

## The Suggestion of Some Comparative European Group Corporate Governance Standards After Financial Crisis, Corporate Scandals and Manipulation

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**Abstract:** In past few years, corporate scandals and bankruptcy in US and Europe and other parts of the world show some certain evidence on weak corporate governance, weak internal control system and weak audit. Though there are a few researches which have been done in the field of international corporate governance standards, we believe that this field with more rooms to explore. Therefore, this paper chooses a different analytical approach and among its aims is to give some systematic opinions. First, it classifies European Group representative corporate governance (CG) standards into two (2) groups: EASD and ECODA CG principles covered in group 1 and, group 2, including EFAMA Code and Corporate Practices from EBRD, so-called relative good CG group, while it uses ACCA and CFA principles as reference. Second, it, through analysis, shows differences between above set of standards which are and have been used as reference principles for many relevant organizations. Third, it establishes a selected comparative set of standards for European group representative corporate governance system in accordance to international standards. Last but not least, this paper covers some ideas and policy suggestions.

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### 1. Introduction

The nature of the environment in which contemporary businesses function is systemic which is described in corporate governance practices or codes.

The Bulgarian 2012 Code for Corporate Governance mentioned corporate governance is understood as the relations between the boards, shareholders, and stakeholders of the company. Over years, the Code has been effective in public companies. In the light of different views on Corporate Governance and Company Acts, which are among interests of many organizations, after financial crisis 2007-2009, this paper mainly concentrates on analysis of Code of Best Practices for Corporate Governance in selected European groups and separates it from the analysis of relevant Company Act and Accounting regulations, which can be used as reference for further scopes. Despite of trying to select an easy-reading writing style, there is still some academic words need to be explained in further.

The organization of paper contents is as following. As our previous series of paper, Research literature and theories are covered in the first two sessions. Next, it followed by introduction of our research methodology in session 3 (3<sup>rd</sup>). Continuously, session four (4) covers our familiar four (4) groups of empirical findings. And our conclusion and policy suggestion is covered in the fifth (5<sup>th</sup>) session. Before last, there are exhibit session which covers some

summary of this paper's analysis and comparison. And lastly, a glossary notes is provided with information for reference and because of reducing repeating terminology.

### 2. Research literature review

There are many and controversial opinions on corporate governance theories and practices. For example, Jensen and Meckling (1976) presented their conceptual agency theory on the separation of ownership and management. Lin, Andrew Jen-Guang (2007) pointed that Corporate Governance will maintain its vital position in corporate law and securities law with the simple focus on investors.

Besides, Commonwealth Association (1999) pointed the fact that every country and businesses nowadays need good corporate governance practices and theories as a necessity.

Moreover, the South Africa King Code (2009) mentioned the terms of "corporate citizenship" and CSR or Corporate Social Responsibility and stated Corporate responsibility is the responsibility of the company for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that: contributes to sustainable development, including health and the welfare of society;

Furthermore, Exhibit 4 shows us different parties and components, internal and external, should be

involved in a policy or system of corporate governance. And certainly, global crisis and scandals recently such as Enron, Tyco, and Phidelpia partially signify the importance of corporate governance. As Demirag and Solomon, 2003 stated, The Asian crisis in 1997-1999 and corporate scandals such as Barings and WorldCom enhanced the need for corporate governance reform at a global level.

Additionally, Becht, Marco., Bolton, Patrick., Roel, Ailsa., (2005) developed corporate governance, the term is related with the resolution of collective action problems among dispersed investors, as well as the reconciliation of conflicts of interest between various corporate claimholders. They also pointed that when the outside investors have conflicts of interest with and want to exercise control differently from what the managers do, it will be among causes of corporate governance problems. Moreover, Adams, Renee B., Hermalin, Benjamin E., and Weisbach, Michael S., (2009) realized that as a consequence of corporate scandals and relevant corporate governance issues, boards have been at the center of the policy debate concerning governance reform and many further researches should deal with it.

