



**CARIBBEAN  
CORPORATE  
GOVERNANCE  
INSTITUTE**

effective organizations and efficient markets.

## Changing Perspective on Corporate Governance

Council of Security Regulators of the Americas (COSRA)

Port of Spain, 30 October 2012

Axel Kravatzky, PhD

Chairman

Caribbean Corporate Governance Institute (CCGI)

# effective organizations & efficient markets

how is CG disclosure related to CG reform

- ➔ context
- ➔ recommendations
- ➔ the role of CCGI

# about ccgi

- ➔ non-profit professional member organization for directors and senior executives
- ➔ incorporated in July 2012
- ➔ ready to welcome members by January 2013
- ➔ 5 (of 9) directors appointed, CEO designate appointed
- ➔ current lead project
  - ➔ T&T Corporate Governance Code as a partnership between:



## regional context

- low disclosure requirements
- high variation in actual disclosures
- close ownership
- significant CG areas not yet assessed
- only Jamaica has national CG codes
- until now, no professional CG focused membership organization

the 51 disclosure items of the UNCTAD  
(ISAR) benchmark cover the following five  
broad categories:

Intergovernmental Working Group of Experts on  
International Standards of Accounting and Reporting (ISAR)

1. Financial transparency
2. Ownership structure and exercise of control rights
3. Board and management structure and process
4. Auditing
5. Corporate responsibility and compliance.

# gap analysis of corporate governance disclosure requirements in 22 markets

Empty white squares indicate that the disclosure item is not required. Markets organized from most disclosure requirements to least, compared to the ISAR benchmark. The name of individual disclosure items can be found in the list in Annex II.

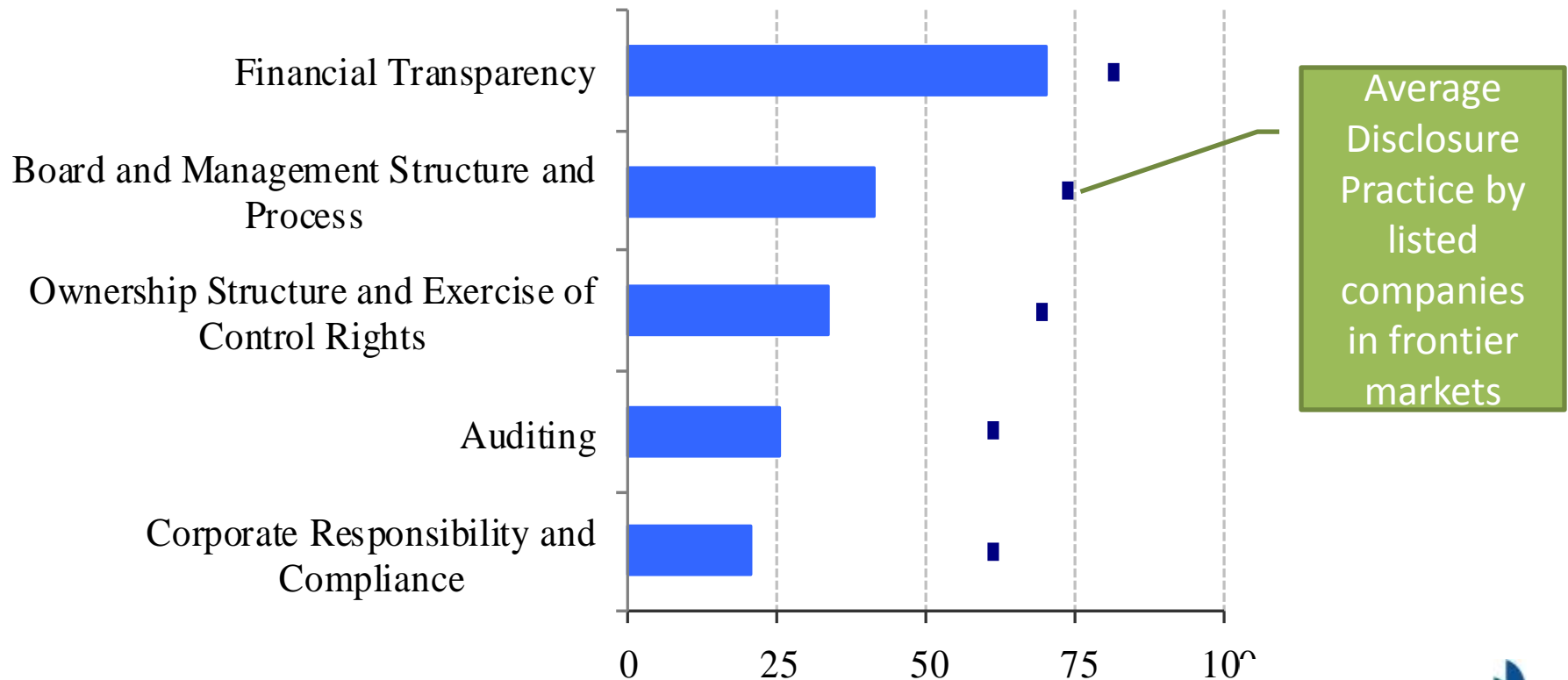
Disclosure	Financial transparency								Ownership structure									Board and management structure and process																	Auditing								CR & compliance								
Market	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51
Slovenia																																																			
Nigeria																																																			
Croatia																																																			
Lithuania																																																			
Jamaica																																																			
United Arab Emirates																																																			
Mauritius																																																			
Ukraine																																																			
Estonia																																																			
Vietnam																																																			
Oman																																																			
Kenya																																																			
Sri Lanka																																																			
Serbia																																																			
Bahrain																																																			
Qatar																																																			
Kazakhstan																																																			
Lebanon																																																			
Kuwait																																																			
Trinidad and Tobago																																																			

