

Session 4 @ 16:00
Roundtable in Rio, October 21

10 minutes to present the break-out
discussion topics

Three topics for break-out sessions

- ***GROUP 1: Influencing Corporate Governance of Non-Listed Companies: Regulatory vs Non-Regulatory Approaches***
- ***GROUP 2: Corporate Governance: Achieving a Balanced Approach to Corporate Responsibility***
- ***GROUP 3: Board Performance: The Role of Board Evaluations***

Topic 1: Non-listed companies

- Big part of the economy in Latin America
- Family ownership is predominant, with many companies in the first or second generation
- There is less regulatory attention to these companies, other than through corporate laws
- However, these present an interesting segment for investors – close ownership linked to long-term commitment
- OECD conducted a review of CG for non-listed companies and issued a report on Corporate Governance of Non-Listed Companies in Emerging Markets in 2006

Typical CG Issues in Non-Listed Companies

- Lack of formal CG structures and processes
- Boards are nascent or just being set up, advisory boards are a transition step
- Internal control and risk management processes are mostly suited to the needs of the controllers
- Lack of transparency and weak accounting
- Family governance structures not fully existent or operational

Investor Reactions

- Many investors like non-listed/family-owned companies – long-term commitment horizon
- Often institutional investors are the first external shareholders → beginning of the path to open up the company
- Investors play a more hands-on role (e.g., evaluating CG before investment, helping set up/improve the boards, technical and CG know-how transfer) → IFC Corporate Governance Progression Matrix for founder/family-owned companies
- Investors help the company grow, expand and merge with larger players

Areas for Improvement

- Boards, boards, and boards
 - Ownership and management succession, transition to the next generation of leadership
 - Family governance elements
 - Regulatory environment should encourage and simplify the path of non-listed companies to capital markets
- The Panel to discuss the specific measures in this direction**

Topic 2: CG and CSR

- CSR is gradually received more and more attention from the markets, companies and investors
- Largely practiced more by bigger companies, particularly listed and those with operations affecting environment, social issues and communities
- Good CG and CSR reinforce each other → if companies do not respect their shareholders' interests they will not respect the stakeholders' interests

Investor Reactions

- Development finance providers consider CSR issues as part of investment value-added, e.g., IFC Performance Standards
- NGOs and markets follow the companies' CSR reports and operations affecting environment and communities
- More attention to these issues after BP's problems in the Gulf

Areas for Improvement

- Board's role in CSR – should be considered as a potential risk
 - Transparency and reporting
- The Panel to discuss specific measures companies could take to improve their social responsibility

Topic 3: Board Evaluations

- One of the critical elements for improving board effectiveness
- A tool for self-improvement rather than to punish non-performing directors
- Not yet a common practice even in larger listed companies
- In some jurisdictions there is a regulatory requirement for board evaluations

Investor Reactions

- Investors value the boards' attempt to improve
- Many corporate governance best practices recommend board evaluations, including the CG codes from Latin America

Areas for Improvement

- More companies should be conducting such evaluations
 - At a minimum full board performance evaluation should be done
 - More advance companies/boards could additionally do individual director and peer to peer evaluations
 - Evaluation procedures need to be clarified and standardized
 - CG committees of boards could play a role in evaluations (external consultants could facilitate)
- The Panel to discuss what companies and regulators can do to encourage board evaluations