Then, Fong (2013) stated disclosure of corporate information forms an integral part of the corporate governance framework. And Edmans (2013) pointed blockholders (large shareholders) may also worsen governance by extracting private benefits of control or pursuing objectives other than firm value maximization.

Because there are not many researches and surveys done in European groups, next, what is the limited comparative standardized set of so-called comparative European group corporate governance standards?

### **Theory of Corporate Governance, Scandal and Market Manipulation**

#### **Theory of manipulation**

There are different views on Manipulation subjects because of different types of it.

Besides, the involvement of financial intermediaries and brokers may contribute to manipulate market price while maintaining their credibility.

Also there were several corporate scandals around the world, happening together with market manipulation with reasons coming from artificially inflating accounting revenue or income, as well as the share prices of distressed companies to benefit the values of shareholders and investors and MGT team, and strengthening the co.'s financial statements as well. Regarding to reasons for corporate scandals, such as Enron, there is a matter relevant to external auditor roles, responsibilities in general and in their communication and transparency with the Board and

with the company, as well as full duties to shareholders. Last but not least, there is a role of speculators in manipulation transactions to cause the increasing in investment flow into the invested company when speculators produce enough, or as much and sufficient as possible, information.

#### **Theory of corporate governance and financial crisis**

First, Exhibit 4 showed us a general model of corporate governance with main parties such as: shareholders, board, committees, financialist, other stakeholders and community in a market economy and society. It identifies several criteria to build a good CG in organization such as: stakeholder involvement, policies and procedures which we aim to analyze in later sessions. And, as Shleifer and Vishy (1997) stated corporate governance regarding to the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

Also, Rachel., IFC (2009) stated that good CG is in companies with longer term sustainability and moreover, we need companies achieving environmental, social and economic value for society.

Last but not least, corporate governance nowadays is researched in a total picture of globalization. While globalization deals with the ways in which goods, products and services are exchanged in cross-countries, corporate governance pays attention on how the company structure and governance mechanisms are enhanced to meet the demands of such these trends. In other words, corporate governance in a globalization trend has many things to work with building a good internal system and quality flows of information inside the business to face the challenges which comes from the external factors of globalization.

Hence, we can see, there exist various views on corporate governance and its importance.

### **3. Research methodology**

Firstly, we analyze and compare corporate governance principles in each of two (2) different groups including: 1) Group 1 – European group CG representative standards including EASD CG 2000 and ECODA 2010 Corporate Governance Principles; and 2) Group 2 - Relatively good corporate governance group including EFAMA Code 2011 and EBRD Corporate Practices 1997;

We also use, but not limited to, international standards of corporate governance such as: World Bank, and Mc Kinsey corporate governance principles and surveys as reference, as well as ICGN and OECD Corporate Governance Principles which have many modifications in corporate governance principles after the crisis period.

Then, we suggest on what so-called limited comparative European Group corporate governance principles which is aiming to create a basic background for relevant corporations interesting in different aspects of corporate governance subjects and functions as the recommendation to relevant countries' government and other relevant organizations for public policy and necessary evaluation.

Last but not least, for a summary of our standards, see Exhibit and the below table 1 and 2 in relevant sessions.

#### 4. Empirical findings

##### **A- Findings on Corporate governance issues after financial crisis, corporate scandals and market manipulation**

Several popular issues including: the responsibility of the Board of Directors, both as a whole and as individual, to the mission of protecting and growing net value of total company asset. This is clearly identified after many crises and scandals recently. To break this issue in more details, we can see there is the un-effectiveness of Board, CEO and Board processes, as well as the inefficiency roles of audit function in dealing with matters relevant to Board effectiveness.

Also, we can find out another corporate governance (CG) issue. It is, the lack of effective mechanism to protect well net value of company and investors and shareholders' asset and investment. Another one is the transparency mechanism still existing with errors that lead to declining company's credibility to investors.

