

Shareholder Activism in Asia

EU Asia Corporate Governance Dialogue

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Corporate Governance Progress in Asia for last 10 years

- Financial crisis in 1997 opened new era in corporate governance development in Asia
- New rules and regulations are introduced
 - Board
 - Outside directors
 - Audit committee
 - Shareholder rights strengthened
 - Derivative lawsuit
 - Class action lawsuit
 - Cumulative voting

Corporate Governance Progress in Asia for last 10 years

- Improvements are mostly in rules and regulations
- Practices has not improved as much as regulations did
 - Disparity between regulations and practices
 - Many laws and regulations exist in the law, but it is not practiced
 - Weak enforcements of regulations

Corporate Governance Regulations in Asian Countries

	Independent Director		Audit Committee		Derivative Lawsuit	Class Action Lawsuit	Cumulative Voting	Liabilities on "Shadow" Directors
	1997	2011	1997	2011	2011	2011	2011	2011
China		v		v	v		v	
Hong Kong	v	v		v	v			v
India		v		v	v	v	v	
Indonesia		v		v	v	v		
Korea		v		v	v	v	v	v
Malaysia	v	v	v	v	v	v		v
Philippines		v		v	v	v	v	
Singapore	v	v	v	v	v			v
Taiwan		v		v	v	v	v	v
Thailand		v		v	v		v	v

Data source: ACGA, OECD

Improvements in Corporate Governance in Asian Countries

- Two Surveys on Corporate Governance
- *CG Watch 2010* by CLSA & ACGA
 - CG Rules and Practices
 - Enforcement
 - Political & Regulatory
 - IGAAP
 - CG Cultures
- *World Competitiveness* by IMD
 - Shareholders' Rights
 - Auditing & Accounting Practices

Corporate Governance Evaluation Asian Economies



Figure 3

Market category scores

(%)	Total	CG rules & practices	Enforce-ment	Political & regulatory	IGAAP	CG Culture
1. Singapore	67	65	60	69	88	53
2. Hong Kong	65	59	63	67	80	54
3. Japan	57	45	53	62	75	53
= 4. Taiwan	55	50	47	56	78	46
= 4. Thailand	55	56	42	54	73	49
6. Malaysia	52	49	38	60	80	32
= 7. India	49	46	36	54	63	43
= 7. China	49	47	36	56	75	30
9. Korea	45	43	28	44	78	33
10. Indonesia	40	39	28	33	67	32
11. Philippines	37	35	15	37	75	25

Source: Asian Corporate Governance Association

Corporate Governance Evaluation Asian Economies



Figure 1

CG Watch market scores: 2007 vs 2010

(%)	2007	2010	Change	Trend of CG reform
1. Singapore	65	67	(+2)	Improving slowly, negatives cancel positives
2. Hong Kong	67	65	(-2)	Some regression, static overall
3. Japan	52	57	(+5)	Improving, but will reform be sustained?
= 4. Taiwan	54	55	(+1)	Static overall, loss of focus
= 4. Thailand	47	55	(+8)	Improving, but political uncertainties remain
6. Malaysia	49	52	(+3)	Improving, but held back by "CG culture"
= 7. India	56	49	(-7)	Over-rated last time, but slow improvements
= 7. China	45	49	(+4)	Improving, but held back by "CG culture"
9. Korea	49	45	(-4)	Regressing, turning inward
10. Indonesia	37	40	(+3)	Improving, but weak political system
11. Philippines	41	37	(-4)	Regressing, but new government may help

Source: Asian Corporate Governance Association

Shareholders' Rights

IMD WORLD COMPETITIVENESS, 2010-2012

2010-2012 Average,

1	Finland	8.44	21	Hong Kong	6.88	41	Mexico	6.06
2	Norway	8.11	22	India	6.82	42	Japan	5.98
3	Denmark	8.07	23	Ireland	6.75	43	Poland	5.95
4	Sweden	7.71	24	USA	6.75	44	Romania	5.94
5	Australia	7.60	25	Lithuania	6.72	45	Kazakhstan	5.88
6	South Africa	7.58	26	Israel	6.71	46	Iceland	5.74
7	Germany	7.52	27	Colombia	6.67	47	Greece	5.65
8	Netherlands	7.47	28	Estonia	6.60	48	Slovak Rep	5.49
9	Malaysia	7.37	29	Peru	6.56	49	Argentina	5.24
10	Chile	7.35	30	UK	6.55	50	Korea	5.18
11	Singapore	7.31	31	Czech Rep	6.52	51	Italy	5.14
12	Canada	7.31	32	France	6.51	52	Croatia	5.13
13	Switzerland	7.13	33	Spain	6.47	53	China	4.75
14	Luxembourg	7.13	34	New Zealand	6.47	54	Slovenia	4.27
15	Taiwan	7.10	35	Portugal	6.46	55	Bulgaria	4.20
16	Belgium	7.06	36	Indonesia	6.40	56	UAE	3.87
17	Austria	6.97	37	Philippines	6.26	57	Russia	3.83
18	Qatar	6.95	38	Hungary	6.08	58	Venezuela	3.69
19	Brazil	6.95	39	Turkey	6.07	59	Ukraine	3.53
20	Thailand	6.90	40	Jordan	6.06			

