

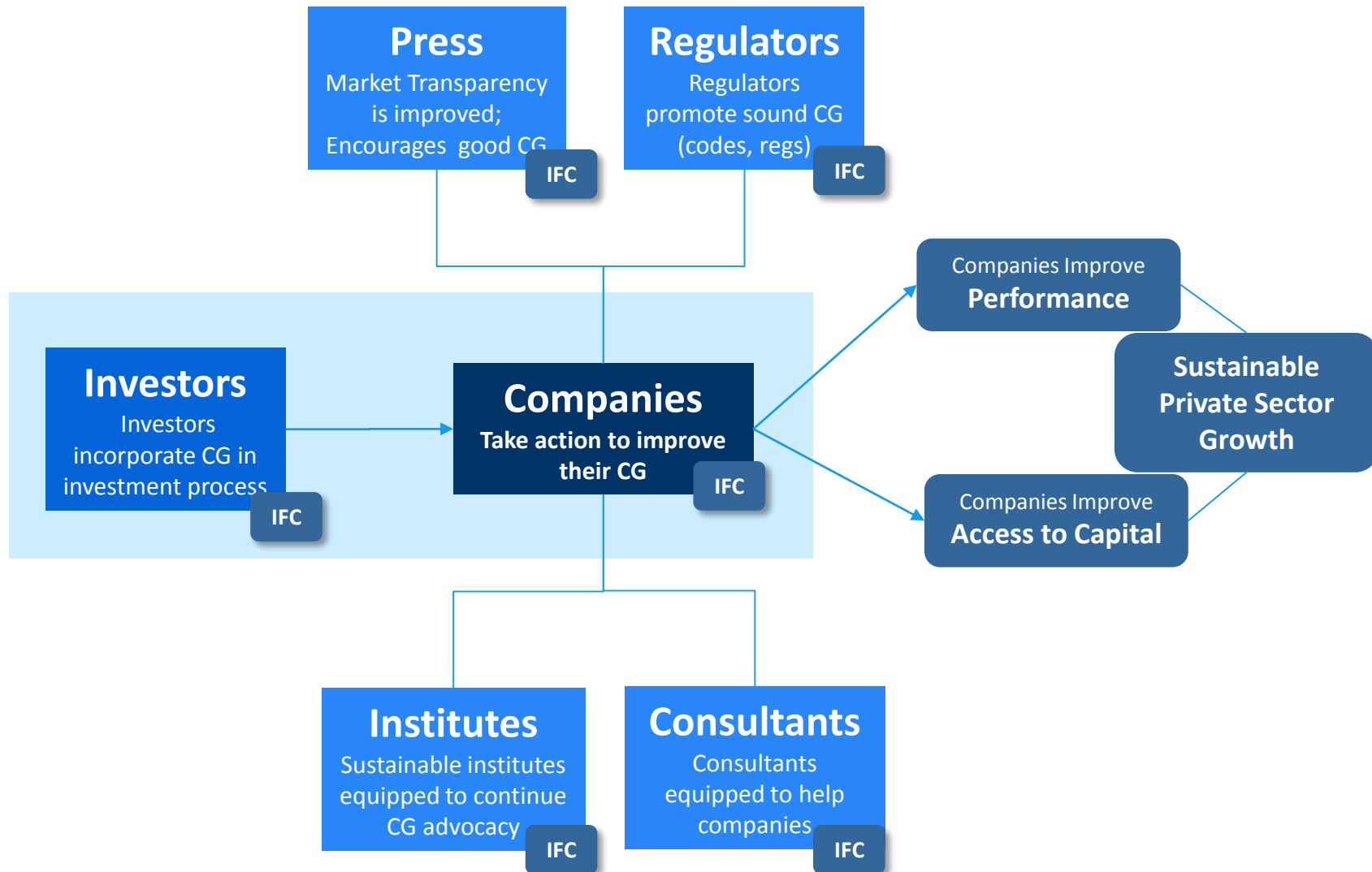
ASEAN Corporate Governance Issues



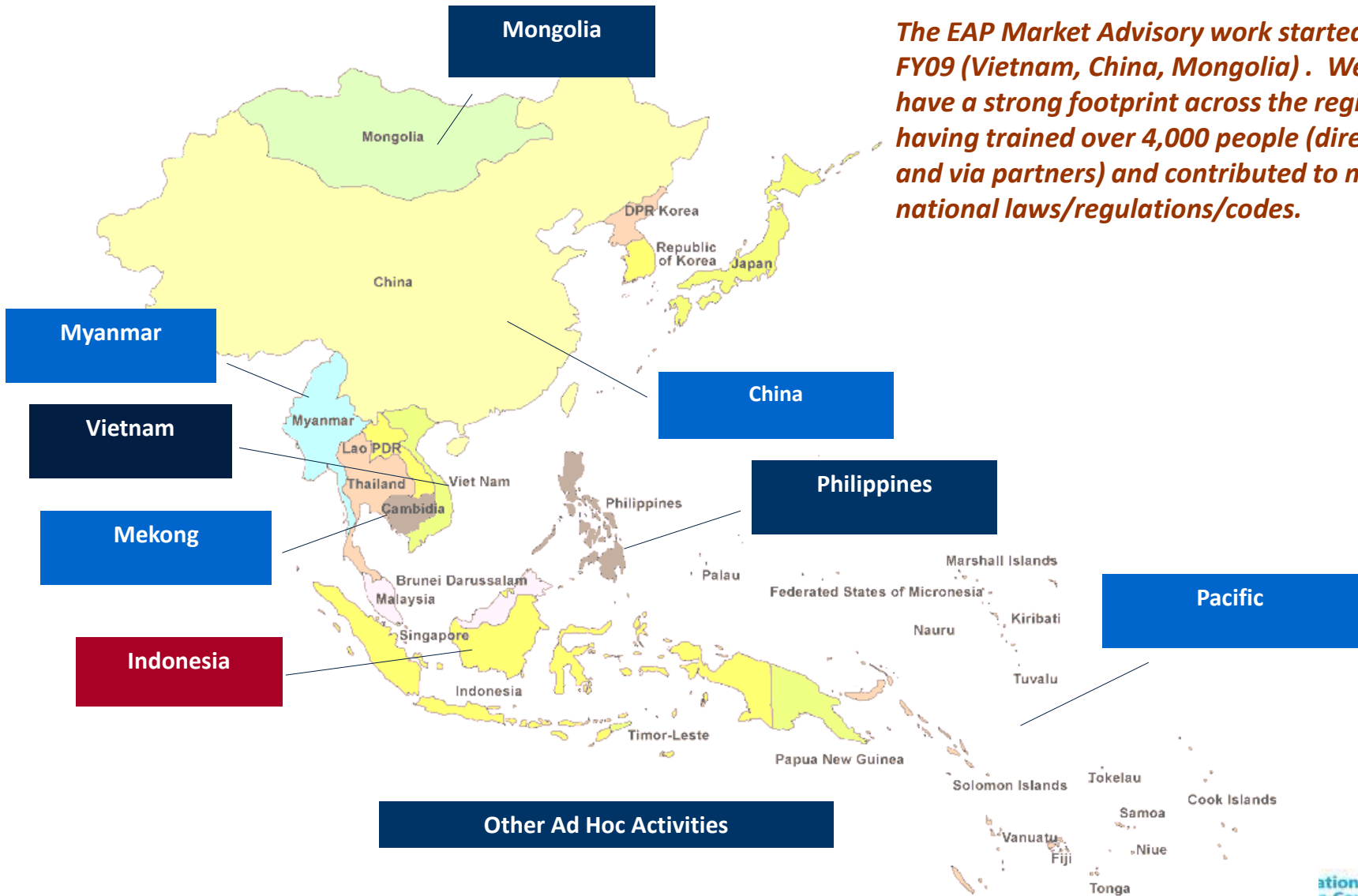
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IFC EAP Corporate Governance Program

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IFC Corporate Governance Program



