

# “Corporate Governance in Issuing Companies of Argentina”

“Recent changes to the CNV’s Corporate Governance Code”

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# Financial Crisis and Corporate Governance

The financial crisis was caused by several factors such as reduced interest rates, excessive liquidity, high financial margins, ...but also,

→ by weak Corporate Governance practices <sup>1</sup>:

- ❑ Lack of Independence, professional qualification and experience of the Directors.
- ❑ Failures in the management of key information in internal communications (Board versus front-line managers ) and external communications (savers, minority investors).
- ❑ Ineffectiveness to detect and monitor excessive risk in financial institutions.
- ❑ Inconsistency between incentive systems, strategy and sustainability of the business (Mayor reward to higher levels of risk).
- ❑ Insufficient independence and objectivity of the auditor oversight bodies and risk rating put into question.

<sup>1</sup> See Grant Kirkpatrick (2010); Corporate Governance and the Financial Crisis. Conclusions and emerging good practices to enhance implementation of the Principles, OECD.

# Why was the Code reformed?

- ❑ To update the Principles of Corporate Governance in line with local and international recent experiences.
- ❑ To generate a design that facilitates the interpretation of the requirements by the Issuing Companies and the CNV's staff.
- ❑ To avoid duplication with issues that are already regulated by the law, as occurred in the previous Code, where nobody would admit not complying with mandatory requirements.
- ❑ To request the Issuing Companies to specify policies and procedures used to comply with the principles and recommendations.

# The Structure of the Code (General Resolution No. 606/12)

- ❑ The Code is available in Spanish in CNV's website:  
<http://www.cnv.gob.ar/LeyesReg/CNV/esp/RGCRGN606-12.htm>
- ❑ The Code has 9 principles and 22 recommendations or best practices.
- ❑ Under each recommendation there are comments that are indications of good practices. They are not exhaustive.
- ❑ The Issuing Companies comply with the principle/recommendation or explain the reasons for not doing so.
- ❑ The Code is for companies that issue shares and/or bonds.
- ❑ There may be grey areas where the analytical skills are important in interpreting the answers, since there could be alternative practices that give way to a recommendation.

# General Principles

**Principle I.** Make transparent the relationship between the Issuing Company, the Economic Group and related parties.

**Principle II.** Lay the foundations for a solid management and oversight of the Issuing Company.

**Principle III.** Endorse effective policy of risk identification, measurement, management and disclosure.

**Principle IV.** Safeguard the integrity of financial information with independent audits.

**Principle V.** Respect shareholders' rights.

**Principle VI.** Maintain a direct and responsible link with the Community.

**Principle VII.** Remunerate fairly and responsibly.

**Principle VIII.** Promote business ethics.

**Principle IX.** Deepen the scope of the Code.

# PRINCIPLE I. Make transparent the relationship between the Issuing Company, the Economic Group and related parties

- ❑ Recommendation I.1: The Management Body must ensure the disclosure of the policy applicable to the relationship of the Issuing Company with the Economic Group as such and its related parties.
- ❑ Recommendation I.2: Guarantee the existence of deterrent mechanisms of conflict of interest.
- ❑ Recommendation I.3: Prevent insider trading.

## PRINCIPLE II. Lay the foundations for a solid management and oversight of the Issuing Company

- ❑ Recommendation II.1: Make sure that the Management Body assumes the management and supervision of the Company and its strategic guidance.
- ❑ Recommendation II.2: Guarantee an effective control of the Issuing Company's management.
- ❑ Recommendation II.3: Make known the process of evaluation of the Management Body's performance and its impact.
- ❑ Recommendation II.4: The number of external and independent members must constitute a significant proportion of the Issuing Companies' Management Body .
- ❑ Recommendation II.5: Ensure the existence of appropriate rules and procedures involved in the selection and nomination of members of the Management Body and front-line managers .
- ❑ Recommendation II.6: Evaluate the compatibility of the members of the Management Body and / or trustees serving on various Issuing Companies.
- ❑ Recommendation II.7: Promote the training and development of the members of the Management Body and front-line managers .

## PRINCIPLE III. Endorse effective policy of risk identification, measurement, management and disclosure

- ❑ Recommendation III: The Management Body shall have an comprehensive entrepreneurial risk management policy and monitor its implementation.

## PRINCIPLE IV. Safeguarding the integrity of financial information with independent audits

- ❑ Recommendation IV: Ensure the independence and transparency of the functions entrusted to the Audit Committee and the external auditors.





## PRINCIPLE V. Respect shareholders' rights

- ❑ Recommendation V.1: Make sure that shareholders have access to the Company's information.
- ❑ Recommendation V.2: Promote the active participation of all shareholders.
- ❑ Recommendation V.3: Assure equality between share and vote.
- ❑ Recommendation V.4: Implement mechanisms to protect all shareholders against takeovers.
- ❑ Recommendation V.5: Encourage the Company's shareholding dispersion.
- ❑ Recommendation V.5: Ensure a transparent dividend policy.



## PRINCIPLE VI. Maintain a direct and responsible link with the Community

- ❑ Recommendation VI: Provide the Community disclosure of information related to the Company and a direct communication channel with the Issuer.

## PRINCIPLE VII. Remunerate fairly and responsibly

- ❑ Recommendation VII: Establish clear policies for the remuneration of members of the Management Body and front-line managers of the Issuing Company, with special attention to the establishment of conventional or statutory limitations depending on the presence or absence of profits.



## Principle VIII. Promote business ethics

- ❑ Recommendation VIII: Ensure ethical behavior in the Issuing Company.

## Principle IX. Deepen the scope of the Code

- ❑ Recommendation IX: Promote the inclusion of good governance practices in the bylaws.

# Final Comments

- ❑ Public consultation: high participation of Issuing Companies, Chambers, Stock Exchanges and specialized professionals and academics.
- ❑ Next step: Companies that meet certain recommendations could be part of a Premium Panel.
- ❑ Why comply? Failure to do so jeopardizes the reputation of the Issuing Company.
- ❑ All code is dynamic. It aims to introduce new concepts, which eventually will be included into the regulation.

**Thank you!**