Shareholders' Rights

IMD WORLD COMPETITIVENESS, 2000-2002

2000-2002 Average

1	Finland	8.78	21	New Zealand	7.16	41	China	5.49
2	USA	8.51	22	Portugal	6.83	42	Thailand	5.43
3	Australia	8.45	23	Belgium	6.72	43	Estonia	5.00
4	Sweden	8.39	24	Hungary	6.64	44	Indonesia	4.97
5	Canada	8.35	25	Spain	6.58	45	Czech Rep.	4.74
6	Denmark	8.30	26	Brazil	6.57	46	Korea	4.59
7	Norway	7.92	27	France	6.54	47	Russia	4.51
8	UK	7.85	28	Taiwan	6.53	48	Japan	4.19
9	Singapore	7.85	29	Malaysia	6.37	49	Slovak Rep.	3.78
10	Ireland	7.84	30	Greece	6.31			
11	Netherlands	7.79	31	Mexico	6.22			
12	Luxembourg	7.65	32	Turkey	6.17			
13	Germany	7.61	33	Philippines	6.06			
14	Israel	7.57	34	Argentina	5.90			
15	Austria	7.52	35	India	5.89			
16	Chile	7.47	36	Colombia	5.87			
17	Iceland	7.42	37	Poland	5.87			
18	South Africa	7.36	38	Venezuela	5.74			
19	Switzerland	7.35	39	Italy	5.71			
20	Hong Kong	7.30	40	Slovenia	5.51			

Shareholders' Rights: *Changes from 2000-2002 to 2010-2012*

	Changes	2010-2012 Avg.	2000-2002 Avg.		Changes	2010-2012 Avg.	2000-2002 Avg.
Japan	1.79 *	5.98	4.19	Netherlands	-0.32 *	7.47	7.79
Czech Rep	1.78 *	6.52	4.74	Finland	-0.34 *	8.44	8.78
Slovak Rep	1.70 *	5.49	3.78	Portugal	-0.37	6.46	6.83
Estonia	1.60 *	6.60	5.00	Hong Kong	-0.42	6.88	7.30
Thailand	1.47 *	6.90	5.43	Luxembourg	-0.52 *	7.13	7.65
Indonesia	1.43 *	6.40	4.97	Singapore	-0.53 *	7.31	7.85
Malaysia	1.00 *	7.37	6.37	Austria	-0.55 *	6.97	7.52
India	0.93 *	6.82	5.89	Hungary	-0.57 *	6.08	6.64
Colombia	0.79 *	6.67	5.87	Italy	-0.58 *	5.14	5.71
Korea	0.59 *	5.18	4.59	Greece	-0.65 *	5.65	6.31
Taiwan	0.58 *	7.10	6.53	Argentina	-0.67 *	5.24	5.90
Brazil	0.38	6.95	6.57	Sweden	-0.68 *	7.71	8.39
Belgium	0.34	7.06	6.72	Russia	-0.68 *	3.83	4.51
South Africa	0.22 *	7.58	7.36	New Zealand	-0.70 *	6.47	7.16
Philippines	0.20	6.26	6.06	China	-0.74 *	4.75	5.49
Norway	0.19	8.11	7.92	Australia	-0.85 *	7.60	8.45
Poland	0.07	5.95	5.87	Israel	-0.86 *	6.71	7.57
France	-0.03	6.51	6.54	Canada	-1.04 *	7.31	8.35
Germany	-0.09	7.52	7.61	Ireland	-1.09 *	6.75	7.84
Turkey	-0.10	6.07	6.17	Slovenia	-1.24 *	4.27	5.51
Spain	-0.11	6.47	6.58	UK	-1.30 *	6.55	7.85
Chile	-0.12	7.35	7.47	Iceland	-1.68 *	5.74	7.42
Mexico	-0.16	6.06	6.22	USA	-1.76 *	6.75	8.51
Switzerland	-0.22 *	7.13	7.35	Venezuela	-2.05 *	3.69	5.74
Denmark	-0.23	8.07	8.30				

Auditing and Accounting Practices

IMD WORLD COMPETITIVENESS, 2010-2012 Avg.

