Overview of ASEAN CG Scorecard

ENHANCING CORPORATE GOVERNANCE (CG) DISCLOSURE POLICY AND PRACTICE BASED ON ASEAN CG SCORECARD

One Day Training Program

Indonesian Institute for Corporate Directorship
Module Content

- Background and the need for ASEAN CG Scorecard
- Overview of OECD CG Principles
- Structure of the ASEAN CG Scorecard
- Scoring methodology the ASEAN CG Scorecard
- Overall evidences of CG Practices based on the ASEAN CG Scorecard
- Implementing ASEAN CG Scorecard
Module Objectives

- By this module’s end, participants will be able to:
  - Describe the background and the need for ASEAN CG Scorecard,
  - Explain OECD CG Principles,
  - Explain the structure of the ASEAN CG Scorecard
  - Understand the scoring methodology of the ASEAN CG Scorecard,
  - Understand the overall evidences of CG practices of large Indonesian PLCs based on the Scorecard,
  - Explain the strategy and steps to implement ASEAN CG Scorecard.
ASEAN Corporate Governance ranking - Background

Objectives

- Raise CG standards and practices of ASEAN
- Showcase and enhance visibility and investability of well-governed ASEAN PLCs
- Complement other ACMF initiatives and promote ASEAN as an asset class

Approach

- ACMF: Create a universal CG Scorecard containing key elements of good CG
- Devise a scoring methodology
- Validate and publish ASEAN CG Scorecard
- Assess ASEAN PLCs identifying top 50 PLCs in each jurisdiction and top 50 PLCs regionally

Progress

- ASEAN CG Scorecard released to public in March 2012
- Assessment of 100 PLCs in 6 ASEAN Countries, July – Oct 2012
- Release of domestic top 50 PLCs in Feb 2013
- Submit top 50 PLCs regionally to regulators in March 2013
- Release of top 50 PLCs regionally in year 2015
OECD Principles of Corporate Governance

Ensuring the basis of corporate governance framework

**Protecting** shareholders’ rights.

The **equitable** treatment of shareholders, including minority shareholders.

Recognizing the rights of **stakeholders** and encouraging **active cooperation** between corporations and stakeholders.

**Ensuring timely and accurate disclosure is made on all material matter regarding the corporation.**

Effective **monitoring** of management by the board, and the board’s **accountability** to the company and the shareholders.
Raising CG Practices with ASEAN

CG Scorecard

- Enhancing CG Rules/Standards
- Improving Compliance with Rules/Standards
- Encouraging Voluntary Adoption of CG Practices
# ASEAN CG Scorecard

<table>
<thead>
<tr>
<th><strong>Globally Based</strong></th>
<th><strong>Regionally Developed</strong></th>
<th><strong>Public Information</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• OECD CG Principles</td>
<td>• Six participating countries</td>
<td>• English</td>
</tr>
<tr>
<td>• Other International and Regional Standards</td>
<td>• Move beyond local rules/standards</td>
<td>• Easily Accessible</td>
</tr>
</tbody>
</table>

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There are two levels to the ASEAN CG Scorecard

**Level 1**
Has five major sections that corresponds to the OECD Principles

Part A: Right of Shareholders (26)
Part B: Equitable Treatment (17)
Part C: Role of Stakeholders (21)
Part D: Disclosure & Transparency (42)
Part E: Responsibilities of the Board (79)

Total no of items/ descriptors (185)

**Level 2**
Two additional Sections
Bonus & Penalty

(11) Bonus items for companies that go beyond minimum standards
(23) Penalty items for companies with poor practices

Total bonus and penalty items (34)
Weightage: The ASEAN CG Scorecard

<table>
<thead>
<tr>
<th>Sections of Scorecard</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippine</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights of shareholders A</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>5%</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
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<tr>
<td>Equitable treatment of shareholders B</td>
<td>15%</td>
<td>20%</td>
<td>20%</td>
<td>5%</td>
<td>15%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Role of stakeholders C</td>
<td>15%</td>
<td>0%</td>
<td>10%</td>
<td>0%</td>
<td>20%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Disclosure and transparency D</td>
<td>25%</td>
<td>40%</td>
<td>25%</td>
<td>20%</td>
<td>20%</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Responsibilities of the board E</td>
<td>25%</td>
<td>40%</td>
<td>25%</td>
<td>75%</td>
<td>25%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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Sources of Information

