

**Presentation of Corporate Governance in Eurasia:
Remarks on the 'Comparative Overview'**

- Outline -

by

Christian Strenger

Member of the Supervisory Board, DWS Investment GmbH, Frankfurt
Member of the 'German Government Commission on Corporate Governance'

I. The importance of corporate governance for capital access and economic development (with special regard to foreign investors)

- OECD Corporate Governance Principles 2004: The preamble determines that good corporate governance underpins market confidence, integrity and efficiency and hence promotes economic growth and financial stability.
- The pursuit of good governance is a decisive trigger for foreign investors
- Local governance standards should therefore converge towards international best practice
- Companies to benefit from better governance through a reduction in the cost of capital and higher growth rates
- Strong shareholder rights as a prerequisite to avoid the fear of expropriation
- Transparency and liquidity of the securities market are crucial for international investors
- Centralization of share trading and absence of registration restrictions are a must for sufficient market liquidity

II. Reform priorities in the Eurasian countries from an international perspective (based on the 'Comparative Overview')

- The just revised OECD Principles should be actively applied by governments, regulators and private parties.
- The following points address Eurasian governance issues indicated in the 'Comparative Overview' that are of high priority from an international perspective.
- Companies must increase transparency and disclosure (ideally by adoption of international reporting standards) (OECD Principles Part V.)
- They have to implement high quality audit and reporting processes (OECD Principles V. C, D and E)
- Board members must recognize their fiduciary duties for all shareholders, especially the representatives of large private shareholders or the state (OECD Principles Part IV.)
- Strengthen the legal framework for minority shareholder protection: Shareholders should have private and collective rights of action against controlling shareholders (including states) (OECD Principle III. A. 2)
- Ensure application and enforcement (including appropriate sanctions) of shareholder protection rules and regulations. Regulators and exchanges must monitor compliance in an efficient and timely fashion (OECD Principle I. D)
- The existence of competing local exchanges severely hinders the development of a liquid securities market and efficient information dissemination: Centralisation to establish full transparency and liquidity a must (in line with OECD Principles I. A)

III. Advancing good governance in Eurasia

- **The regulatory approach: mandatory rules vs. self-regulation**
 - Design and implementation of stringent company and capital market laws a top priority to ensure the basis for an efficient corporate governance framework.
 - State authorities, companies and investors should jointly establish mandatory corporate governance standards.
 - The governance standards should be a mandatory listing requirement of the stock exchanges with a 'comply or explain'-obligation for transparent company behaviour. The importance of this specific disclosure requirement is acknowledged by the OECD Principles 2004 (Annotations on page 54).
 - Monitoring of the application of the governance standards should be delegated to the exchanges with a reporting obligation to the supervisory bodies that have sanctioning power.
 - Self-regulation a second priority as this functions satisfactorily only in very few mature markets like the United Kingdom.

- The application of demanding international standards (like IFRS reporting standards) would be a strong signal for above average governance standards (also recommended by the OCED Principles V. B).
- Working legislation against insider trading (in line with the OECD Principles paragraph III. B: Insider trading prohibition).
- **Credible enforcement is the second key factor for a convincing governance framework**
 - Strengthen the regulatory authorities: increase financial and human resources for securities market oversight and ensure adequate training of regulators' staff (new requirement of the OECD Principles of 2004 I. D)
 - Role of the judicial system to guarantee independence of the judges; therefore, the measures mentioned in the 'Comparative Overview', e.g. training for lawyers and judges, adequate remuneration and publication of court written opinions need to be urgently implemented resp. increased
 - Encourage centralisation of the judiciary to improve its efficiency
 - According to the 'Comparative Overview', violations of the procedures for convening and holding the annual general meetings lead to frequent abuses in Eurasia. Full sanctioning by the responsible authorities of such abuses is vital.
- **Strengthening the role and the quality of corporate boards in transition economies: only qualified directors can ensure governance quality**
 - Tightening director standards in terms of independence (in line with OECD Principles VI. E. 1)
 - Increasing liability of boards for their actions
 - Improving the role in strategic planning, monitoring of internal control systems (compare OECD Principles VI. D. 1 + 2)
 - Improving independent review of transactions involving managers, controlling shareholders and other insiders (compare OECD Principles VI. D. 6)
 - Ensuring board access to accurate, relevant and timely information (compare OECD Principles VI. F)
 - Boards to implement and monitor application of voluntary Codes of Conduct within their company

IV. The way forward: practical suggestions for efficient governance implementation

- Use international experience but make it a national task for all parties concerned (companies, intermediaries, investors and regulators) to establish satisfactory governance standards

- Install practical ways to monitor compliance with good governance rules: develop tools for analysis and control of company governance (like the Scorecard approach)