1	Finland	8.50	21	Kazakhstan	7.37	41	Jordan	6.60
2	Norway	8.44	22	Belgium	7.36	42	Mexico	6.53
3	Denmark	8.39	23	Israel	7.36	43	Argentina	6.46
4	Singapore	8.22	24	Chile	7.23	44	Iceland	6.46
5	Sweden	8.08	25	UK	7.09	45	Ireland	6.44
6	Canada	8.04	26	USA	7.08	46	Indonesia	6.43
7	Switzerland	7.97	27	India	7.05	47	Korea	6.39
8	South Africa	7.93	28	Colombia	7.04	48	Turkey	6.29
9	Australia	7.89	29	Czech Rep	7.04	49	Portugal	6.20
10	Luxembourg	7.87	30	Japan	7.00	50	Peru	6.19
11	Austria	7.84	31	Brazil	6.99	51	Greece	6.12
12	Germany	7.71	32	Thailand	6.99	52	Ukraine	6.08
13	Hong Kong	7.69	33	Lithuania	6.94	53	Russia	6.03
14	New Zealand	7.67	34	France	6.93	54	Italy	5.70
15	Malaysia	7.62	35	Spain	6.90	55	China	5.70
16	Estonia	7.59	36	Slovak Rep	6.87	56	Croatia	5.54
17	Netherlands	7.55	37	Venezuela	6.79	57	Bulgaria	5.11
18	Qatar	7.53	38	Romania	6.79	58	Slovenia	5.10
19	Taiwan	7.49	39	Philippines	6.78	59	UAE	4.61
20	Hungary	7.44	40	Poland	6.66			

CG in Asian Economies

IMD WORLD COMPETITIVENESS, 2010-2012 Avg.

Auditing and accounting practices

Rank		2010-2012 Avg.
4	Singapore	8.22
13	Hong Kong	7.69
15	Malaysia	7.62
19	Taiwan	7.49
27	India	7.05
30	Japan	7.00
32	Thailand	6.99
39	Philippines	6.78
46	Indonesia	6.43
47	Korea	6.39
55	China	5.70

Shareholders' rights

Rank		2010-2012 Avg.
9	Malaysia	7.37
11	Singapore	7.31
15	Taiwan	7.10
20	Thailand	6.90
21	Hong Kong	6.88
22	India	6.82
36	Indonesia	6.40
37	Philippines	6.26
42	Japan	5.98
50	Korea	5.18
53	China	4.75

Why disparity between regulations and practices?

- Entrenched ownership structure
 - Concentrated ownership
 - Cross ownership
 - Circuitous ownership
- Moral hazard of controlling shareholder
 - Family values control right more than share value
 - Expropriation of minority shareholders
- Unfair related party transactions
 - Tunneling asset through related party transactions
 - Stripping business opportunities to private company owned by the controlling shareholder

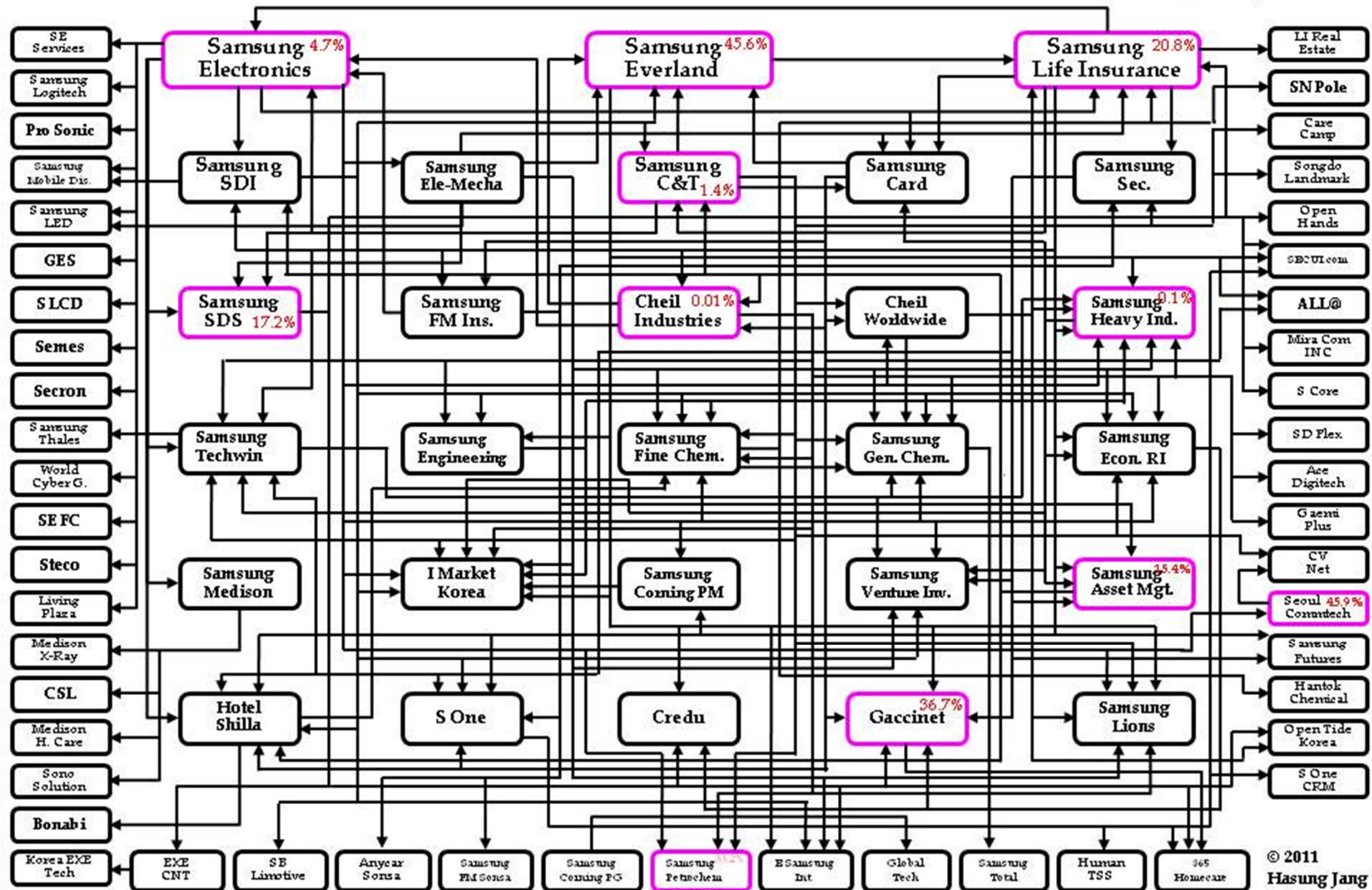
Why disparity between practices and regulation?

