Improving Information Disclosure

The Financial Services Authority (OJK) of Indonesia has introduced Regulation Number 21/POJK.04/2015 concerning the Implementation of the Corporate Governance Guideline for Public Companies. Circular Letter Number 32/SEOJK.04/2015 (hereinafter 'the CG Guideline') requires companies to strengthen information disclosure practices. Public companies should disclose pertinent company information, including financial statements, company’s performance, ownership and shareholding, and corporate governance implementation in an accurate and timely manner. This note provides guidance based on OJK recommendations and leading international practices.

In Indonesia, other regulations may apply to company requirements regarding information disclosure. These must be complied with as appropriate and include (but are not limited to):
- Law No.40/2007 on Limited Liability Companies
- Law No. 8/1995 on Capital Market
- The Indonesian Financial Accounting Standards

- OJK Circular Letter No. 6/SEOJK.04/2014 on Guideline for Electronic Information Disclosure by Issuers and Public Companies
- OJK Regulation No. 8/POJK.04/2015 on Websites of Issuers and Public Companies
- OJK Regulation No. 31/POJK.04/2015 on Information Disclosure and Material Fact by Issuers and Public Companies
- OJK Regulation No. 29/POJK.04/2016 on Annual Report of Issuers and Public Companies
- The individual company’s Articles of Association (AoA)

In general, the requirements on information disclosure in the CG Guideline aim to improve disclosure of information relevant to investors, material to investment decisions, and pertinent for improving the investment climate. Companies should disclose information beyond the minimal requirements of all laws and regulations and fully explain the position of the company.
Greater transparency and disclosure fill information gaps for customers, investors, and employees and therefore can have a positive impact on a company’s revenues or its access to human or financial capital. Studies in developed and developing markets—covering both financial and nonfinancial disclosures (including corporate governance)—have found strong correlations between improved disclosure and lower costs of capital, better access to finance, and increased company valuation.

Information disclosure should include both financial and non-financial information, including the company’s ownership, shareholding, and governance structure as well as its business model, strategies, risks, and financial position and performance. Companies should also ensure that the information provided is reliably developed, complete, and a true and fair presentation of all material information. Companies should not aim to present all information but focus their efforts on information that might change or influence investor decisions and which is material to the company and its investors. In addition, the information should be presented in a concise manner, publicly accessible, consistent from year to year (to allow trend analysis), and comparable with other companies in a similar industry.

The primary means of disclosures is through regulatory filings, annual reports, company websites, and any other press releases or media interventions. Of these, the most referenced will be the annual report. A high quality annual report should explain the company’s strategy, corporate governance, and performance and include the following:

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Corporate governance</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business model and environment</td>
<td>Commitment to governance</td>
<td>Financial performance</td>
</tr>
<tr>
<td>Strategic objectives</td>
<td>Board structure and functioning</td>
<td>Financial statements</td>
</tr>
<tr>
<td>Key performance indicators</td>
<td>Control environment</td>
<td>Non-financial performance, which includes sustainability reporting</td>
</tr>
<tr>
<td>Risk analysis and response</td>
<td>Treatment of minority shareholders</td>
<td></td>
</tr>
<tr>
<td>Sustainability risks and impacts</td>
<td>Stakeholder engagement</td>
<td></td>
</tr>
</tbody>
</table>

1 A discussion of material information and how to make the materiality judgment is available at www.corporatereportingdialogue.com (especially in the Statement of Common Principles of Materiality of the Corporate Reporting Dialogue).
Frameworks have been developed to provide a basis for good reporting of these matters. Examples of such frameworks are the Integrated Reporting Framework introduced by the International Integrated Reporting Council (IIRC)\(^2\), and the Global Reporting Framework introduced by the Global Reporting Initiative.\(^3\) The Financial Reporting Council of the United Kingdom has issued guidance on how to better report company information.\(^4\) The European Commission has also provided guidance on reporting of non-financial information.\(^5\)

Many companies are developing better reporting approaches and applying international frameworks in their disclosure practices, as highlighted below. The following examples also highlight emerging reporting issues beyond traditional financial reporting.

