IMPLEMENTING AND MONITORING CORPORATE GOVERNANCE CODES

Eurasia Regional Workshop 3: Best Practices for Listed Companies, Banks and Financial Institutions

Implementing Corporate Codes at the Company Level

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Issues for Discussion:

- Overview of IFC CG work with companies
- Adopting company codes
- Reforming the governance structure of a company
- Reporting and compliance
- Q&A and discussion
Corporate Governance at IFC

IFC Corporate Governance Unit
- CG Support to Investment Operations
- Network Support to CG AS
- Global Leadership (DFI Initiative, LAC Companies Circle)
- Support to IFC Nominee Directors

IFC CG Methodology and Tools

Corporate Governance AS Projects
- Advisory to Investment and AS Client Companies
- Enabling Environment
- Educational Institutions
- Public Awareness
- Bridging Investment and Advisory Operations

Forum Toolkits and Support

Global Corporate Governance Forum
- Support to CG Institutions in Emerging Markets (Institutes of Directors)
- Toolkit Development and Roll-out
- Research Network
- PSAG
Implementing and Monitoring the Code

- Launching and disseminating the code

- Adopting and implementing the code (at the company level)

- Measuring the impact of the code

- Updating the code
Factors influencing the effective implementation of corporate governance codes:

- **Substance** - Is the code supported by all major stakeholders? In other words, is it generally recognized that the code presents commonly accepted best standards?

- **Common sense** - Do companies recognize that these best practice recommendations will improve their access to capital and enhance their performance?

- **Market pressure** - Are shareholders, institutional investors, banks, and other providers of capital encouraging companies to follow the code’s best practice recommendations?

- **Legal backing** - Are recommendations of the code being incorporated in regulations or listing requirements?

- **Enforcement** - Are recommendations of the code being monitored or enforced by market regulators?
Keys to Ensure Company Adoption / Implementation

- Requirement (Mandatory, Comply or Explain, Voluntary)
- Dissemination / Attention
- Endorsement
- Business Case
- Enforcement
Why Adopt a Code / Improve CG?

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

• For companies (Business Case for CG)
  ↓ Improved access to finance (both equity and debt)
  ↓ Higher valuations
  ↓ Improved efficiency
  ↓ Better decision-making
  ↓ Reduced reputational risk

• For regulators and supervisors
  ↓ First line of prudential defense
  ↓ Increased financial stability

• For markets and economies
  ↓ Higher market capitalization and liquidity
  ↓ More “champion” companies that can compete, grow internationally
  ↓ Higher economic growth leads to jobs – alleviating poverty
The Business Case
What are the main business benefits to your organisation of having a defined corporate-responsibility policy?*, %

- Having a better brand reputation
- Making decisions that are better for our business in the long term
- Being more attractive to potential and existing employees
- Meeting ethical standards required by customers
- Having better relations with regulators and lawmakers
- Our revenue is higher than it would otherwise be

* Up to 3 could be selected
Reforming the Governance Structure of a Company

How and What to Adopt / Implement?
What to Adopt / Implement?
IFC / OECD / Investors / Regulators Typical CG Parameters

I. Commitment to Good CG
- Dedicated CG officer
- Written code of CG
- Board committee on CG

II. Structure & Functioning of Boards of Directors
- Roles & Responsibilities (vis-à-vis mgmt)
- Composition & Structure, incl. committees
- Independence & Skills
- Remuneration & Evaluation

III. Control Environment
- Accounting & Internal Audit
- Internal control & Risk mgmt.

IV. Transparency & Disclosure
- Financial reporting
- Information disclosure

V. Treatment of Minority Shareholders
- Shareholders' meetings & Share voting
- Representation & Fair treatment
- Access to information
How to Adopt / Implement?

• Write provisions of the CG Code into Articles, By-Laws and other corporate documentation
• Develop a comprehensive corporate governance improvement plan (CGIP) and implement the plan through action and benchmarks
• Monitoring and compliance
• Reporting
Reporting and Compliance
A listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects.

CPFL has formal corporate governance guidelines that address all of the matters specified in the NYSE rules.

The non-management directors of a listed company must meet at regularly scheduled executive sessions without management.

The non-management directors of CPFL do not meet at regularly scheduled executive sessions without management.
<table>
<thead>
<tr>
<th>External</th>
<th>Internal</th>
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<tbody>
<tr>
<td>• Launching and disseminating the code</td>
<td>• Board level endorsement</td>
</tr>
<tr>
<td>• Adopting and implementing the code</td>
<td>• Board level compliance committee / function</td>
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<tr>
<td>• Competent /fair regulator</td>
<td>• Compliance officer / function</td>
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<tr>
<td>• Fair disclosure</td>
<td>• Internal audit or other monitoring</td>
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<td>• Rigorous consistent enforcement</td>
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<td>• Meaningful enforcement</td>
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<td>• Appropriate sanctions</td>
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<td>• Measuring the impact of the code</td>
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<td>• Updating the code</td>
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## A Tale of Two Companies Adopting Nat’l CG Code

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
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</thead>
<tbody>
<tr>
<td>Adopted Code</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Beyond Compliance</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>CGIP</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>Audit Opinion</td>
<td>Qualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>CG Scorecard</td>
<td>2nd Quartile</td>
<td>1st Quartile</td>
</tr>
<tr>
<td>2010 Stock Price (High)</td>
<td>28.00</td>
<td>53.20</td>
</tr>
<tr>
<td>2010 P/E Ratio</td>
<td>9.20</td>
<td>14.66</td>
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| Comments                     | 1. P/B less than similarly situated companies  
  2. Price performance lagged Exchange Index | Recipient of prestigious CG Award    |
Lessons Learned for Effective Code Adoption at the Company Level

• Keep a Record of How Content Accepted or Rejected
  - maintain a matrix of key issues
  - record from whom submissions received in this connection
  - detail of how the committee/editors responded (with reasons)

• Consider Funding Issues early in the Project
  - payments for research
  - costs of communication, correspondence, dissemination
  - costs of media engagement
  - sources from whom funding can be obtained

• If Consulting Support Required, Consider Implications

• Editing, Negotiating Changes, Finalising…
  ……are very time consuming, don’t underestimate

• Manner of Final Publication, Dissemination = Critical!
  - work does not end at this point, often only the beginning
Lessons Learned for Effective Code Adoption at the Company Level

- Commitment
- Dedicated champion (CG Officer, Corp. Secretary, other)
- Resources
- Qualified advisor
- Monitoring
- Continuous improvement
- Time / patience
“...the substance of good corporate governance is more important than its form; adoption of a set of rules or principles or of any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance.”

*The Business Roundtable, USA*