- Bank-financing is stronger than capital market financing
 - Banks have its own poor governance problem
 - Bank's capacity of CG risk management is weak
- Enforcements of rules and regulations are weak
 - Supervisory agency's capacity is limited
 - Prosecutors are not independent from business influence & political consideration
 - Judges are not properly trained, and are not independent from interest conflicts & outside influence



Samsung Group Ownership Structure 2011

Family owned Co.
%: Family shares



Why Shareholders are inactive?

- High barriers in exercising rights
 - Difficulties in fact discovery
 - High legal cost
 - Independent lawyers are scarce
- Establishments have strong influences on
 - Politics
 - Media
 - Prosecutors and judges

Why Shareholders are inactive?

- Individual shareholders
 - Speculative short term trading
 - Investment horizon is too short
- Institutions shareholders
 - Local institutions: Interest conflicts
 - Foreign institutions: Lack of long-term commitment
 - Pension funds: Political influences

Shareholder Activism

- Empower Shareholders
 - Lower barriers in exercising rights
 - Procedures
 - Cost
 - Provide mechanisms to be active
 - Electronic voting
 - Cumulative voting
 - Class action lawsuit
- Create activist institutional investors
- Public pension fund should be active investor

Shareholder activism in Asia

- Shareholder activism in Asia is weak
 - Activist investors
 - Hong Kong: David Webb
 - Korea: Lazard Korea CG Fund
 - Quasi-Government Agency
 - Taiwan: Securities and Futures Investors Protection Center
 - NGO
 - Korea: Solidarity for Economic Reform
 - Malaysia: Shareholder Watchdog Group
 - Japan: Ombudsman(Osaka)

Actions Shareholder Can Take

- Attending shareholder meetings
- Proposing agenda at the shareholders meetings
- Public campaign through media
- Electing directors
 - Proposing outside director candidate
 - Proxy fights
- Taking legal actions
 - Filing civil lawsuit
 - Derivative actions
 - Class-Actions
 - Filing criminal investigation