**Business Model Reporting**

Business model reporting aims to explain what the company does and how it does it, including the processes, inputs, and outputs that lead to final corporate outcomes. In essence, the company should disclose how it creates value for its shareholders and stakeholders.

The following excerpt from Itau Unibanco S.A. Annual Report 2016, a Brazilian bank focused on digital banking, provides an example for reporting a company’s business model based on the IIRC Reporting Framework.

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\(^2\) Access the Integrated Reporting Council Framework at www.integratedreporting.org

\(^3\) Access the GRI Guidelines at www.globalreporting.org


**Strategy Reporting**

Reporting the company’s strategy is important as it helps investors understand the company’s focus, management quality and decision-making, and its governance and accountability systems. A company’s various strategies should be clearly delineated in the company reporting and linked to management’s key performance indicators (KPIs).

An excerpt from British Telecommunications Plc’s Annual Report 2017 illustrates how an explanation of strategy can be succinct and clear. Additional information relates the strategy to the company’s KPIs (financial and non-financial) in a summary form. The Annual Report provides further details on each strategy and its KPIs.

**Our strategy in a nutshell**

The diagram below shows the main elements of our strategy and how they work together to support our purpose and goal. More details on our purpose and goal, in the context of our business model, can be found on page 24.

**Key performance indicators**

We’ve achieved our customer service performance goal for the year, but need to do better. We hit our revised financial guidance set in January 2017, but fell short of our financial targets set at the start of the year due to the issues in our Italian business and headwinds in UK public sector and international corporate markets.
Risk Reporting

Critical to investors is transparency on internal and external risks the firm faces and the manner in which the company identifies, assesses, manages, mitigates, and monitors those risks. Risk reporting should aim to convey the company’s risk governance framework, who is responsible for what activities in risk, and how the company’s risk appetite is set.

The 2016 Annual Report of Fresnillo Plc, the world’s leading silver miner, provides a good example of risk governance reporting.

Risk Governance Framework

Not all risks are material to the company and so risks should be identified and prioritized and the major risks reported upon. Such risks may include financial risks, relevant economic and social factors, and other business and environmental factors. A risk materiality matrix or heat map may be used to distinguish and explain material risks from other risks, as used by Fresnillo Plc in the example below. The heat map also reflects the dynamics of various risks, for example by showing how some risks have become more important in recent times.

Heat map

* Bold text indicates those risks which have changed during 2016.
(v) Risk that was considered for the viability assessment as detailed on page 54.
Governance Reporting

In company governance reporting, investors seek information on the company’s level of commitment to good governance, in addition to an understanding of the structure and function of corporate governance, and the composition, competency, and independence of the Board of Commissioners and the Board of Directors. Furthermore, governance reporting should disclose the company’s control environment, its approach to protecting minority shareholders, and the company’s willingness to engage with its stakeholders. Many jurisdictions require a separate Corporate Governance Report or a separate section in the Annual Report devoted to corporate governance.

The company’s commitment to corporate governance principles may be reflected in a simple statement, as shown in the BHP Billiton Annual Report 2016:

“We do not see governance as just a matter for the Board. Good governance is also the responsibility of executive management and is embedded throughout the organisation. We believe that high quality governance supports long-term value creation. Simply put, we think good governance is good business.”
- Source Jac Nasser AO, Chairman, 2016 Corporate Governance Report.

BHP Billiton’s governance structure is then diagrammatically explained:

Singapore-based bank DBS Group Holdings Limited explains its governance framework in its 2016 Annual Report in terms of the principles it adheres to, its intention to meet increasing governance expectations, and its position with regard to board independence and diversity, directors’ length of service, and directors’ age.
Governance framework

We have a clearly defined governance framework that promotes transparency, fairness and accountability.

