Corporate Governance Trends and Issues in the UNECE Region

Roundtable

Geneva

9 February 2005

George Dallas
Managing Director and Global Practice Leader
Governance Services
Standard & Poor’s
Governance as a risk factor
Global Investor Opinion Survey
McKinsey & Co. (July 2002)

Average premiums investors would pay for a well-governed company by country and region.

Average Premiums

- 33%
- 22%
- 22%
- 13%
- 14%
Governance as a risk factor: European creditor perspective

Do you agree that governance and management analysis should feature more prominently in credit ratings and other credit related analysis?

Do you agree that corporate governance is a risk factor that can affect creditors or influence credit quality?

Source: Lehman Brothers European Credit Conference, Florence, Italy, March 2004
Law, Regulation and Market Forces: “Top down” versus “bottom up” initiatives

- **Legislation and codes of best practice: instruments of policy and reform**
  - Laws, codes are listing rules have their limits
  - Cannot assume that compliance means good governance or that all companies who comply to laws and listing rules have the same governance standards

- **Market based solutions: systematic evaluation of governance risks in individual firms**
  - Complements top down efforts by regulators and exchanges
  - Tool for investors, companies and regulators

Process of measuring corporate governance provides greater transparency for investors and a positive incentive for companies to improve their governance standards
What Standard & Poor’s is doing

Standard & Poor’s has established a capability to objectively benchmark and compare a company’s corporate governance practices including:

– **Corporate Governance Scores and Evaluations**
  - *Interactive analytical process*
  - *Done with consent of company: self selecting*
  - *Holistic focus on financial stakeholders; emphasis on shareholders*

– **Enhanced Analytical Initiative for S&P credit ratings**
  - *Rated companies screened to assess management behaviors and identify cases where enhanced governance analysis could help for a more robust credit rating opinion*
  - *Selected companies will have additional governance evaluations conducted*
  - *Creditor focus*
Corporate Governance Analytical Framework

Company Analytical Structure

- Ownership Structure & External Influences
- Shareholder Rights and Stakeholder Relations
- Transparency, Disclosure & Audit
- Board Structure & Effectiveness

Country Analytical Structure

- Market Infrastructure
- Legal Infrastructure
- Regulatory Environment
- Informational Infrastructure
Ownership Structure & External Influences
- Transparency of Ownership
- Concentration and influence of ownership
- Influence of external stakeholders

Shareholder Rights and Stakeholder Relations
- Voting and shareholder meeting procedures
- Ownership rights and takeover defenses
- Stakeholder Relations

Transparency, Disclosure and Audit
- Content of public disclosure
- Timing of, and access to, public disclosure
- The audit process

Board Structure & Effectiveness
- Board structure and independence
- Role and effectiveness of board
- Board/executive compensation
Governance Scoring Criteria: Is there a global standard?

Governance structures and philosophies differ globally

- Concentrated ownership versus widely held ownership
- Shareholder versus broader stakeholder focus
- Legal and cultural dimensions
- Examples
  - Chairman/CEO split
  - One tier versus two tiered boards
  - Quarterly reporting

Principles-based analytical approach

- Fairness
- Transparency
- Accountability
- Responsibility

Need to interpret individual structures through lens of overarching principles that should be relevant in a global context
Standard & Poor’s Corporate Governance Services

Country versus firm risk: a two dimensional perspective
(Country rankings from World Bank Governance Indicators: “Rule of Law”)

Country

Firm

Firm A

Firm B

Country X

Country Y

0

10
Standard & Poor’s Corporate Governance Services
Hypothetical Distribution of Corporate Governance Scores
### Standard & Poor’s Corporate Governance Services

Country versus firm risk: a two dimensional perspective

**Country Risk Proxy:** S&P Foreign Currency Credit Rating

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<th>Country</th>
<th>Risk</th>
<th>Rating</th>
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#### Chart

**Expected Distribution**

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<th>Expected Distribution?</th>
<th>Overachievers</th>
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<td>Firm Risk</td>
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<td>10</td>
<td>10</td>
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</table>
Detailed expositions of our criteria & methodology, examples, and a wide discussion of corporate governance issues are available in Governance & Risk (McGraw-Hill) written by members of the S&P Governance Services group and distinguished guest contributors. Our criteria and published governance evaluations are also available on our website: www.governance.standardandpoors.com