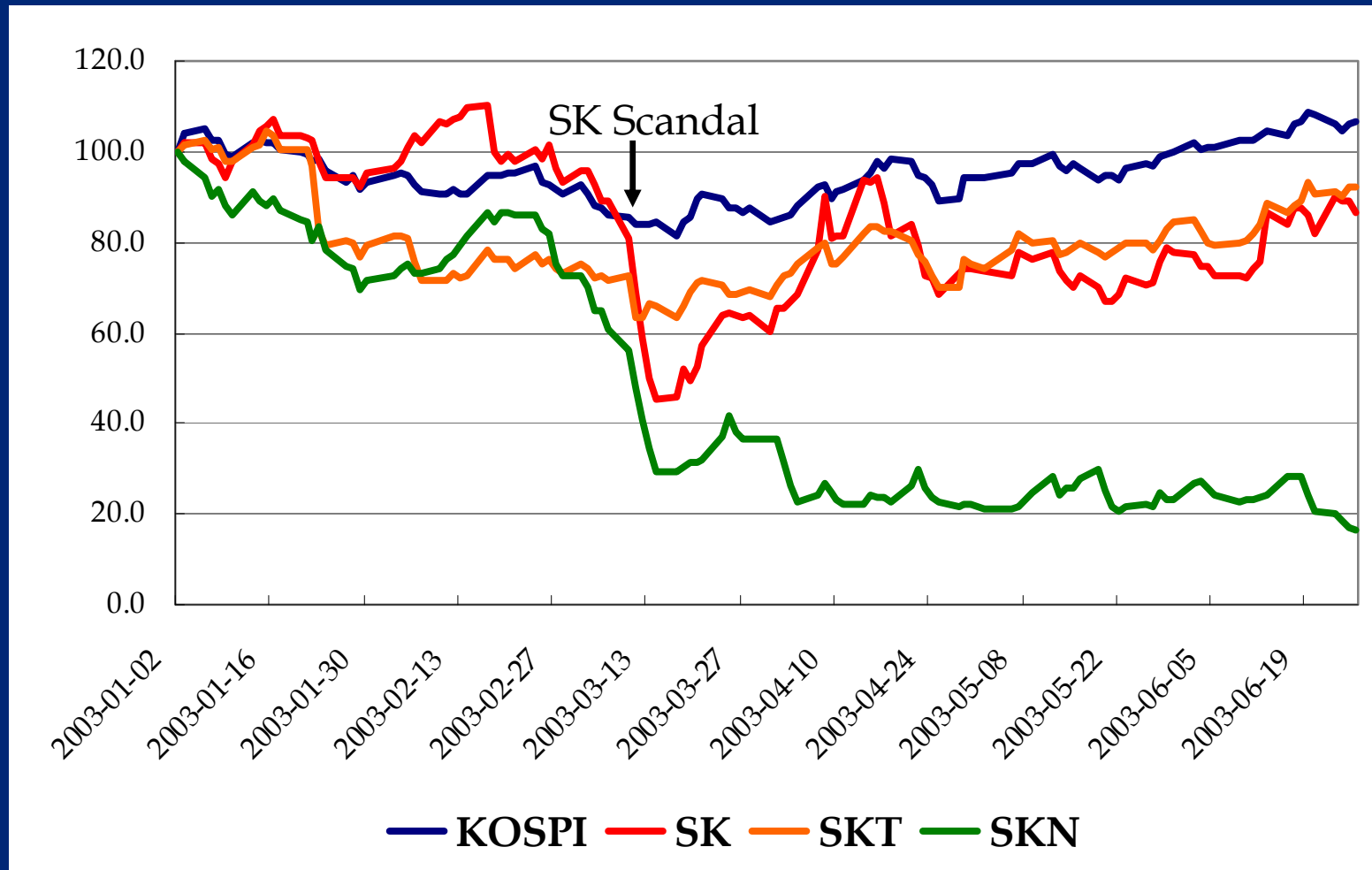
Activist Investment: Case 1

Sovereign Asset Mgt. vs SK Corp

- Sovereign Asset Management
 - Activist foreign investor
- SK corporation scandal in March 2003
 - Accounting fraud
 - Embezzlements by controlling family
- Sovereign's investments in SK shares
 - Investments of \$150 million in March 2003
 - Capital gains of \$800 million in July 2005
- Sovereign's strategy
 - Proxy fight for management control
 - Proposed improvements in corporate governance

