



**The 2007 Asian Roundtable
on Corporate Governance**

**Grant Kirkpatrick
Senior Economist, Corporate Affairs,
OECD**



Session II

**Moving away from box-ticking:
the OECD Methodology for
Assessing Implementation of the
OECD Principles on Corporate
Governance**

**Singapore
27-28 June 2007**

- **Key Features of the Principles**
- **BACKGROUND TO THE OECD METHODOLOGY**
- **STRUCTURE AND CONTENT OF THE OECD METHODOLOGY**
- **USING THE OECD METHODOLOGY**

- THE OECD PRINCIPLES HAS AN ECONOMIC AND PUBLIC POLICY PERSPECTIVE.
- Focus is on outcomes
- Functional equivalence therefore needs to be adapted to country circumstances
- Implementation needs to be efficient: chapter I of revised Principles

Fundamental question: if Principles need to be adapted

- **how can one view existing situation and ask whether the Principles have been implemented**
- **Existing corporate governance ratings not suitable in answering this question**

**TO SUPPORT ROLE AS
INTERNATIONAL STANDARD**

**OECD MEMBER GOVERNMENTS
AGREED TO DEVELOP A
COHERENT ASSESSMENT
METHODOLOGY**

BEYOND BOX TICKING

- **FOCUS ON OUTCOMES**
- **FUNCTIONAL EQUIVALENCE**
- **Implementation and practices: not just law**

THE METHODOLOGY DOES NOT:

- PROVIDE RANKINGS BETWEEN COUNTRIES
- ALLOW FOR SIMPLE COUNTRY RATINGS: Aggregation problem

WHY NO SINGLE RATING?

- **ISSUE OF AGGREGATING INDICES:
WEIGHTING**
- **IMPORTANCE OF INDIVIDUAL PRINCIPLES
WILL VARY BY JURISDICTION**
- **LOOKING AT THE WHOLE SYSTEM AND
EFFICIENCY NOT AT SPECIALISED ISSUES
SUCH AS SHAREHOLDER RIGHTS**

A DEMANDING APPROACH THAT REQUIRES

- **MULTIPLE SOURCES**
- **CONSISTENCY CHECKS:
INDIVIDUAL PRINCIPLES ARE
RELATED**
- **INTERACTIVE DIALOGUE**
- **INFORMED JUDGEMENT**

STEP 1: MAP THE
CORPORATE GOVERNANCE
LANDSCAPE TO ESTABLISH KEY
AREAS AND PRINCIPLES

- **OWNERSHIP AND CONTROL STRUCTURES**
- **THE TYPE OF LEGAL AND REGULATORY FRAMEWORK**
- **HISTORICAL INFLUENCES**

STEP 2: ESTABLISH A BENCHMARK

- **FORMULATION OF THE PRINCIPLE**
- **IDENTIFY LIKELY PRACTICES TO BE EXAMINED**
- **CHECK CRITERIA FOR IMPLEMENTATION**

STEP 3: COLLECT INFORMATION

- **FACT FINDING INCLUDING ENFORCEMENT, EXTENT OF PRACTICES**
- **CONSULTATIONS**
- **CONSISTENCY CHECKS**
- **INTERACTIVE DIALOGUE**

**STEP 4: MAKE AN INFORMED
JUDGEMENT ABOUT
IMPLEMENTATION**

- **FULLY IMPLEMENTED**
- **BROADLY IMPLEMENTED**
- **PARTLY IMPLEMENTED**
- **NOT IMPLEMENTED**
- **NOT APPLICABLE**

DETAILED IN THE METHODOLOGY

INCLUDING CONSISTENCY CHECK

- **PRINCIPLES ARE OFTEN RELATED**
- **E.G. IF RELATED PARTY TRANSACTIONS ARE NOT FULLY DISCLOSED (PRINCIPLE V.A.5A) E.G. PARTLY IMPLEMENTED**
- **... HARD TO CONCLUDE THAT BOARDS ARE FULFILLING THEIR DUTIES (PRINCIPLE VI.D.6) BROADLY IMPLEMENTED**

STEP 5: FORMULATE POLICY OPTIONS AND PRIORITIES

- **COMBINE LIKELY IMPORTANCE FROM STEP 1 WITH IMPLEMENTATION STATUS**
- **COST-BENEFIT CONSIDERATION**
- **COMPLEMENTARITIES: ARE THEY PRESENT**
- **CONSIDER EXPERIENCES FROM OTHER COUNTRIES**

STEP 6: USE FOR DISCUSSION AND ACTION

STEP 7: FOLLOW-UP IMPLEMENTATION

- **NATIONAL DIALOGUE**

- **REGIONAL DIALOGUE : FOR EXAMPLE THE ASIAN CORPORATE GOVERNANCE ROUNDTABLE**

- **GLOBAL DIALOGUE: OECD STEERING GROUP ON CORPORATE GOVERNANCE, THE WORLD BANK THROUGH ROSC'S**

- **WHITE PAPERS AND STOCK TAKING REPORTS**

LOOKING AHEAD

- **DISSEMINATE INFORMATION AND SUPPORT MATERIAL**
- **DEVELOP A USER'S GUIDE FOR SELF-ASSESSMENTS AND ENCOURAGE THESE**
- **PREPARE FOR TRAINING SEMINARS AND SESSIONS**
- **COLLECT EXPERIENCES AND REFINE: WORLD BANK AND OECD STEERING GROUP EXPERIENCE**

THANK YOU !