Source: UNCTAD, 2010

2010 Review of the Implementation Status of Corporate Governance Disclosures:  
An Inventory of Disclosure Requirements in 21 Frontier Markets

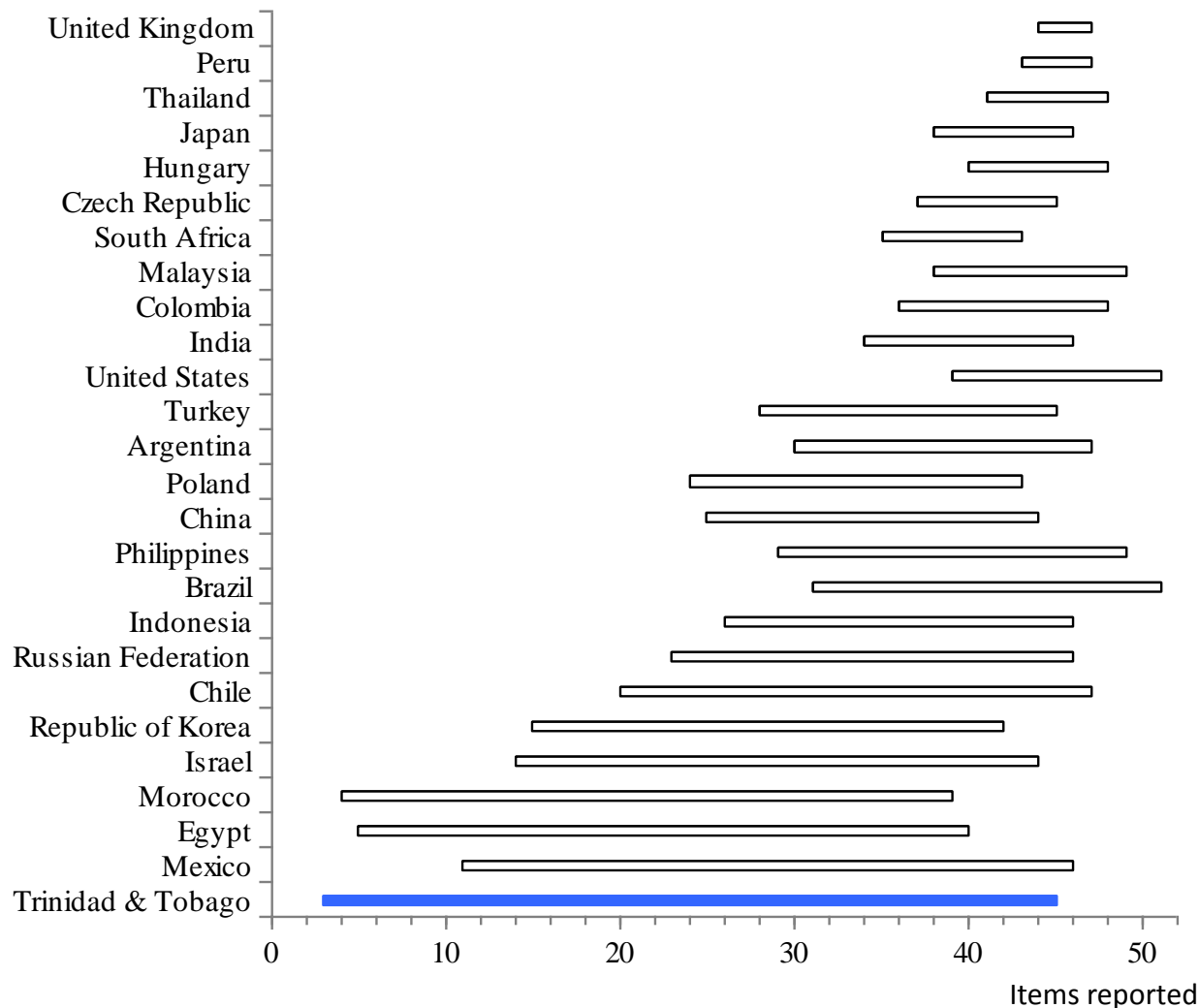
Jamaica data: Syntegra, PSOJ, & ICAJ (2012 forthcoming).

