2.3 | Nomination committee? | No | No | No | No, but recommended by National Committee on Corporate Governance | Yes (if asset >2 trillion won) | No, but recommended by corporate governance code | Yes | No, but recommended best practice | No (recommended) |
| **3** | **Quality of the audit committee report** | | | | | | | | | |
| 3.1 | Attendance? | Yes | No | Yes | No | Yes | Yes | Yes | | No |
| 3.2 | Internal control? | No | No | Yes | No | Yes | Yes | Yes | | No |
| 3.3 | Management control? | Yes | No | Yes | No | Yes | No | Yes | | No |
| 3.4 | Proposed auditors? | Yes | No | Yes | No | Yes | No | Yes | | No |
| 3.5 | Financial report review? | Yes | No | Yes | No | Yes | No | Yes | | No |
| 3.6 | Legal compliance? | Yes | No | Yes | No | No | No | Yes | | No |
| 3.7 | Conclusion or opinion? | Yes | No | Yes | No | Yes | No | Yes | | No |
| **4** | **Board composition** | | | | | | | | | |
| 4.1 | Is there a limit on the number of directors? | 5–19 | Minimum 5, no maximum | Minimum 2, no maximum | Minimum 2, no maximum | Minimum 3, no maximum | Minimum 2, no maximum | 7–15 | Minimum 2, no maximum | Minimum 5, no maximum |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 4.2 | Is there a minimum number/proportion of independent non-executive directors (INEDs)? | Yes, 1/3 of directors (SEC Guidelines) | Y/N, (minimum 2, listing rules: since 2002 for new listing applicants only) | Yes, minimum 3 (listing rules) | Yes, 30% of directors (JSX listing rules) | Yes, minimum 3 and 1/2 of total number of directors for listed firms with assets > 2 trillion won | Yes, 2 directors, or 1/3 of the board of directors, whichever is higher | Yes, 20% or 2, whichever is lower | No, 1/3 of directors | Yes, minimum 3 |
| 4.3 | Is the separation of chairman and chief executive officer required? | No | No | No (except Monetary Authority's rules on Authorized Institutions) | No | No (recommended best practice) | No (recommended by corporate governance code) | No | No (recommended best practice) | No |
| 5 | **What is the minimum number of board meetings to be held per year?** | 4 | None (6 meetings suggested) | 2 meetings for Main Board and 4 for GEM | No limitation | No limitation. usually, quarterly | No limitation | 12 (monthly, default rule) | No limitation | 4 |
| 6 | **Directors' qualifications** | | | | | | | | | |
| 6.1 | Minimum professional experience required? | Yes | No | No | No | No | No | Yes | No | No |
| 6.2 | Do laws or regulations require continuing training for directors? | No | No | No | No | No | Yes (Kuala Lumpur Stock Exchange listing rules) | Y/N (only banking sector) | No (recommended best practice) | No |
| 6.3 | Minimum professional experience required for INEDs? | Yes | Yes | Yes | No | No | No | Yes | No | No |
| 6.5 | Is continuing education required for INEDs? | Yes | Yes | No | No | No | Yes | Yes | No | No |
| 7 | **Is a specific investor relation person required?** | Yes | No | Yes | Yes | No | No | Yes | No | No |
| 8 | **Remuneration of board members** | | | | | | | | | |
| 8.1 | Is disclosure of remuneration of directors required? | Yes | Yes | Yes | Yes | Yes, but not individually | Yes | Yes | Yes | Yes |
| 8.2 | Is disclosure of remuneration of INEDs required? | Yes | Yes | Yes | No | Yes | Yes | Yes | Yes | No |

| | | China | Taiwan | Hong Kong | Indonesia | South Korea | Malaysia | Philippines | Singapore | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|
| 8.3 | Is there a regulation that governs directors' stock options? If so, please specify | No | Yes | Yes | No | Yes (maximum 15% of total shares) | No | Yes | No | Yes |
| **9** | **Limitation on directors' service** | | | | | | | | | |
| 9.1 | Is there a limit to the number of boards on which an individual executive director may serve? | Yes (3 for independent directors, 1 for other directors) | No | No | No | No | Yes (10 for listed firms) | No | No | Yes |
| 9.2 | Is there a limit to the number of boards on which an individual outside director may serve? | Yes (no more than 3 companies) | Yes maximum 5 | No | No | Maximum 2 | Yes | No | No | Yes |
| **10** | **What is the maximum election term for board members?** | 3 years for each term; no limitation for reelection | 3 years; reelection possible | No | No | 3 years; unlimited reelection | 3 years | Annually; unlimited reelection | No | 3 years (1 year for cumulative voting) |

## **Appendix 3.** Survey Two: Questionnaire on Corporate Governance Practices in Nine East Asian countries

Instruction; Please score 1-5, where 1 is the worst and 5 is the best practice

**1. How do you evaluate the overall quality of corporate governance practices in each county?**

| | 1 - Poorest | 2 - Poor | 3 - Moderate | 4 - Good | 5 - Best |
|---|---|---|---|---|---|
| China | | | | | |
| Hong Kong | | | | | |
| Indonesia | | | | | |
| Malaysia | | | | | |
| Philippines | | | | | |
| Singapore | | | | | |
| South Korea | | | | | |
| Taiwan | | | | | |
| Thailand | | | | | |

**2. Shareholders' rights are protected.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**3. Management respects shareholders' value.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**4. Disclosures are timely and adequate.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**5. Board supervises management independently and effectively.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**6. Rules and regulations on corporate governance are enforced effectively.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**7. Financial intermediaries, including accountants and auditors, can be trusted.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**8. Legal system, including courts and prosecutors, is fair and independent.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**9. Foreign investors are equally treated as local investors.**

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Strongly disagree | Disagree | Moderate | Agree | Strongly agree |

**A. Please identify yourself**

Fund manager

Analyst at fund management company

Analyst at borkerage firm

Sales person at brokerage firm

**B. Please mark countries in which you are investing or countries you analyze**

| | | |
|---|---|---|
| China | Malaysia | South Korea |
| Hong Kong | Philippines | Taiwan |
| Indonesia | Singapore | Thailand |

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