



STATE AS A SHAREHOLDER

- A FOCUS ON ROMANIA -

**JOINT MEETING OF SEE & EURASIA
CORPORATE GOVERNANCE ROUNDTABLES
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Corporate Governance: a new concept for Romania

- Widely spread in Western Europe, still not generally implemented in Romania
- Local companies saw little interest in promoting corporate governance principles, mainly due to:
 - Privatization programs- strategic investors had little interest in being transparent with minority shareholders
 - Foreign investors- complying with Corporate Governance rules in their home market, less interested in the local capital market

Corporate Governance: a new concept for Romania

- Local companies saw no interest in promoting corporate governance principles, mainly due to:
 - Companies had problems in getting profits, hence not much interest of the shareholders in the companies' life
 - Difficult economic environment, changing legislation, determined the companies to be focused on their daily activity and less on satisfying their shareholders
 - *No need for much transparency*

Corporate Governance: promotion on the local market

- Romanian capital market:
 - a small new market willing to develop, become more efficient and stable;
 - a public responsibility of BSE towards the small shareholders, investors;
 - the Mass Privatization Program conducted to a high number of privatized companies and millions of small shareholders who needed protection.
- Companies' Act adopted in 1990, as a very modern law, and modified in 1998, 1999 and 2003 (anti-corruption package) imposed state-owned and privatized companies to implement corporate governance rules, but provided for no enforcing authority.



Corporate Governance: promotion on the local market

- Government Decree no.401/May 5 2005: creation of Accounting and Financial Reporting Council which had among other goals “promotion and monitoring the implementation of corporate governance principles”
- AFR Council got together the most important Romanian financial authorities: Ministry of Public Finances, National Bank of Romania, Romanian National Securities Commission, Insurance Commission, Financial Auditors’ Chamber, etc.
- No major changes noted in the SOE behavior.



Corporate Governance: promotion on the local market

- July 2005 - Government Decree no.669 for the approval of an Action Plan for the development and consolidation of the Romanian business environment during 2005-2006; Chapter V of the Action Plan provides for “*Implementation of CG Principles*”
- October 2005 – Government initiative to create an inter-ministerial group for amending the Companies’ Act by “integrating in the Romanian juridical system the corporate governance principles”.
- Ministry of Justice – coordinator of the project – organized at mid October 2005 a roundtable on the subject; the project is undergoing.



BSE- Leading promoter of Corporate Governance principles in Romania

- August 2001: Adoption of BSE Corporate Governance Code and creation of “Transparency Plus” Tier based on the fulfilling the requirements of the code.
- September 2001: The first high level round-tables on Corporate Governance in Romania and South-East Europe.
- December 2001: OECD Report on Corporate Governance in Romania:
 - Recommendation: Establishment of an Institute of Directors/ Administrators



BSE- Leading promoter of Corporate Governance principles in Romania

- July 2003: set up of the Bucharest Stock Exchange-Corporate Governance Institute
- June 2005: Official Launch of the BSE Corporate Governance Institute, aiming at:
 - Promote OECD principles of corporate governance to Romanian companies
 - Create and promote a managerial culture at European standards
 - Supply training programs for directors/ managers, board members, employees

Implementing Corporate Governance at BSE: a rigid approach

- “Plus Tier” / “Transparency Tier” a virtual tier created as “elite” section of the listed companies
- Conditions to be met by the listed companies:
 - Insertion of all provisions of the CG Code in the Chapter/ Statute of the listed companies
 - Removal of all provisions that contravene to CG Code
- Stringent requirements for implementing CG Code led to a reserved attitude of the companies=>only one company was listed on “Plus” Tier

Corporate Governance at BSE: change of attitude

- First lesson learned: the market was unprepared for implementing Corporate Governance standards:
 - The attitude of the local issuers towards CG principles was overestimated
 - Most companies declared their support towards observing CG rules, very little willing to introduce them in their charters
 - The approach should be softened and tailored considering the local economic conditions, history, mentality
- => BSE takes a gradual approach to implement Corporate Governance rules**



Corporate Governance at BSE: a gradual approach

- Creation of a *Corporate Governance Culture* by adopting the CG principles in the BSE rules and regulations.
- The new Capital Market Law (Law 297/2004), harmonizing the Romanian legislation with the EU laws, including corporate governance principles.
- NSC Regulations observing CG principles (Regulations no.1/2006).
- Once the basic principles are included in the capital market legislation => Voluntary adoption of the CG Code by the listed companies with results to be seen in 2-3 years.

Corporate Governance at BSE: Disclosure & Transparency

- Steps taken to implement OECD Corporate Governance principles on the local capital market:
 - Better disclosure of information (financial statements according to IFRS beginning with 2006, etc.): 54 companies out of 60, reported their financial statements within 120 days.
 - Preliminary financial information: all listed issuers reported preliminary financial information.
 - Introduction of the financial calendar: obligation to send the financial calendar within the first 30 days of the year.

Corporate Governance at BSE: Rights & Equitable treatment of shareholders



- Steps taken to implement OECD Corporate Governance principles on the local capital market:
 - Pre-emptive rights: all of the listed companies granted pre-emptive rights irrespective of the nature of the share capital increase.
 - Dividends policy:
 - 50% of the companies choose to pay dividends within 60 days from the GSM date;
 - 50% of the companies paid dividends within 180 days.

Corporate Governance at BSE: present situation



- OECD corporate government recommendations were partially implemented in Romania between 2001-2006



Corporate Governance at BSE: perspectives “Comply or explain” rule

- Revision of the Corporate Governance Code of BSE: listing conditions for “Plus” tier inadequate for the development stage of the Romanian market.
- Promotion of the Code especially among the large & very large companies listed at BSE.
- Voluntary adoption by the issuers of the Corporate Governance Code, under the rule “*comply or explain*”
 - Although very easily accepted, difficult to be implemented by issuers

Corporate Governance at BSE: Perspectives



Legal & regulatory changes

- Introduction of the “Independent Director” institution, already existing in the CG Code
- Capital market legislation to include provisions regarding:
 - the independent director,
 - independent audit committee,
 - definition of conflict of interests
 - abusive related party transactions
 - payment of the dividends within 60 days
 - “in-kind” contributions should be cautiously allowed

Corporate Governance at BSE: Perspectives



Legal & regulatory changes

- Capital market legislation and by-laws to include provisions regarding:
 - Clear rules regarding individual and collective liabilities of directors;
 - Clear responsibilities and liabilities for the financial auditors;
 - Clear delimitation of responsibilities between the internal and external control bodies;
 - GSM notification period should be extended from 15 days to 30 days;
 - When market value not available, the use of an independent assessment of the company shares value should be imposed

Corporate Governance at BSE: Perspectives

Corporate Governance Institute



- BSE Corporate Governance Institute to increase presence on the Romanian capital market;
- Training programs for managers/ Board members delivered by the Institute;
- “Director’s Guidelines” to be drafted and published by the Institute;
- An IPO Guide and a Guide on General Assemblies/Shareholders General Meetings to be produced by end of 2006.



Thank you for your attention!