## T&T enterprises corporate governance disclosure practices below emerging markets average



Disclosure finding shows that T&T listed companies disclose 50% of the average for other countries emerging and frontier market

# reporting by enterprise: company corporate governance disclosure practices highly variable



Source: Syntegra (2011)  
<http://tiny.cc/4vngfw>

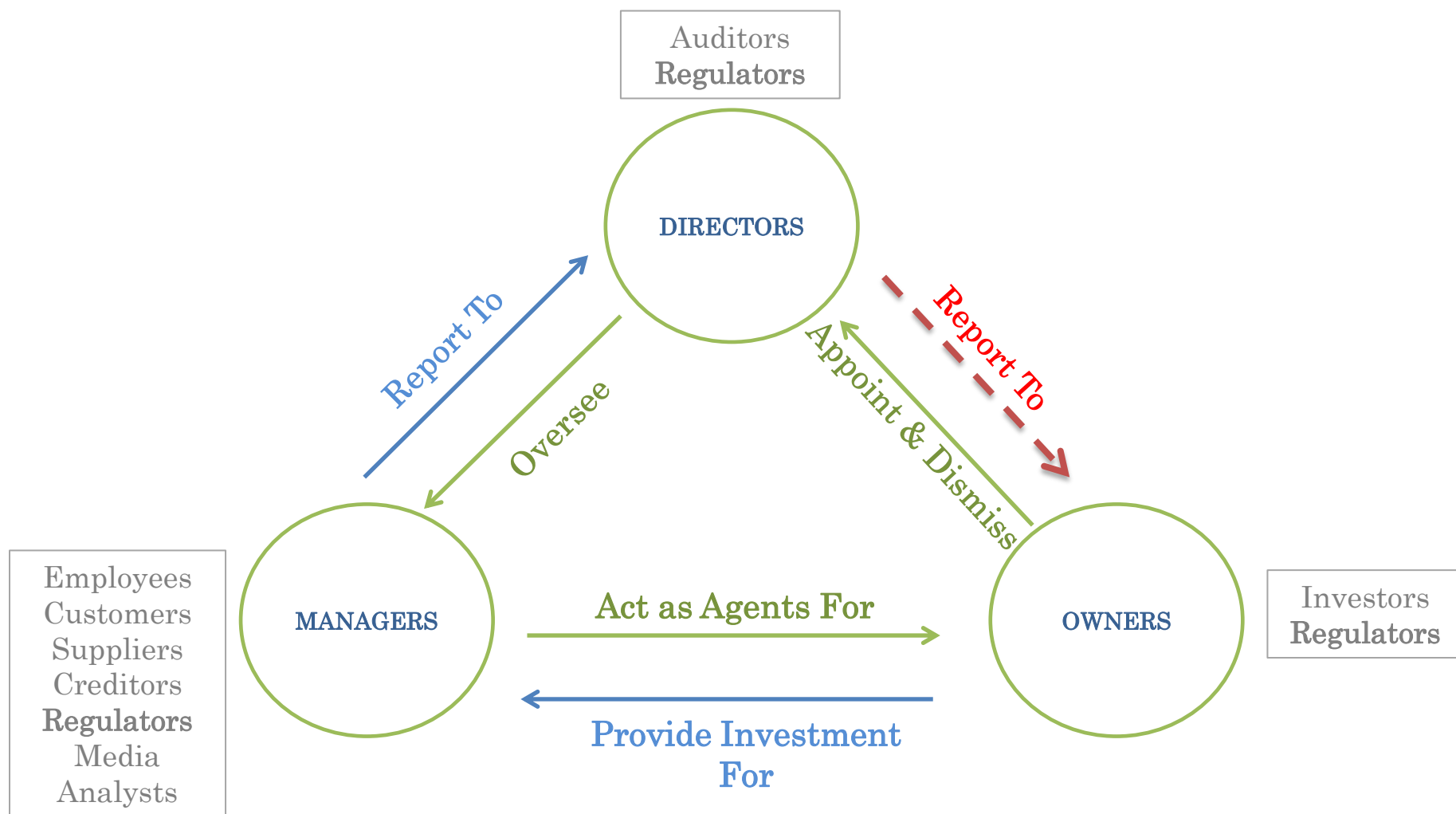


## reporting by enterprise: low rate of disclosure, but more than required



Source: Syntegra (2011)  
<http://tiny.cc/4vngfw>

## corporate governance ecosystem



# sample content elements of a code (UK, 2010)

- A: LEADERSHIP
  - A.1 The Role of the Board
  - A.2 Division of Responsibilities
  - A.3 The Chairman
  - A.4 Non-executive Directors
- B: EFFECTIVENESS
  - B.1 The Composition of the Board
  - B.2 Appointments to the Board
  - B.3 Commitment
  - B.4 Development
  - B.5 Information and Support
  - B.6 Evaluation
  - B.7 Re-election
- Annex:
- C: ACCOUNTABILITY
  - C.1 Financial And Business Reporting
  - C.2 Risk Management and Internal Control
  - C.3 Audit Committee and Auditors
- D: REMUNERATION
  - D.1 The Level and Components of Remuneration
  - D.2 Procedure
- E: RELATIONS WITH SHAREHOLDERS
  - E.1 Dialogue with Shareholders
  - E.2 Constructive Use of the AGM

THE DESIGN OF PERFORMANCE-RELATED REMUNERATION FOR EXECUTIVE DIRECTORS

DISCLOSURE OF CORPORATE GOVERNANCE ARRANGEMENTS

## Benefits of National Corporate Governance Code

### Purpose

1. Need for greater:
  - entrepreneurial risk taking