Moreover, the lack of an effective Code of Ethics and Code of Conduct might be a cause contributing to failures, frauds and bankruptcy recently and after financial crisis time.

##### **B- Findings on Ways of Manipulation during Corporate Scandals**

Several Manipulation Techniques found out during corporate scandals involve, but not limited to:

###### **B.1 – The manipulation techniques in the income statement:**

Here, the technique is used to manipulate either income or expense or profit to maximize benefits for both Board and investors.

Or, the company may establish a subsidiary to hide the actual losses in its business. For example, in the scandal of a financial giant in Japan, Yamaichi securities co., in 1992, the Yamaichi subsidiary used dummy companies to generate earnings for customers while eventually receiving losses of 158.3 billion yen.

###### **B.2 - The manipulation techniques in both the income statement and balance sheet:**

In the case of BCCI, Bank of Credit and Commerce International, found in Pakistan, there is accounting falsification of an amount of \$13 b which is unaccounted.

Furthermore, in the scandal of Riccar, a leading Japanese sewing machine manufacturer, there is a manipulation of earnings. The company had bad inventory and gave a fictitious sale invoice to false customers and hid the corresponding merchandise in warehouse, which are treated as sold merchandise, then, the inventory was not recorded in the books and was, in effect, an off-balance sheet asset. Riccard reported a fictitious revenue of 53.6 billion yen in total from 1976 to 1984.

##### **B.3 - The manipulation techniques relevant to international accounting practice code:**

There is also a going controversial concern between some different practices in IFRs and GAAP standards, although we know that IFRS has quality requirements for recognition, measurement. Moreover, in the scandal of ABB in Sweden, the company switched from IAS to US GAAP accounting in order to be listed on NYSE in 2001. Whereas IAS allowed the loss could be distributed over many years, under US GAAP, gains and losses of business transactions were allocated for the financial years they occurred.

##### **B.4 - Other manipulation techniques net belong to above classifications:**

Insider trading can be a source of market manipulation. For example, information on good business opportunities, which contains uncertainty and risks in future, or information on probability of winning auction of company can be an attribute to market price manipulation.

In the case of Martha Stewart scandal in 2001, the responsible manager is accused of using insider trading to trade nearly four thousand shares of stocks after receiving non-public information from one broker in order to avoid a big loss, just one day before that firm's stock price plummeted.

##### **C- Actions on Preventing or Controlling negative manipulation**

As management can perform false accounting and manipulation because of their own benefits or satisfying investors' expectation, a governance mechanism need to be established to control or prevent these actions.

Beside, in order to control negative market manipulation, necessary actions are enhancing mechanisms of internal audit and internal control.

##### **D- Findings on Construction of Comparative International Corporate Governance Standards**

These findings will be shown in a detailed analysis of a model indicated in the later sessions.

**<D.1> - Group 1 – European Group Corporate Governance standards analysis**

### The EASD Principles of Corporate Governance 2000

This is the Code of European Association of Securities Dealers.

Among its advantages are, but not limited to, the concentration on the substance of GM discussion.

Additionally, it is good to state that shareholders as individuals or groups have different objectives which differ from companies that perform roles in societies.

Besides, it identifies distinction between interests of the company and those of shareholders.

Generally speaking, The Code considers CG as a concept evolving over time and space. However, it would be better to address disclosure and transparency (see Exhibit 1).

### The Corporate Governance Principles for Unlisted Companies in Europe 2010

The Code is developed by The European Confederation of Directors Association (ECODA).

The Code identified the global crisis highlighted the importance of applying good practices.

One of its distinctions is mentioning shareholders set proper governance framework for the company. And it also pointed conflicts of interest can undermine CG.

For more information, please see Exhibit 3. However, it would be better to clarify roles of a compliance officer.