The Board believes that corporate governance principles should be embedded in our corporate culture. Our corporate culture is anchored on (a) competent leadership, (b) effective internal controls, (c) a strong risk culture and (d) accountability to shareholders. Our internal controls cover financial, operational, compliance and technology, as well as risk management policies and systems.

We work closely with our regulators to ensure that our internal governance standards meet their increasing expectations. We are committed to the highest standards of corporate governance, and have been recognised for it. We have won SIAS’ Corporate Governance Award in the Big Cap category four years in a row (2013 to 2016). We are ranked first runner-up in the Singapore Governance and Transparency Index (SGTI) 2016, moving up two spots from the year before. The SGTI 2016 has been updated based on guidelines from the Code and G20/OECD Principles of Corporate Governance.

Key features of our Board
- Separation of the role of Chairman and Chief Executive Officer (CEO)
- Other than the CEO, none of the other Directors is a former or current employee of DBSH or its subsidiaries
- Chairpersons of the Board and all Board committees are Independent Directors
- Remuneration of Non-Executive Directors (including the Chairman) does not include any variable component

DBS corporate governance framework

Competent leadership
Effective internal controls
Strong risk culture
Accountability to shareholders

Independence

- Independent Non-Executive Directors (including Chairman)
- Non-Independent & Non-Executive Director
- Executive Director/CEO

Gender diversity

- Male Directors
- Female Directors

Director’s length of service

No. of years (Y)

Age group of our Directors

- 50-54
- 55-59
- 60-64
- 65-69
- > 70
Board Composition

Axiata Group Berhad, a Malaysian-based Asian telecommunications group, explains its board composition and competency in relevant areas in terms of the skills current directors have in relation to functional experience and geographical experience (www.axiata.com). Meanwhile, Telstra Australia in its 2016 Corporate Governance Report explains the targeted skills required on the board to successfully manage its business as follows.

<table>
<thead>
<tr>
<th>Strategic Priorities/Areas</th>
<th>Skills Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve customer advocacy</td>
<td>• Marketing, Retail, Sales, Distribution</td>
</tr>
<tr>
<td></td>
<td>• General, Business Management &amp; Entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>• Highly Competitive &amp; Dynamic Markets</td>
</tr>
<tr>
<td>Drive value and growth from the core</td>
<td>• China &amp; Asia</td>
</tr>
<tr>
<td></td>
<td>• Other Geographical Expertise and Experience</td>
</tr>
<tr>
<td>Build new growth businesses</td>
<td>• Telecommunications</td>
</tr>
<tr>
<td></td>
<td>• Engineering &amp; Networks</td>
</tr>
<tr>
<td></td>
<td>• Information and Technology</td>
</tr>
<tr>
<td></td>
<td>• Innovation, Science &amp; Technology</td>
</tr>
<tr>
<td></td>
<td>• High Technology &amp; Research</td>
</tr>
<tr>
<td></td>
<td>• Intensive</td>
</tr>
<tr>
<td></td>
<td>• Health Industry &amp; Medical</td>
</tr>
<tr>
<td></td>
<td>• Multimedia</td>
</tr>
<tr>
<td>Other areas</td>
<td>• CEO Level Experience</td>
</tr>
<tr>
<td></td>
<td>• Other NED Experience</td>
</tr>
<tr>
<td></td>
<td>• Accounting, Finance &amp; Audit</td>
</tr>
<tr>
<td></td>
<td>• Banking, Treasury &amp; Capital Markets</td>
</tr>
<tr>
<td></td>
<td>• Legal, Governance &amp; Compliance</td>
</tr>
<tr>
<td></td>
<td>• Risk Management</td>
</tr>
<tr>
<td></td>
<td>• Labour Relations, Human Resources &amp; Remuneration</td>
</tr>
</tbody>
</table>

With either approach, board composition should include the collective skill set of the various board members to ensure a balanced range of skills and experiences suitable to manage the company's business and strategies.