  - Investment,and lower rates of scandal/failure.
2. Common national standard for how organizations are governed, i.e., by what systems and processes they are being directed and controlled.
3. Standard that is appropriate for T&T, which can guide and be enforced.

### ✓ Benefits for Companies:

Higher performing organizations as a result of:

1. Lower cost of capital
2. Lower risk of failure and scandals
3. Stronger leadership and better operations

### ✓ Benefits for Society:

1. Stronger business sector & state owned enterprises
2. Greater benefits from better management of national wealth
3. Greater investor confidence
4. Stronger civil society
5. Lower risk of corporate failures

## FREQUENTLY ASKED QUESTIONS

### What will it practically look like?

- A Code Book with principles and practical guidelines
- Supplement by industry /organisation type, e.g., State, Non-listed, NGOs, Family Owned Business.
- Guidance on common best practice
- Tools to benchmark /assess organisation governance systems.

### Don't we already have the necessary laws?

- No, there is no national standard. Existing laws and regulations are disjointed, not comprehensive.
- T&T has lowest corporate governance disclosure requirements of 54 emerging and frontier markets studied (Syntegra & UNCTAD, 2011).

### How will it be enforced?

- All owners of organizations can hold their boards and management accountable by law and the code that provides common reference.
- Listed (and maybe regulated) companies expected to be subject to a “mandatory comply or explain” procedure.