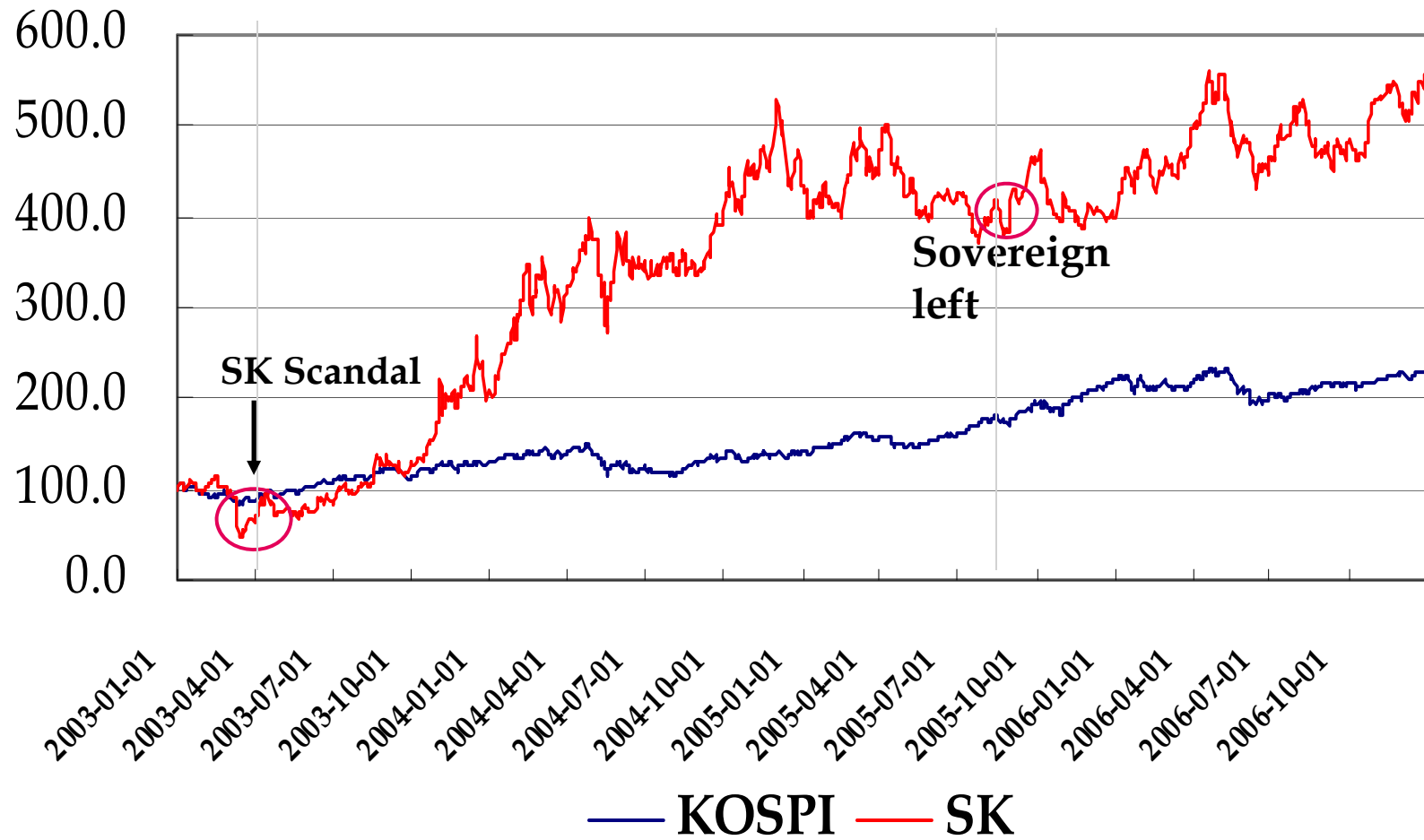
Activist Investment: Case 1

Sovereign Asset Mgt. vs SK



SK Share Price

2003 - 2006



- Increase in SK market capitalization
 - from \$1 billion to \$6.3 billion

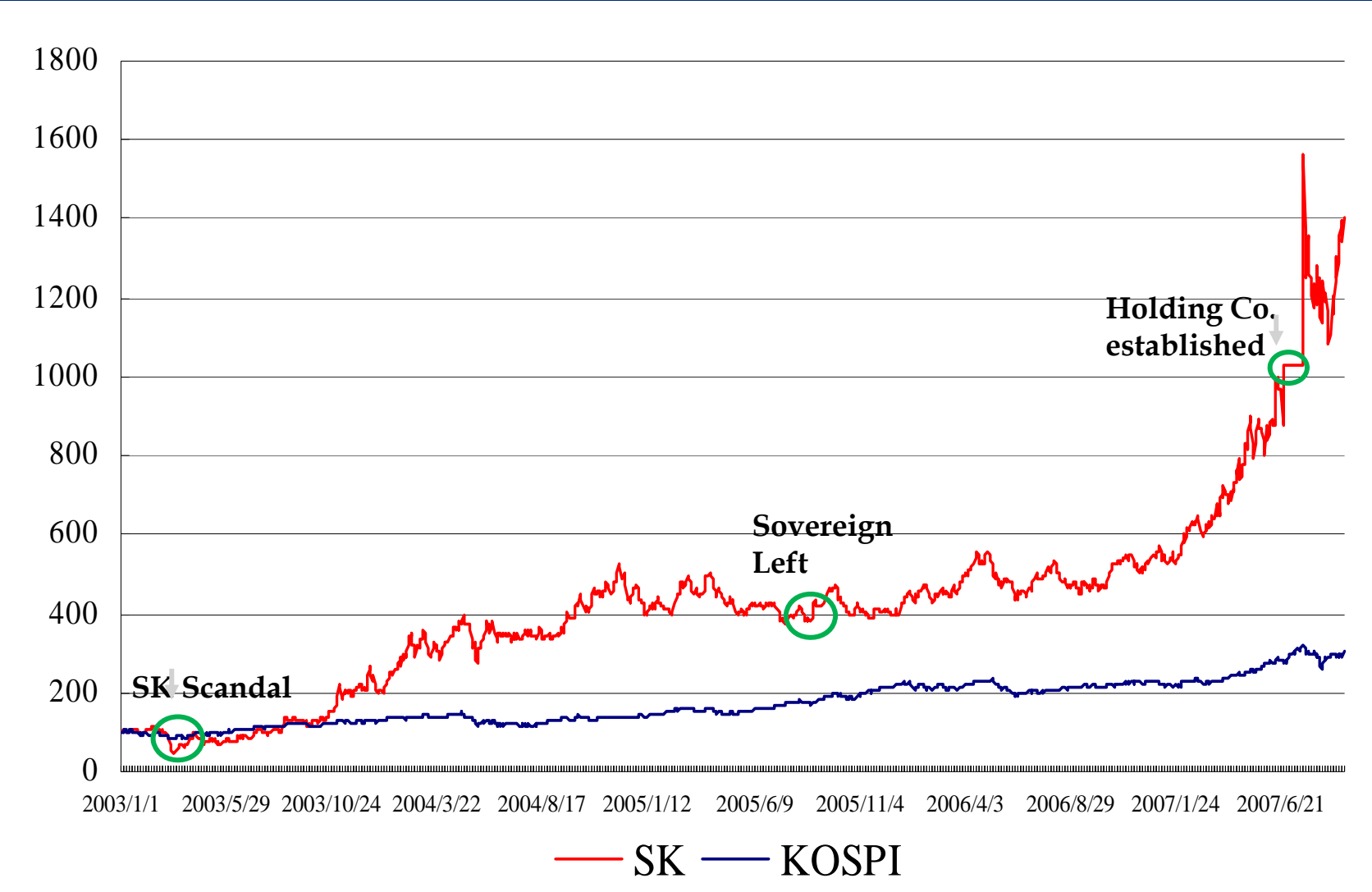
- Capital Gains

	shares	capital gains
Sovereign:	15%	\$800 million
Rest of shareholders:	85%	\$4.5 billion

	Stock price		ROR	
	KOSPI	SK	KOSPI	SK
March 2003	556.33	8,600W		
July 2005	1019.01	55,100W	83.2%	540.7%

SK Share Price

2003 - 2007



- SK introduced major reforms in corporate governance in 2007