### Comparison between the ECODA and EASD Corporate Governance Principles

There is a focus in EASD Code on BD meeting with background information should be given for the meeting. Moreover, it states directors could propose agenda items. Also, it makes a sound point when it recommended price-sensitive information be withheld by the company.

On the other hand, the ECODA Code considers a proactive relationship between shareholders and BD at crisis time and normal business time. Besides, it also considers risk in case the company does not incorporate interests of stakeholders into CG.

Table 1 – A so-called European group CG representative standards

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	Chairman be non-executive board member;	Advisory authority delegated by BD; BD delegate responsibilities;
CEO and The Chair	Chair ensure effectiveness of communication b.t shareholders and BD;	Chair ensure BD operate efficiently;
Corporate Secretary	Record the minutes, monitor conformity with BD procedures, implementation of policy decisions;	Ensure board receive information in a timely way;
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors	Independent of MGT, influential shareholders; Set the company values and standards;	Must meet at least once every 6 months or at least once every 3 months;
Independent director	Ensure MGT team take correct step and use resources in the most efficient manner;	Independent BD member may own some shares but not join in pension plans or stock option;
Supervisory board to the Management	BD supervise MGT;	N/A (for further research and implementation)
Supervisory to the Board of Directors	Advisory board may be an interim step of BD;	Over time advisory board members can join BD;
Internal control	Provide for integrity of corporate data;	Supported by procedures of Authorization limits, Control over assets;
Internal audit	BD take care of;	Reliable and understandable information;
External audit	Shareholders approve EA; present at GM;	Inform BD findings regard to IC;
Disclosure and transparency	Establish the legitimacy of firm as a responsible firm in society;	Relevant, timely, understandable;
Shareholders	Elect/remove board members;	Have prompt access to information on the substance of the discussion;
The corporation as a whole entity	Develop company manual with anti-fraud, record MGT;	Scale and complexity of firm affect board size and composition;

**<D.2> -Group 2 – Relative Good Corporate governance group analysis  
2011 EFAMA Code for External Governance analysis:**

Good recommendations involved in the 1999 CACG Code include, but not limited to, a strong link between CG and investment process. And it is based on good judgment rather than description.

A minor point might be noted here is that the audit and control system are not described. For a summarized analysis on corporate governance factors, please refer to the Exhibit 5.

In summary, the 2011 Code paid well attention to enhancing quality of communication with clients or investee companies.

**Sound business standards and corporate practices 1997 analysis:**

These practices are prepared by EBRD (European Bank for Reconstruction and Development).

In the 1997 Code, we recognized it pays attention to establishing stable relationship with stakeholders based on sound behaviour and practices.

And among its advantages is that it mentions as the key aspect of CG, shareholders can oversee MGT performance and join in key decisions. Please refer to Exhibit 6.

On the other hand, it has a disadvantage as it does not describe well duties of CEO and the Chair.

**Comparison between the EFAMA Code and 1997 Corporate Practices**

First of all, there is a focus in the 2011 EFAMA Code encourage meeting with CEO, supervisory board chairman of investee companies to enhance value.

Beside, The 1997 Corporate Practices pointed Shareholder Assembly role is to approve changes in activities or decision in reorganization.

**The 1<sup>st</sup> Establishment of so-called relatively Good Corporate Governance standards**

This following table is built with the summary of above CG standards.