- Annual Report
- Website
- Press Release/Corporate announcements
- Notice of Meeting of Shareholders
- Resolutions of Meeting of Shareholders
- Minutes of Meeting of Shareholders
- Board manual/charter
- Code of conduct/ethics
- Sustainability/CSR Report
- Media coverage
- Any other easily accessible public information
- Language: Indonesia and English
Scoring Methodology

Assessment relies primarily on *publicly available and easily accessible information* – annual report, company websites, company announcements, circulars, articles of association, minutes of shareholders meetings, CG policies, codes of conduct and sustainability reports.

**Step 1: Level 1 Scoring**
- each descriptor/item in Level 1 attracts 1 point
- add all scores in each Part, divide by the number of questions, multiply weightage and then add to sum of other Parts
- conducted by the individual CG experts designated to assess that country
- peer review conducted on a sample for quality control
- If items are mandated, by default get 1 point (except for part D)

**Step 2: Level 2 Scoring**
- bonus scores varies (from +1 to +2)
- penalty scores (from -1 to -10)

**Step 3: Total Scores**
- add up sum of level 1 and 2 to arrive at final score
CG Scorecard: Results for Indonesia
Avg CG Score by Sector, Ownership, and Size
Amendment of Bapepam-LK Rules and Criteria for Annual Report Award (ARA)

- **Bapepam-LK Rule X.K.6 Annual Report**
  - Increase disclosure requirements in the annual report for some items in part C, D, and E of the ASEAN CG Scorecard
  - Mandate company website

- **Bapepam-LK Rule IX.I.5 Audit Committee**
  - Recommend the appointment of external auditor
  - Review and advise the Board of Commissioners on potential conflict of interests

- **ARA**
  - Adops some items from the Scorecard in the criteria
<table>
<thead>
<tr>
<th>Type of Rules</th>
<th>Part A</th>
<th>Part B</th>
<th>Part C</th>
<th>Part D</th>
<th>Part E</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Bapepam-LK &amp; ARA's criteria</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>14</td>
<td>18</td>
<td>45</td>
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<tr>
<td>Bapepam-LK Rule</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>8</td>
<td>20</td>
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<tr>
<td>ARA's criteria</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Laws (Undang-Undang)</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Total Required (Including ARA)</td>
<td>7</td>
<td>4</td>
<td>14</td>
<td>25</td>
<td>35</td>
<td>85</td>
</tr>
<tr>
<td>Total Items</td>
<td>26</td>
<td>17</td>
<td>21</td>
<td>42</td>
<td>79</td>
<td>185</td>
</tr>
<tr>
<td>% Required (Including ARA)</td>
<td>26.9</td>
<td>23.5</td>
<td>66.7</td>
<td>59.5</td>
<td>44.3</td>
<td>45.9</td>
</tr>
<tr>
<td>% Required (Excluding ARA)</td>
<td>26.9</td>
<td>23.5</td>
<td>66.7</td>
<td>54.8</td>
<td>36.7</td>
<td>41.6</td>
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</tbody>
</table>
Embedding the Use of ASEAN CG Scorecard to Enhance CG Practices

Better CG Practice

Set up short term and long term target and efforts to achieve the target

Employ the Scorecard as one of Key Performance Indicators of BOC, BOD and relevant officers

Socialize the scorecard on relevant key officers (e.g., members of BOC and BOD, committees, corporate secretary, internal auditor)

Obtain commitment from Controlling Shareholders, members of BOC and BOD
Mandatory Items in the ASEAN CG Scorecard

- Should comply with mandatory items
- Should provide strong justification for temporarily not complying with the items (e.g., costs of disclosure > its benefits)
- The compliance should also be in line with the requirement of ASEAN CG Scorecard
  - E.g., Bapepam-LK Rule: Review of internal control; Scorecard: the review should be conducted by the BOC.
Implementing ASEAN CG Scorecard

Identify the gap between the target and existing score

Decide if items in step 3 & 4 will be disclosed

Identify items currently not practiced

Identify items currently practiced but not disclosed

Decide if the items will be practiced

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