IFC Programs Around The Region

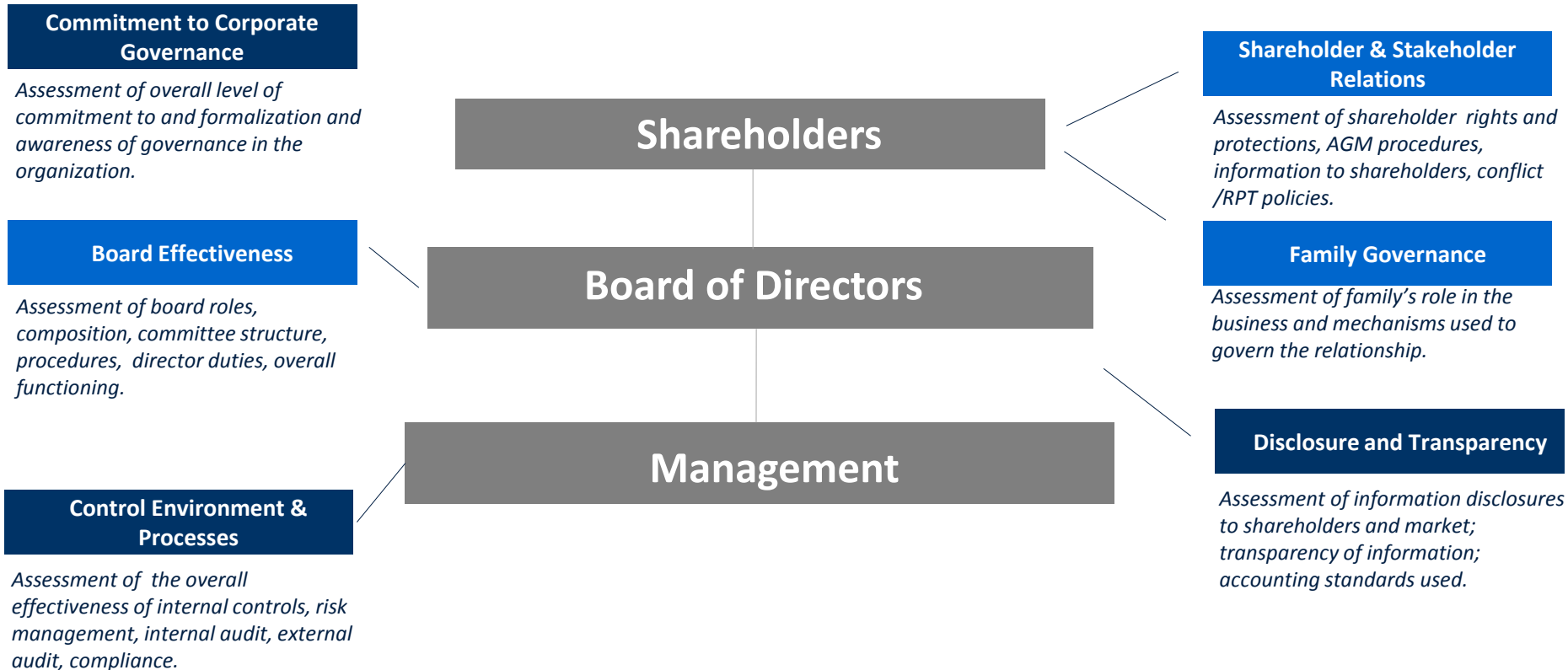


The EAP Market Advisory work started in FY09 (Vietnam, China, Mongolia) . We now have a strong footprint across the region, having trained over 4,000 people (directly and via partners) and contributed to many national laws/regulations/codes.

IFC Corporate Governance Methodology

How Do We Define Corporate Governance?

We follow the IFC Corporate Governance Methodology, which generally examines the following.



The IFC CG Methodology is internationally recognized, having been adopted by more than 30 other DFIs and other investment firms.

IFC-led CG Development Framework Initiative

30+ Signatories (And Counting) Using IFC Methodology



Signing Ceremony - 2011 World Bank-IMF Meetings

Challenges: Our Perspective as Both an Investor & Market Advocate

Market-Level

- ❑ Viewed as Compliance vs Value-Addition
- ❑ Weak Market Forces
- ❑ Unclear Business Case – esp. non-listed
- ❑ Finding Qualified Directors

Firm-Level

- ✓ Lack of Formal CG Framework
- ✓ Key-Person Risk
- ✓ Undue Shareholder Influence
- ✓ Controlled/Contrived Board
- ✓ Related Party Tranx – Conflicts
- ✓ SOEs: Non-Commercial Frameworks

Good Practices We Look For As Investors

- ✓ **Formal CG Framework**
- ✓ **Balanced Board**
- ✓ **Clear Director Duties**
- ✓ **Practices to Manage Conduct and Conflict**
- ✓ **Formal Shareholder Rights & Practices**
- ✓ **Other Specific Minority Protections**

Issues and Challenges

Companies

- ✓ Concentration of board power
- ✓ ‘Tone at the Top’ – commitment to establishing best practices
- ✓ Competence: Inexperienced/unskilled members on the board
- ✓ Inadequacy of relevant information
- ✓ Inadequate Succession: “Key Man” Risk
- ✓ Conflicts of Interest
- ✓ Reporting: levels of delegation
- ✓ Poor Risk Management policies
- ✓ Inadequate Minority Shareholder protection
- ✓ Independence

Real Client Examples

1. **Board Composition**: A family owning 30% of a group comprised of several listed subsidiaries, appointed family members as President Commissioner and President Director of each subsidiary.
2. **Board Role**: Board of this Regional Bank met monthly but focused only on ratifying pre-approved loans and management decisions.
3. **Director Duties**: A bank director indicated that his primary reason for serving on the bank's board was to get better terms on loans for his other businesses.
4. **Dominant Shareholder**: The Chairman/Controlling SH set up a special Board Committee which gave him power to approve major decisions between meetings.

Issues and Challenges

Regulators

- ✓ Capacity of Staff – competence and number
- ✓ Compliance vs. Best practice – capacity and costs
- ✓ Monitoring – methodology & tools
- ✓ Inadequacy of existing regulatory/legislative framework
- ✓ Adequacy of information provided by companies
- ✓ Enforcement mechanisms
- ✓ Time constraints

Issues and Challenges

Stakeholders – shareholders, media, etc

- ✓ Ignorance and lack of awareness of rights
- ✓ Social culture
- ✓ Level of knowledge of corporate governance
- ✓ Availability/scope of information provided by companies
- ✓ Insufficient shareholder activism – institutional and individual
- ✓ Medium for redress – courts, arbitration

How can we all continue to advance Good Governance in the ASEAN countries?

- **Continue to Educate Companies on the Business Case**
- **Emphasize Value-Addition vs Compliance**
- **Ramp-Up Shareholder Education – Market Forces still weak**
- **Sharpen focus on SOEs & FOEs (non-listed)**
- **Focus on Change Agents: Corporate Secretaries, Audit Committees**
- **Board E&S Risk Governance**
- **Help SME's to adopt proper standards of governance**

Thank You!

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[IFC.org/CorporateGovernance](https://www.ifc.org/CorporateGovernance)**