Independence and Diversity

Corporate governance reporting should also include the company’s definition of independence for individual commissioners/directors and identify board members who are considered independent. It is also good practice to target increased diversity on boards, including age, gender, and ethnic diversity.

For example, British Land Plc, a leading commercial property company in the UK, makes clear the roles of executive, non-executive, and independent members of the board (see below).
Board Evaluation and Development

It is commonly expected that boards will undertake an annual board evaluation and report on evaluation processes and the subsequent actions the evaluation leads to.

Many jurisdictions now require an annual board evaluation and some require the evaluation to be undertaken regularly by an independent third party. Heidrick & Struggles published a report in 2014 which reviewed corporate governance data on over 400 companies across 15 diverse European jurisdictions, including board evaluation practices and reporting. Key findings of the report are:

- 70% of boards surveyed undergo a performance evaluation annually;
- 78% of boards were evaluated in the last 2 years, up from 75% in 2009;
- The majority of boards conducted self-evaluation, in which the board chairman and/or the board members themselves are responsible for the evaluation while 21% of entities used external consultants to facilitate board evaluation.

Good reporting on board evaluation should include:

- A description of the process (including frequency and who conducted the evaluation)
- Key indicators that the evaluation was based on
- Results/areas of improvement
- Action plans based on the results
- Disclosure of actions taken after the previous period’s board evaluation
- An evaluation of board committees should cover issues pertinent to the particular committee.
- There should also be disclosure regarding the relationship between board evaluation and director succession.

Disclosure of the evaluation goals and process should be communicated to shareholders, in the annual report, included in the company code of corporate governance, and placed on the company website.

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6 Heidrick & Struggles, Towards Dynamic Governance 2014.
The following example from the British Land Plc 2017 Annual Report illustrates reporting on board evaluations.

**Board evaluation**

The effectiveness of the Board and its Committees is reviewed annually, with an independent, externally facilitated review being conducted at least once every three years. The last external review was conducted in 2015 (B.6.2).

An internal review of the Board and its Committees was conducted in 2016 by the Company Secretary by way of questionnaire and covered the following areas: (i) role, organisation and a composition of the Board and its Committees; (ii) agenda; (iii) corporate governance; (iv) quality of information; (v) monitoring Company performance; and (vi) Board leadership and culture. The review concluded that overall the Board operated very effectively with a continuous, high standard of performance throughout the year (B.6.1).

More detailed discussion and examples of how to report business strategies and business models for value creation, corporate governance, and performance may be found at:

- Financial Reporting Council (FRC) (UK) at [www.frc.org.uk](http://www.frc.org.uk), especially the FRC publications on reporting strategy, remuneration, governance and financial statements.

**Rec. 8.1: Public Companies to utilize a broader use of information technology (IT) that goes beyond company websites to facilitate information disclosure.**

IT should be used as a medium for information disclosure. The implementation of information disclosure should not be limited to statutory information required by regulators, but should also include other information that is relevant for shareholders or investors. The use of IT beyond company websites is expected to increase the company’s effectiveness in spreading information. Nevertheless, public companies should consider the trade-offs between costs and benefits when utilizing IT.

Given increased demands for corporate information and requirements for quality and dynamic disclosure beyond the annual report, technology should be used to provide wide access to information. Access is expected through the traditional annual report, the company website, and other websites, such as government or regulatory websites. Beyond the annual report, technology can facilitate flexible and timely access to information that is not presented in the annual report cycle. Companies should be encouraged to fulfill all compliance requirements and at the same time make information more broadly available to stakeholders. They should consider the use of social media to facilitate the dissemination of key corporate information.
information and establish policies and practices to ensure consistent, accurate information that retains the integrity and fairness of the company picture throughout various outlets.

Good practices are likely to include interactive digital reports, including annual reports, searchable company websites, webinars on corporate matters, and remote access through digital conferencing techniques for Annual General Meetings.

