

## Dare to disclose your governance practice?

Several colleagues of mine are talking on the Asean Corporate Governance Scorecard as part of their initiatives to be able to compete with other companies in the ASEAN region. Is this mandatory and what measures need to be considered in adopting the scorecard?

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The ASEAN Corporate Governance Scorecard (ACGS) provides a methodology to assess the corporate governance performance of publicly listed companies (PLCs) in the 6 participating ASEAN member countries (Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam).

The ADB stated that while the link between corporate governance and companies' profit is inconclusive, poor corporate governance has been proven to negatively affect investors' confidence which consequently results in lower investment into the region. The scorecard is an important part of ASEAN's regional integration architecture. This methodology provides foreign investors and external fund managers comparable information to form part of their investment decision-making process. Although adoption is not mandatory, the scorecard is a tool to demonstrate ASEAN members' commitment to sound governance which will be important to increase foreign direct investment into the region.

For the past 2 years, ADB has published its ACGS reports. There are 2 levels of

ADB's ACGS Country Reports & Assessments		
average score/ #PLCs assessed		
Country	2013	2014
Vietnam	28.42 / 39 PLCs	33.87 / 40 PLCs
Indonesia	43.29 / 97 PLCs	54.55 / 95 PLCs
Philippines	48.90 / 100 PLCs	59.99 / 94 PLCs
Singapore	55.67 / 100 PLCs	71.68 / 100 PLCs
Malaysia	62.29 / 94 PLCs	71.69 / 100 PLCs
Thailand	67.66 / 100 PLCs	75.39 / 100 PLCs

assessment. Level 1 consists of 179 items and is divided into five parts (rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board). Each part carries a different weight based on the relative importance of the area. Level 2 consists of bonus and penalty items that are meant to enhance the robustness of the scorecard in assessing the extent to which companies apply the spirit of good corporate governance.

There are challenges that cause the low governance score in Indonesia:

- Minimum standards compared to other countries
- No single standard use as guidance. Regulators have its own set of recommendations – which might con-

fuse companies (or even duplicate tasks)

- Companies having compliance mindset—instead of go beyond compliance
- Prefer “a tick in the box” approach
- No clear monitoring and enforcement from supervisory bodies
- Quality of disclosure and no requirement on disclosure of “if not, why not”

Companies plan to adopt ACGS need to assess its current practices and develop roadmap to support implementation. Disclosure in English is a must, as the assessment of PLCs relies primarily on information from annual reports and company websites. Only information that is publicly available and easily accessible and understood used in the assessment.

### KEY POINTS

- Capital markets need more meaningful disclosures and not necessarily more disclosures, which may unwittingly confuse investors or could obscure difficult situations that the business is facing.
  - Corporate governance practices need to be disclosed with “comply or explain” requirement, using a single guidance on what to be disclose.



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