- If Sovereign stayed until June 2007, they could have made capital gains of \$2.4 billion out of \$150 million investment

	Stock price		ROR	
	KOSPI	SK	KOSPI	SK
March 2003	556.33	8,600W		
July 2005	1019.01	55,100W	83.2%	540.7%
June 2007	1733.10	134,500W	211.5%	1463.9%

Alternative Approaches in Korea

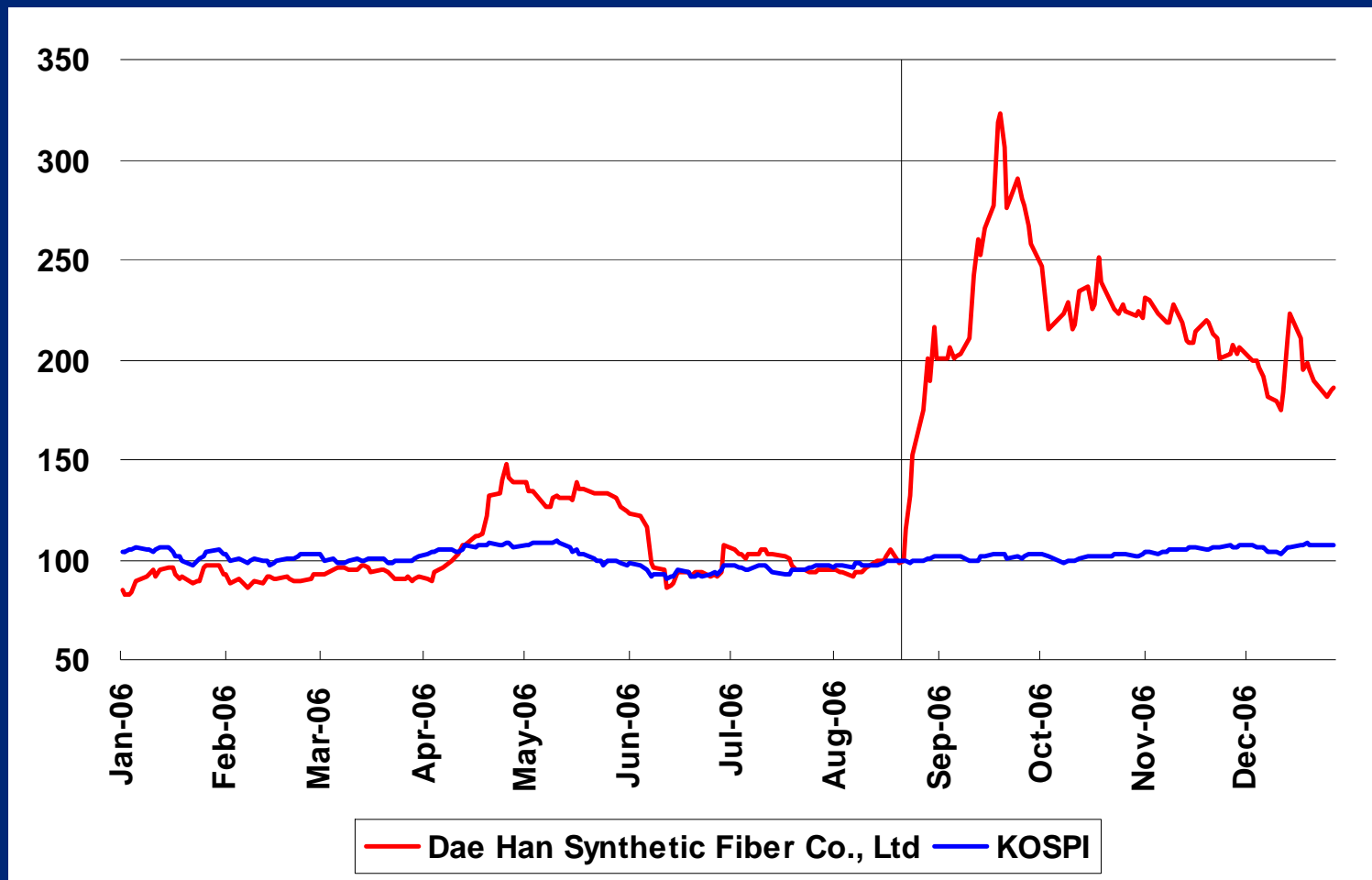
- Shareholder Activism
 - NGO shareholder activists since 1997
 - Group of two dozens volunteer professionals
 - Landmark lawsuit cases brought changes
- Korea Corporate Governance Fund
 - Established in April of 2006
 - Enhancing share value by improving CG
 - Long-term commitments in value investment