Further discussion of this topic is available at www.icaew.com in a recent publication: What’s Next For Corporate Reporting.

Rec. 8.2: Disclosure of the ultimate beneficiaries of shares ownership of at least 5%, in addition to the ultimate beneficiaries of the shares owned by the majority and controlling shareholders in the Annual Reports of Public Companies.

The CG Guideline recommends that Public Companies disclose the ultimate beneficiaries of shares ownership of at least 5% as well as the ultimate beneficiaries of shares owned by the majority and controlling shareholders.

Disclosure of significant owners should include arrangements where shares are held directly and those that are held indirectly or may be deemed as ownership. These may include:

- Shares held by trusts and similar arrangements: identify the person in control of the shares and how control is exercised
- Shares held in nominee accounts
- Shareholder agreements to vote shares in line with those of a substantial shareholder
- Any special voting rights
- Multi-voting shares and the voting rights they grant to major shareholders
- Any special shareholder rights (golden shares) to block certain major decisions or to appoint one or more board members

Disclosure should include immediate identification of any shareholder holding or controlling at least 5% of shares, share ownership of directors and senior executives and their close relatives and related interests/entities, and major beneficial owners. Ownership of groups and control chains should also be transparent. A good paper that considers disclosure of beneficial owners is a recent OECD paper: Disclosure of Beneficial Ownership and Control in Asia, which was published in 2016.7

The example below from the 2016 Annual Report of Telekom Malaysia Berhad shows beneficiaries under nominee accounts and a spouse’s shares to determine a ‘deemed interest’.

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7 The OECD paper is accessible at www.oecd.org
The next example shows an approach to disclosure of ultimate beneficial ownership used by the True Corporation Public Company Limited in its 2016 Annual Report as required in Thailand.

True Corporation Public Company Limited
Major Shareholders 1/
(as of 7th July 2016)

<table>
<thead>
<tr>
<th>NAME</th>
<th>NO. OF SHARES (MILLION SHARES)</th>
<th>% OF TOTAL ISSUED SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CP Group 2/</td>
<td>18,752.39</td>
<td>56.20</td>
</tr>
<tr>
<td>2. CHINA MOBILE INTERNATIONAL HOLDINGS LIMITED 3/</td>
<td>6,006.36</td>
<td>18.00</td>
</tr>
<tr>
<td>3. THAI NVDR COMPANY LIMITED 4/</td>
<td>1,581.75</td>
<td>4.74</td>
</tr>
<tr>
<td>4. UBS AG HONG KONG BRANCH 5/</td>
<td>604.43</td>
<td>1.81</td>
</tr>
<tr>
<td>5. CHASE NOMINEES LIMITED 6/</td>
<td>266.47</td>
<td>0.80</td>
</tr>
<tr>
<td>6. STATE STREET BANK EUROPE LIMITED 6/</td>
<td>192.89</td>
<td>0.58</td>
</tr>
<tr>
<td>7. UOB KAY HIAN (HONG KONG) LIMITED - Client Account 3/</td>
<td>192.34</td>
<td>0.58</td>
</tr>
<tr>
<td>8. HSBC (SINGAPORE) NOMINEES PTE LTD 7/</td>
<td>130.02</td>
<td>0.39</td>
</tr>
<tr>
<td>9. MAYBANK KIM ENG SECURITIES PTE. LTD. 7/</td>
<td>91.73</td>
<td>0.27</td>
</tr>
<tr>
<td>10. CORE PACIFIC-YAMAICHI INTERNATIONAL (H.K.) LIMITED-CLIENT 7/</td>
<td>87.96</td>
<td>0.26</td>
</tr>
</tbody>
</table>

Notes:
* Deemed interest in TM shares held by spouse
* less than 0.01%
Ownership of corporate groups or control chains should be transparent, as exemplified in the chart below.
ABOUT IFC CORPORATE GOVERNANCE GROUP

The Group brings together staff from investment and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family business governance.

The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

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