Corporate Governance Reform in Thailand

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Deputy Secretary-General, SEC Thailand
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From CG to ESG

**Aim**

Building confidence for shareholders.

Developing SD for all stakeholders, which subsequently leads to social sustainability.

**Rationale**

Return
- strategy
- innovation
- risk management

Emphasis on credibility to shareholders

N.B. In practice, the terms ‘CSR’, ‘ESG’ and ‘SD’ are often used interchangeably.

Include all stakeholders
Current Status
International CG Assessment Reports have ranked Thailand top in ASEAN and third in Asia. Key challenges remain, for example, the board responsibilities category.

<table>
<thead>
<tr>
<th>CG Watch market scores : 2007 to 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
</tr>
<tr>
<td>1. Hong Kong (67)</td>
</tr>
<tr>
<td>2. Singapore (65)</td>
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<tr>
<td>3. India (56)</td>
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<tr>
<td>4. Taiwan (54)</td>
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<tr>
<td>5. Japan (52)</td>
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<tr>
<td>6. Korea (49)</td>
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<td>7. Malaysia (49)</td>
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<tr>
<td><strong>8. Thailand (47)</strong></td>
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<tr>
<td>9. China (45)</td>
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<tr>
<td>11. Indonesia (37)</td>
</tr>
</tbody>
</table>

The World Bank’s CG ROSC
Thailand receives higher scores than regional averages in every category.

ASEAN CG Scorecard : average score of top100 Thai listed companies is higher than those of the regional counterparts.

Source:
Enforcement and CG culture need to be improved. Corruption tarnishes overall CG in Thailand.

**CG Watch Report 2012**

<table>
<thead>
<tr>
<th>Market category scores (%)</th>
<th>Total</th>
<th>CG Rules &amp; Practices</th>
<th>Enforcement</th>
<th>Political &amp; Regulatory</th>
<th>IGAAP</th>
<th>CG Culture</th>
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</thead>
<tbody>
<tr>
<td>1. Singapore</td>
<td>69</td>
<td>68</td>
<td>64</td>
<td>73</td>
<td>87</td>
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<tr>
<td>2. Hong Kong</td>
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<td>62</td>
<td>68</td>
<td>71</td>
<td>75</td>
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<td>3. Thailand</td>
<td>58</td>
<td>62</td>
<td>44</td>
<td>54</td>
<td>80</td>
<td>50</td>
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<tr>
<td>4. = Japan</td>
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<td>6. Taiwan</td>
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<td>46</td>
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<td>7. India</td>
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<td>8. Korea</td>
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<td>9. China</td>
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<td>10. Philippines</td>
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<tr>
<td>11. Indonesia</td>
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<td>35</td>
<td>22</td>
<td>33</td>
<td>62</td>
<td>33</td>
</tr>
</tbody>
</table>

*Source: Asian Corporate Governance Association*

**Comments**

1. **Non-financial reporting is more of form than substance.**
2. **Enforcement remains inefficient.** Number of cases settled in court is comparatively lower than cases filed by the SEC.
3. Limited progress on the **amendment of laws.**
4. **SEC’s and SET’s website should be more accessible, and all data available in English.**
5. Uncertainty remains with regard to the impact of the private sector’s **anti-corruption practices.**
The CGR latest result shows that SMEs generally received lower score than their larger peers.

### CGR Result 2013

<table>
<thead>
<tr>
<th>Number of Logo</th>
<th>Market Cap. (Million Baht)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Less than 1,000</td>
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<td></td>
<td>1,000-2,999</td>
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<td>3,000-9,999</td>
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<td></td>
<td>10,000 up</td>
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<td></td>
<td>Total</td>
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<td></td>
<td>102</td>
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<td>120</td>
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</table>

Source: Thai IOD (2013) Corporate Governance Report of Thai Listed Companies
There are 333 listed companies on the DJSI World; 3 of which are Thai listed companies. Meanwhile, there are 81 companies on the DJSI Emerging Markets including one Thai listed company. In 2014, there are 31 Thai listed companies that have passed the initial assessment criteria, and are eligible for the Sustainability Assessment.

- 3 Thai listed companies are SCG, PTT and PTTGC. They account for 0.16% of the total weight.

N.B. as of Mar. 2014 (Source: http://www.sustainability-index.com)

- Only one company, TOP, is included in this index, it accounts for 2.78% of the total weight.
Majority of listed companies still consider CSR as a philanthropic or charitable activity, which is in fact known as ‘CSR after process’. The importance of ESG, its related risks, and strategies for sustainability are yet to be completely realised.

Q: How relevant is sustainability to your business?

source: PWC, Pulse check on sustainability, Feb 2013
Anti-Corruption

- The Corruption Perceptions Index (CPI) 2013 of the Transparency International (TI) – Thailand received a score of 35 out of 100 and ranked 102nd out of 176 countries.

- Private Sector – leading force in reducing corruption. The Anti-Corruption Thailand (ACT) and the Private Sector Collective Action Coalition Against Corruption (CAC) (the latter was initiated by the Thai IOD).

325 signed the Declaration of Intent
Only 17 are CAC’s certified members

- Many listed firms are still reluctant to stop bribery, with concern that this might hinder their business progress and competitiveness.

- The SEC has issued guidelines on the disclosure of anti-corruption policy and procedures, and encouraged the institutional investors to ask questions about these policy and procedures at the AGMs.

The Anti-Corruption Thailand campaigns, watchdog group, signing integrity pact with the public sector for large procurement contracts.

