Overview

• Corporate governance defined
• WB corporate governance assessment program
• Lessons learned for securities regulators
• Questions...
Corporate Governance Defined
Perspectives on corporate governance

Company perspective:

• “The system by which companies are directed and controlled.”
• The set of relationships between:
  • A company’s management
  • Board of directors
  • its shareholders and
  • Other stakeholders

The policymaker’s perspective:

• Corporate governance = how to regulate the governance of public interest entities in order to maximize productivity and value while preserving company flexibility and minimizing costs
The company perspective ...

- Shareholders
  - Regularly report and update
  - Monitor and guide
  - Represent and report to
  - Elect and dismiss
  - Provide capital to
  - Report transparently to

- Managers
  - Regularly report and update
  - Monitor and guide

- Directors
  - Represent and report to
  - Elect and dismiss
The policymaker’s perspective ...

Law and Regulation:

- Company law
- Securities law
- Listing rules
- Accounting and audit standards
- Codes of Best Practice

Institutional / enforcement capacity

- Securities Commissions
- Company registrars / company regulators
- Stock exchanges
- Court and judicial reform
- Depositories / registrars / custodians
- Director training organizations
- Audit oversight bodies
- Shareholder associations
Achieving Good Corporate Governance

Robust legal & regulatory environment

Strong enforcement regime

- Good board practices and Control Structures
- Managing Stakeholder Relations
- Strong disclosure & transparency regime
- Protection of (minority) shareholder rights
The value of improved corporate governance ...

For companies:
• Streamlined business processes, better operating performance & lower capital expenditures
• Improved access to finance (both equity and debt)
• Higher valuations
• Better decision-making

For shareholders (including pension beneficiaries):
• Protection from abuse
• Increased shareholder value
• Protection from “reputational risk”

For regulators and supervisors:
• A first line of prudential defense
• Increased financial stability

For markets and economies:
• Higher market capitalization and liquidity
• More “champion” companies that can compete and grow internationally
• Higher economic growth
Why does it matter?

Better Corporate Governance =
Bigger capital markets + more listed companies =
Better access to finance and higher growth

Market capitalization to GDP

Higher entry level to capital markets

Number of listed firms

Levels of Investor Protection (as measured by Doing Business)

Note: Relationships remain significant when controlling for income per capita. Higher values on the strength of investor protection index indicate greater protection. Source: Doing Business database, World Bank (2010).
What is corporate governance?
Regulator versus company perspectives ...

Country with good governance framework

Country with poor governance framework

Quality of corporate governance

Valuation
The Corporate Governance
ROSC Assessments
International Consensus:  
the OECD Principles of Corporate Governance

- Certain basic principles apply in all countries:
  - The Rights of Shareholders
  - The Equitable Treatment of Shareholders
  - The Role of Stakeholders
  - Disclosure and Transparency
  - The Responsibilities of the Board
- Designed to apply to companies listed on stock exchanges
The Corporate Governance ROSC program: Overview

• Benchmarking exercise against the OECD Principles of Corporate Governance

• Standardized and systematic diagnostic, including ratings, report, and policy recommendations

• Engage a local consultant to complete a standard questionnaire

• Country participation and publication is voluntary

• Updates: measure progress over time

• 85 carried out or underway since 2000 in 64 countries

• Impacts include country action plans, legal / regulatory reform, Code drafting / updates, creation of new institutions
# ROSC Country Coverage

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Example: Indonesia vs. Region

Indonesia Country Assessment vs. Asia Regional Average

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Roadmap to For CG Reforms

- Assessment
- Country Action Plan
- Implementation
Lessons Learned
Lessons learned (for regulators / supervisors)

1. Enforcement of shareholder rights
2. Improving disclosure
3. Improving board practices
4. Regulatory governance
Enforcement of shareholder rights

- Courts don’t function well for minority shareholders in most countries
- Company law has no effective regulator in most countries
- Strongest enforcement of company law happens when securities regulator can take action on behalf of shareholders.
  - “Mirrored” company law provisions in securities regulation (Indonesia)
  - Special “court” where shareholders can complain (Egypt)
  - Impose administrative penalties if company law violated (Brazil)
  - Stock exchange approval of related party transactions (South Africa)
Improving disclosure

• Financial and non-financial disclosure radically improving everywhere
• But almost all countries still rely on 19th century disclosure mechanisms (annual reports)
• Way forward:
  • On-line updates of wide variety of financial and non-financial disclosure (Brazil’s “reference form”)
  • Adaptation of new web-based technologies
  • Removal of expensive requirements to publish (e.g. annual reports to all shareholders, publication in newspapers and government gazettes).
Improving board practices

- Board is at core of modern corporate governance reform
- Big changes everywhere including:
  - Role and responsibility of board
  - Liabilities of directors
  - Board objectivity and independence
- In terms of regulation – biggest idea of the past 10 years has been introduction of “corporate governance codes’ in many countries.
- But how should they be introduced?
Corporate Governance Codes: A variety of approaches

- Mandatory "codes"
- Comply-or-explain models
- Voluntary codes
Improving Board Practices (cont.)

Our observations from working in many countries are:

- Corporate governance codes are most influential when they are supported by the securities regulator and well anchored in regulation (on a comply or explain basis).
- Codes add something to mandatory regulation, for those areas that are “aspirational” and hard to measure / enforce (like board practices).
- The influence of a Code is increased if a single code can be adopted across many sectors (e.g. capital markets, banks, insurance companies).
Regulatory Governance

• Impact of securities regulator is driven by policy, regulatory framework, resources, and authority – but governance of regulator is also crucial.
• Global financial crisis = a catalyst for reexamining of the effectiveness and efficacy of existing financial regulatory structures.
• To the extent regulatory power expands and is consolidated in fewer entities, their performance becomes even more important.
Regulatory Governance (continued)

- Regulatory governance involves decisions about:
  - Independence, autonomy and accountability of the regulator from and to government.
  - Independence and accountability of the regulator from and to regulated financial institutions.
  - Formal and informal decisionmaking processes.
  - The composition and role of the board of directors of the regulator (if any) and its relationship to management.
  - Transparency, predictability, and accessibility of decisionmaking.
  - Organizational structure and resources available to the regulator.

- WB now working to develop a diagnostic framework for regulatory governance
  - How we should define good governance for securities commissions?
  - What are basic standards of and key challenges to good regulatory governance?
  - What can governments do to improve their regulatory governance?
Thank You

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