## FREQUENTLY ASKED QUESTIONS

### What is the relation with regulators?

1. The TTSE, SEC and CBTT may make 'reporting on compliance' and 'explaining any deviation' mandatory.
2. Owners, investors and media will become more powerful and increase accountability, in their own interest, thereby making regulation more efficient and effective.
3. Expectation that reporting on compliance with code for listed & regulated companies will be mandatory.

### Will this add further costs?

1. For some companies it will. For most it will NOT be more costly (in fact they will be more efficient)
2. For some it will be lower because of clearer standards and guidance that is appropriate for T&T.
3. For society the costs will undoubtedly be lower.

### How will it be enforced?

1. Owners can hold their boards and management accountable by law supported by a code that provides common reference.
2. Listed (and maybe regulated) companies will be subject to "mandatory comply or explain" procedure. This is the practice in many other countries.

# role of CCGI

outcomes:

effective organizations + efficient markets

requires:

*Complementing legislation, regulation, enforcement & investor attention*

trust

appropriate systems

comes from:

competence + values

custom solutions

we offer:

education

- introductory learning
- specialization
- consolidation of industry news
- certification programs
- conferences
- recognition

standards + guidance

- regulatory influence
- professional associations
- international affiliation
- media
- academic and research support

to benefit:

ngo's

closely held  
companies

listed  
companies

state  
enterprises

investors



effective organizations & efficient markets.

**Thank you for the  
courtesy of your attention**

congratulations of your attention

14 Alcazar Street

Port of Spain

[www.caribbeangovernance.org](http://www.caribbeangovernance.org)

[axel.kravatzky@caribbeangovernance.org](mailto:axel.kravatzky@caribbeangovernance.org)



Additional slides

# 1. Financial Transparency

1. Financial and operating results
2. Critical accounting estimates
3. Impact of alternative accounting decisions
4. Nature, type and elements of related-party transactions
5. Company objectives
6. Board's responsibilities regarding financial communications
7. Decision making process for approving related-party transactions
8. Rules and procedures governing extraordinary transactions

Red box indicates Disclosure Required in T&T

## 2. Ownership Structure and Exercise of Control Rights

9. Ownership structure

10. Availability and accessibility of meeting agenda

11. Changes in shareholdings

12. Control structure

13. Control rights

14. Process for holding annual general meetings

15. Control and corresponding equity stake

16. Rules and procedures governing the acquisition of corporate control in capital markets

17. Anti-Takeover measures

### 3. Board and Management Structure and Process

18. Composition of the board of directors
19. Material interests of senior executives and board members
20. Checks and balances mechanisms
21. Risk management objectives, system and activities
22. Governance structures, such as committees and other mechanisms to prevent conflicts of interest
23. Qualifications and biographical information on board members
24. Composition and function of governance structures
25. Duration of directors' contracts
26. Types and number of outside board and management positions
27. Role and functions of the board of directors
28. Existence of succession plan for senior executives and board members
29. Independence of the board of directors
30. Existence of procedures for addressing conflicts of interest among board members
31. Determination and composition of directors' remuneration
32. Availability of advisorship facility for board members or board committees
33. Performance evaluation process for board members
34. Professional development and training activities for board members
35. Compensation policy for senior executives departing the firm as a result of a merger or acquisition

## 4. Auditing

- 37. Internal control systems
- 38. Process for appointment of external auditors
- 39. Process for interaction with internal auditors
- 40. Scope of work and responsibilities for internal auditors
- 41. Process for interaction with external auditors
- 42. Duration of current external auditors
- 43. Board confidence in the independence and integrity of external auditors
- 44. Rotation of external auditors
- 45. External auditors' involvement in non-audit work and fees paid to auditors

## 5. Corporate Responsibility and Compliance

- 46. Policy and performance in connection with environmental and social responsibility
- 47. Impact of environmental and social responsibility policies on sustainable development
- 48. Mechanisms protecting the rights of other stakeholders
- 49. A Code of Ethics for company employees
- 50. A Code of Ethics for the board and waivers to the ethics code
- 51. Policy on "whistle blower" protection
- 52. Existence of employee elected director(s) on the board