The Stock Exchange perspective: CG scorecard for listing purposes - Banja Luka Stock Exchange

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• 2006 – Securities Commission adopted Corporate Governance Standards (based on the Company Law and OECD Principles)

• “Mandatory” (no sanction!?) for listed companies based on “comply or explain” principle

• Lack of incentives for implementing codes, since companies do not raise capital on the market
2009 - New Company Law stipulated that companies listed on the Official Market must adopt their own CG Code or accept regulator (SEC) Code,

- CG Code revised by regulator in order to harmonize it with new Company Law

- Majority of companies decided to accept regulator’s Code
The Banja Luka SE CG Scorecard

- 2008 – start of developing the CG Scorecard in cooperation with IFC, Securities Commission, Global Corporate Governance Forum and LOK institute

- 2009 – Management Board of Banja Luka Stock Exchange adopted the Scorecard

- 2012 – the BLSE adopted Revised Scorecard
Promotion of CG Scorecard

- At the International Conference of the BLSE
- In the publication “Banja Luka Stock Exchange Official Market”
- At the main web page of the Banja Luka Stock Exchange
- Press releases to media
- Available in local and English language
Implementation of CG Scorecard

- The BLSE (with IFC) evaluates listed companies using scorecard
- Results are presented at the BLSE International Conference
- Company with the best score is awarded as a company with best corporate governance
- Detects weak areas in the CG implementation and organize trainings (IFC support)
CG Scorecard results

1) Commitment to the Corporate Governance Standards

Year: Weighting: 20% Score:
- 2009: Individual Score: 16.56% Score: 1.66%
- 2010: Individual Score: 20.79% Score: 2.08%
- 2011: Individual Score: 56.79% Score: 5.68%

5) Disclosure and Transparency of Information

Year: Weighting: 20% Score:
- 2009: Individual Score: 58.13% Score: 11.63%
- 2010: Individual Score: 52.89% Score: 10.58%
- 2011: Individual Score: 63.39% Score: 12.68%

Total Score

Year: Standard Score
- 2009: 100% Score: 54.34%
- 2010: 100% Score: 53.46%
- 2011: 100% Score: 65.71%

6) Role and Responsibility of the BoD

Year: Weighting: 20% Score:
- 2009: Individual Score: 56.88% Score: 11.38%
- 2010: Individual Score: 45.79% Score: 9.16%
- 2011: Individual Score: 54.64% Score: 10.93%

7) Audit and Internal Control System

Year: Weighting: 20% Score:
- 2009: Individual Score: 55.31% Score: 5.53%
- 2010: Individual Score: 67.11% Score: 6.71%
- 2011: Individual Score: 79.82% Score: 7.98%

2) Rights of Shareholders

Year: Weighting: 20% Score:
- 2009: Individual Score: 55.31% Score: 11.06%
- 2010: Individual Score: 57.76% Score: 11.55%
- 2011: Individual Score: 64.46% Score: 12.89%

3) Equal Treatment of Shareholders

Year: Weighting: 20% Score:
- 2009: Individual Score: 47.81% Score: 4.78%
- 2010: Individual Score: 55.66% Score: 5.57%
- 2011: Individual Score: 66.25% Score: 6.63%

4) Role of Stakeholders in Corporate Governance

Year: Weighting: 20% Score:
- 2009: Individual Score: 83.13% Score: 8.31%
- 2010: Individual Score: 78.16% Score: 7.82%
- 2011: Individual Score: 89.29% Score: 8.93%
CG Scorecards benefits in transition economies (stock exchange perspective)

- Helps to monitor stock exchange disclosure requirements
- Provides feedback to stock exchange which can be used for the market segmentation
- Gives the companies lead what the stock exchange and investors expect from the companies in the future regarding CG practices,
- Provides inputs for the stock exchange educational activities
• Scores can be used as inputs for regulation and CG codes changes

• Aggregate results are easily used to put some topic on the reform agenda

• Media uses aggregate results to put pressure to change improper CG practices

• Provides historical data on CG practices that can serve for informed strategic decision making
For Discussion

- Codes/standards vs. regulation in the transition economies when there is lack of market incentives

- Should CG scorecards be “one size fits all” in the economy with different laws for listed companies (company law, bank law, state-owned company law)
Thank You