- 45 out of 65
Securities/Inv. Mngt
- 15 out of 20 commercial banks
- 157 out of 586 listed companies
- 108 business enterprises

As of 25 July 2014
Summary of the SD Roadmap

**CG in substance**
Board and executives drive the company to achieve its performance with good governance and sustainability in real practice.

**CSR in process**
Responsible to social and environmental concerns that embedded in day-to-day business operation. Change agent that influences others to respect CSR.

**Anti-corruption in practice**
Firm commitment not to initiate or facilitate any corruption practices. Become a role model for others in the Thai business sector.

Social Sustainability
Corporate Sustainability
Confidence for Shareholders
Sustainability Development Roadmap

1. Enhancing CG accountability of the board
2. Promoting corporate social and environmental responsibility
3. Fostering commitment on anti-corruption practices
4. Strengthening the roles of investors
5. Strengthening the roles of gatekeepers
6. Continuously improving information disclosure
7. Increasing enforcement's efficiency and effectiveness
8. Building SEC as a sustainable organization

Self Disciplines

Regulatory Disciplines

Present — Next 5 years
1. Enhancing Accountability of the Board

1.1 • Enhance board quality.

1.2 • Strengthen the board’s role in strategic plan formulation and risk management (monitoring → leading).

1.3 • Strengthen driving forces to foster good CG (e.g.) CG Gateway, Company Profiles portal, & ASEAN CG scorecard.

1.4 • Develop CG Frameworks (e.g.) small & medium listed companies CG Guidelines.
2. Promoting Corporate Social and Environmental Responsibility

2.1 • Strengthen driving forces for good CSR practices, for example, disclosure of CSR information and CSR indicators.

2.2 • Foster the integrated SD strategies (e.g.) advising companies on DJSI index listing.

2.3 • Encourage business sector to support social enterprise.
3. Fostering Commitment on Anti-Corruption Practices

3.1 • Support banks, brokers, mutual fund companies, and listed companies to become change agents.

3.2 • Create Progress Indicator for investor to monitor progress.

3.3 • Encourage investors to consider investing in listed firms with anti-corruption policies and procedures.

3.4 • Develop standards for financial advisors on due diligence practices that address IPO company’s anti-corruption-related issues/news.
Anti – Corruption Progress Indicator

<table>
<thead>
<tr>
<th>Company</th>
<th>Committed</th>
<th>Declared</th>
<th>Established</th>
<th>Certified</th>
<th>Extended</th>
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<td>A</td>
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</table>
## Anti – Corruption Progress Indicator

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1 Committed</strong></td>
<td>commitment of top executive and the organization with board of directors’ resolution and policy not to involve with corruption.</td>
</tr>
<tr>
<td><strong>Level 2 Declared</strong></td>
<td>determination by means of declaration to join Collective Action Coalition (CAC) Project by Thai private enterprises.</td>
</tr>
<tr>
<td><strong>Level 3 Established</strong></td>
<td>policy to oppose bribing government officials and those related to corruption as well as policy to communicate and educate employees regarding anti-corruption policy and practices.</td>
</tr>
<tr>
<td><strong>Level 4 Certified</strong></td>
<td>an implementation audited by audit committee or SEC-approved auditor, a certification by Collective Action Coalition (CAC) or an audit by independent external organizations.</td>
</tr>
<tr>
<td><strong>Level 5 Extended</strong></td>
<td>anti-corruption policy which extends to business partners, consultants, intermediaries and business representatives.</td>
</tr>
</tbody>
</table>
4. Strengthening the Roles of Investors

4.1 Promote investment in a company with CG & CSR policies and practices.

4.2 Enhance the roles of the Thai Investor Association (e.g.) training and review of AGM checklist.

4.3 Examine legal mechanisms that protects the investors’ rights.
5. Strengthening the Roles of Gatekeepers

Company Secretary
- Requirement of company secretary certification.
- Support the promote of the Thai CS club to become an association.

Investor Relations
- Organise training programmes/forums for IR members.
- Requirement of disclosure of IR qualification.

Financial Advisor
- Provide training on CG, CSR, & anti-corruption topics.
- Develop standards on due diligence practices that include CG, CSR, & anti-corruption issues.

Auditor
- Promote their independence
- Issue guidelines on the non-audit services.
6. Improving Information Disclosure

6.1 • Requirement of information disclosure to encourage listed companies to continuously improve their CSR practices.

6.2 • Improve the disclosure of non-financial items (e.g.) CG/CSR/Anti-Corruption and MD&A sections in the 56-1 form.

6.3 • Support the full adoption of IFRS.
7. Increasing Enforcement's Efficiency and Effectiveness

Monitor & Prevent Wrongdoing
- Improve RPT and acquisition/divestiture rules with emphasis on the board’s roles and opinions as preventive measures for wrongdoing.
- Develop an alert system to monitor more promptly any possible wrongdoing.
- Improve the SEC’s market surveillance system.

Inspection of Offences
- Improve evidence management system.
- Co-operate with other financial regulators and other law enforcement agencies.

Legal Proceedings
- Utilise measures under the Anti-Money Laundering Act to increase effectiveness and expedite enforcement process.
- Amendments of SEC Act
- Introducing Civil Sanction

Appropriate Punishment
- Consider utilising the Stock Exchange’s authority stated in the sections 172 - 175 of the Securities and Exchange Act.
- Expedite the amendment process, and add sections on civil sanction, elements of offence, and evidence.

Communicate to the Public
- Improve disclosure of enforcement information in press release and on the SEC’s website. Ensure its accessibility and straightforward and concise contents (the OECD will publish some guidelines in 2014).
- Consider disclosing enforcement on ‘director, company, and management criminal and administrative sanctions’ in a package to foster compliance and culture in companies.
Thank you...