Activist Investment: Case 2

Korea Corporate Governance Fund

Disclosure of 5% shareholding of Daehan Synthetic Fiber Co.
on August 23, 2006

Index = 100 as of August 22, 2006

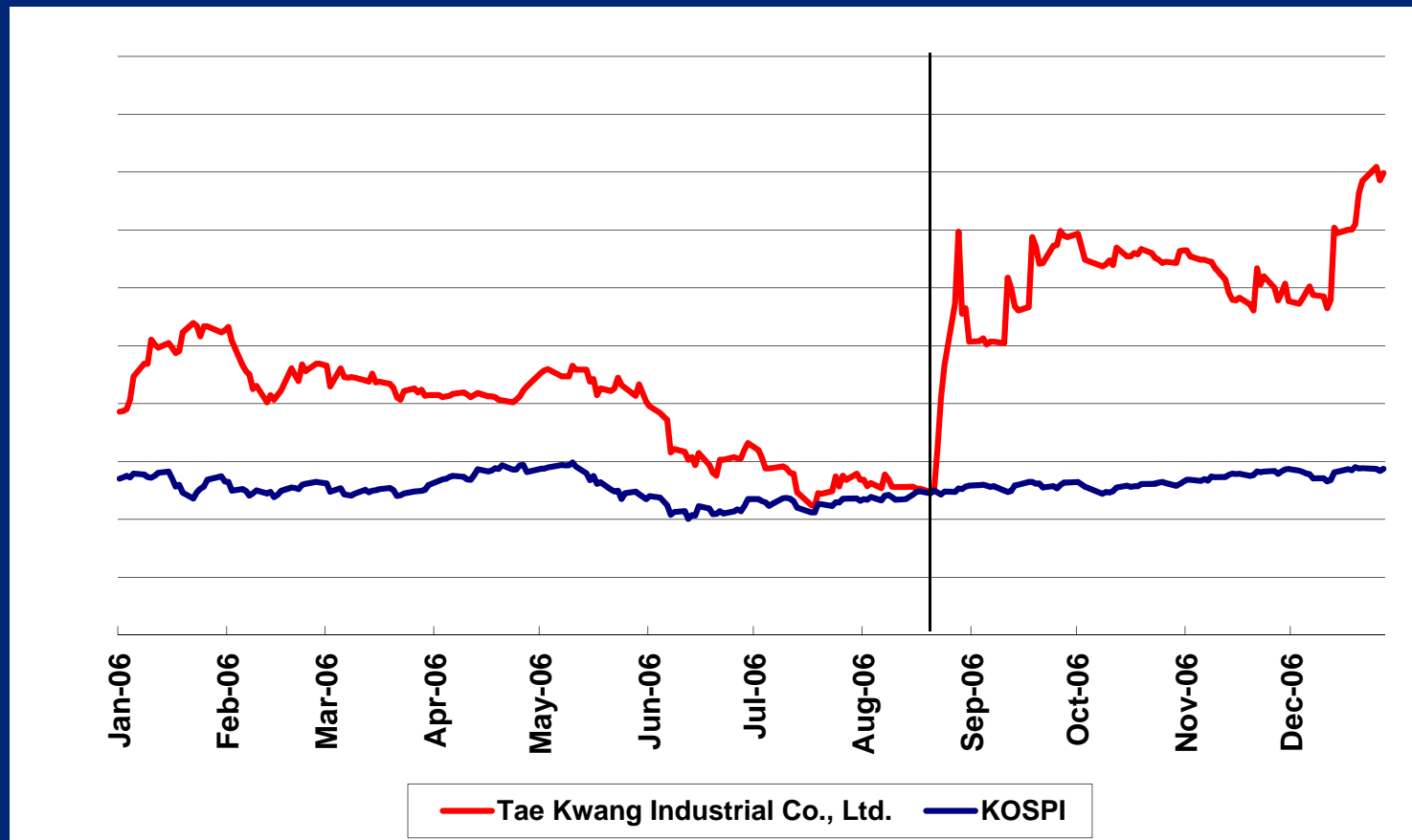


Activist Investment: Case 2

Korea Corporate Governance Fund

Disclosure of Ownership: September 19, 2006

Index = 100 as of August 22, 2006



Shareholder activism will create wealth with
Justice & Cause for minority investors

Thank you!