Table 2 – A relatively Good Corporate Governance standards

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	N/A (for further research and implementation)	N/A (for further research and implementation)
CEO and The Chair	BD select CEO and monitor his/her performance;	N/A (for further research and implementation)
Corporate Secretary	N/A (for further research and implementation)	N/A (for further research and implementation)
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors	Active dialogue with investee companies;	Independent from MGT; elected for a strict term of office;
Independent director	N/A (for further research and implementation)	N/A (for further research and implementation)
Supervisory board to the Management	N/A (for further research and implementation)	N/A (for further research and implementation)
Supervisory to the Board of Directors	N/A (for further research and implementation)	N/A (for further research and implementation)
Internal control	Report conflicts of interest affecting BD, MGT;	Processes to secure effective control of business;
Internal audit	Auditing the compliance with internal procedures;	Monitor professional good business practice;
External audit	Examine the integrity of financial system;	Independent; audit the accounts;
Disclosure and transparency	Have a policy on external governance disclosure;	Not make disclosure that might be counterproductive;
Shareholders	Adequate policy on voting rights;	Oversee MGT performance; join in key decision;
The corporation as a whole entity	enhancing quality of communication with clients or investee companies	Have a fiduciary duty to clients/investors;

**D.3- The 1<sup>st</sup> Establishment of so-called limited comparative European Group Corporate Governance standards  
Comparison of corporate governance standards between <D.1> and <D.2> group**

Before we come to set up a set of general limited standards of corporate governance, we need to review the standards combined in the previous two (2) groups

The advantages of Group 1, but not limited to, roles of Chair and CEO (see above Table 1).

On the contrary, the relative Good Corporate Governance Group standards states the company need to identify problems at early stages to minimize any loss of value.

### **A so-called Limited Comparative European Corporate Governance Set of standards**

Based on the above analysis, we consider building comparative standards for a comparative European Group Corporate Governance system.

Table 2 - The Comparative European Group Corporate Governance standards

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>
Audit committee	Chairman be non-executive board member;	Advisory authority delegated by BD; BD delegate responsibilities;
Nominating committee	evaluate the balance of skill, knowledge, experience of board; Advisory authority delegated by BD;	Lead the process for board appointment; BD delegate responsibilities;
Numeration or Compensation Committee	Define and monitor structure of remuneration for senior MGT;	Advisory authority delegated by BD; BD delegate responsibilities;
CEO and The Chair	Chair recognize strengths and address weakness of the board, propose new board member;	Chair ensure BD operate efficiently, ensure BD receive timely, clear information;
CFO	N/A (for further research and implementation)	N/A (for further research and implementation)
Corporate Secretary	Ensure board receive information in a timely way;	Record the minutes, monitor conformity with BD procedures, implementation of policy decisions;
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors or Management Board	Set the company values and standards; smaller size increases communication quality;	Must meet at least once every 6 months or at least once every 3 months;
Independent director	Ensure MGT team take correct step and use resources in the most efficient manner;	Independent BD member may own some shares but not join in pension plans or stock option;
Supervisory board to the Management	Over time , advisory board members can join BD;	BD supervise MGT;
Supervisory to the Board of Directors	Advisory board may be an interim step of BD;	Over time advisory board members can join BD;
Internal control	Provide for integrity of corporate data; Report conflicts of interest affecting BD, MGT;	Supported by procedures of Authorization limits, Control over assets;
Internal audit	BD take care of; Auditing the compliance with internal procedures;	Reliable and understandable information;
External audit	Shareholders approve EA; present at GM;	Inform BD findings regard to IC;
Disclosure and transparency	Have a policy on external governance disclosure; Not make disclosure that might be counterproductive;	Establish the legitimacy of firm as a responsible firm in society;
Shareholders	BD have satisfactory dialogue with shareholders;	Respect shareholder interests; may require ongoing dialogue with BD;
Stakeholders	BD establish a suitable program for stakeholder engagement;	BD take care of CG and stakeholder policy;
Accountability	Directors usually declare potential conflicts of interest to BD;	Insider trading is prohibited;
Leadership	Act by BD, Chair, CEO;	BD is the primary decision-making body;
Employee	Justify their action to someone else; report unethical behaviour;	Company organs properly address concerns of legitimate people;
Family governance	Family members may develop preferences for business;	Outline vision, objectives of the family for business; prevent potential conflicts;
3 <sup>rd</sup> parties and conflicts of interests	Handle issues around insider information;	May appoint lawyer, accountant to ensure BD fulfill statutory duties;
The corporation as a whole entity	Have a fiduciary duty to clients/investors;	Develop company manual with anti-fraud, record MGT;
The Code	Based on good judgement rather than description;	Align interests of MGT with shareholders and stakeholders;

(Note: source are based on corporate governance standards of group <D.1> and <D.2> and the appraisal of these standards)

## 5. Conclusion

Among several key corporate governance issues is, but not limited to, the leadership roles and the effectiveness of top management team, including CEO, chair, Board and outside directors.

