

White Paper on Institutional Investors and Corporate Governance

INTRODUCTION

Daniel Blume

Principal Administrator

Latin American Roundtable on Corporate Governance

OECD Corporate Affairs Division

Davit Karapetyan

Corporate Governance Officer

Department of Corporate Advice

International Finance Corporation

The White Paper Drafting Process

- Started with exchange of experience at previous Roundtable meetings (2004, 2006, 2007).
- Synthesis note for 2007 Roundtable provided starting point for White Paper.
- Country reports prepared for Argentina, Brazil, Chile, Colombia, Mexico, Peru were updated this year, supplemented by country task force discussions in some cases, in others e-mail consultation.
- Early White Paper draft circulated during November for comment.

Strong Response from Consultation

- Multiple comments received from all six countries.
- Comments were diverse and rich enough that not all could be immediately taken on board.
- Many found the current balance good; others wanted more country-specific recommendations; or on the contrary that recommendations stay at general level so that each country can adapt specifics to their situation.
- However, broader consultation to reach more countries, institutions and market players, and more time to take comments into account, could be beneficial.
 - Through Roundtable discussion and, if Roundtable agrees, Internet consultation

Structure of the White Paper

- 1. Introduction: About this White Paper**
- 2. The Importance of Institutional Investors in Promoting Good Governance**
- 3. The Latin American Context: Market and Institutional Investor Characteristics**
- 4. Recommendations to Strengthen Policy and Good Practices**
- 5. Additional Steps: Strengthening Market Forces**

Recommendations to Strengthen Policy and Good Practices – General Issues

- **Recommendations address all stakeholders – policy-makers, institutional investors (IIs), companies and the market in general – thus advocating for comprehensive approach**
- **Recommendations are largely in line with OECD CG Principles, Latin American White Paper on Corporate Governance and best practice in this field but take into account regional specific (market infrastructure, legal and regulatory framework, level of development of capital markets and corporate governance practices)**
- **The White Paper distinguishes between policy-level recommendations and practical recommendations for IIs**
- **The White Paper attempts to distinguish between general recommendations for the region and country-specific recommendations**

Policy Recommendations

- **Are commonly addressed at the legislators, governments and regulatory agencies**
- **Provide for flexible role that policy-makers may play choosing between focusing on eliminating barriers or additionally providing incentives for IIs to play more active role in promoting good corporate governance**
- **Attempts to strike a balance between actions of the policy-makers and practices of IIs**
- **There is already a great deal of good policy in this field but it needs to be more comprehensive on all relevant issues**

Institutional Investors' Practice Recommendations

- **Recommendations primarily are addressed at the pension funds and mutual funds, but may also be relevant for other types of IIs with certain reservations**
- **Recommendations follow typical path of investment decision-making**
- **Recommendations address specific actions that IIs should take on shareholder, Board, management and general market level**
- **Emerging good IIs' practice provides confidence that recommendations are realistic**

Specific Good Practices That Should Be Encouraged/Implemented 1/2

- **Integrating corporate governance considerations, to the extent possible, into the investment decision-making analysis of IIs**
- **Formalizing and disclosing the policies of institutional investors related to corporate governance of investee companies and voting; disclosing compliance with such policies**
- **Actively exercising ownership rights, including voting at General Meetings of Shareholder, where economically justified**
- **Promoting open dialogue aimed at improving governance practices**

Specific Good Practices That Should Be Encouraged/Implemented 2/2

- **Contributing to the improvements on the Board level, particularly through nomination, selection and support in voting for independent and skilful directors**
- **Strengthening the accountability of management**
- **Addressing the relevant internal corporate governance issues of pension funds and mutual funds, specifically dealing with conflicts of interests**
- **Exiting from investment as a matter of last resort with due consideration of interests of IIs beneficiaries**

Possible Next Steps

- **All relevant stakeholders should work together to develop all elements of the relevant infrastructure for improving the role of IIs in promoting good governance**
- **Irrespective of the level of development of the legal and regulatory framework and enforcement practices, self-regulation of IIs, individually or through their organized structures, should be encouraged**
- **Corporate governance rating agencies and other service providers can play an important role**
- **All stakeholders should encourage and actively participate in education efforts for all players in IIs' field**

Questions for Discussion/Feedback

1. Do you consider appropriate the balance between the policy recommendations requiring actions by the governments, legislators and regulatory agencies and recommendations for institutional investors (IIs) to take the lead in improving their own practices (including balance between regulation/self-regulation)?
2. What, in your opinion, should be the optimal role of the governments, legislators and regulatory agencies in terms of improving the role of IIs in corporate governance – should it be limited to eliminating barriers or also focus on providing incentives and encourage IIs to play a more active ownership role
3. Do you think that the recommendations are general enough to be applicable to all/most of the Latin American countries and yet detailed enough to provide guidance to the governments, legislators and regulatory agencies and IIs what they should/could do?
4. Does the draft satisfactorily reflect the legal and regulatory framework and IIs' practices of your own country?
5. What additional recommendations should the White Paper consider? Are these specific to your country or can be general for the whole region?
6. Do you think that the draft presents all important next steps that the governments, legislators and regulatory agencies, IIs and companies can take to improve corporate governance practices in your country?
7. Does the draft White Paper address the main issues from the perspective of international IIs and is it in line with internationally recognized best practices in this field?



Thank You !!!
Questions and Comments Are Welcome!!!