To reduce its impacts, The EASD Code suggested BD not only take care of stakeholder policies but also corporate ethics and behavior.

Besides, the ECODA Code included a direct guidance for shareholders and directors as foundation for individual EU member. On the other hand, EFAMA Code 2011 mentioned effective policy for procedures for monitoring corporate events is needed. And 1997 Corporate Practices stated BD roles including recommendations to shareholders on issues for voting.

Past surveys from McKinsey in 2000 showed results such as investors willing pay 24% premium for good CG in South Korea and 18% premium for that in UK.

In consideration of corporate governance issues analyzed in the previous sessions, we proposed the main and sub quality factors in this paper **a set of general comparative European group corporate governance standards** in a limited model with selected codes. Though limited, it has some implications for further research and proper recommendations to relevant government and organizations. And it also provides relevant academic

and non-academic, lawyer and consultant, board and non-board people with minimum information for further researches.

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## Exhibit

Exhibit 1 – The EASD Principles of Governance for South Africa (a short summary evaluation)

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	<u>Not mentioned clearly in the code;</u>	Chairman be non-executive board member;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	As understood from the Code;
Nomination committee	<u>Not mentioned clearly in the code;</u>	Balanced;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	As understood from the Code;
Compensation or Remuneration committee	<u>Not mentioned clearly in the code;</u>	Chairman be non-executive board member;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CEO or Lead director;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
The Chair	Set BD meeting agenda;	Ensure BD operate efficiently;	Present at GM to answer questions or refer to BD;	<u>Not mentioned clearly in the code;</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Separate in one-tier board system;	<u>Not mentioned clearly in the code;</u>	As understood from the code;
Corporate Secretary (CS)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Record the minutes, monitor conformity with BD procedures, implementation of policy decisions;	<u>Not mentioned clearly in the code;</u>	
Compliance officer (compliance)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	

Board of Directors	Good faith, due diligence, care and loyalty;	Balanced;	Orientation/ Monitor functions; Present at GM to answer questions;	Long term interests of the co.;	
Executive director (EDs)	Outside business activities approved by BD;	On-going conflicts of interest must be avoided;	Take care of senior executive nomination;	<u>Not mentioned clearly in the code;</u>	
Non-executive director (NEDs)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Remuneration based on BD policies;	<u>Not mentioned clearly in the code;</u>	
(Senior) Independent director	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Independent BD member may own some shares but not join in pension plans or stock option;	<u>Not mentioned clearly in the code;</u>	
CFO (senior financial officer)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Management team (senior)	Accountable to BD, company, shareholders;	Sufficient latitude;	Present at GM to answer questions; delegation of power and decisions by BD;	<u>Not mentioned clearly in the code;</u>	
Supervisory board	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	BD supervise MGT;	<u>Not mentioned clearly in the code;</u>	
Internal control	<u>Not mentioned clearly in the code;</u>	BD take care of;	Provide for integrity of corporate data;	<u>Not mentioned clearly in the code;</u>	
Internal audit	<u>Not mentioned clearly in the code;</u>	BD take care of;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
External (Independent) audit /registered public accounting firm;	Inform BD findings regard to IC;	BD take care of;	Shareholders approve EA; present at GM;	<u>Not mentioned clearly in the code;</u>	
Disclosure and transparency	<u>Not mentioned clearly in the code;</u>	Relevant, timely, understandable;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Shareholders and Minority Stockholder	Controlling shareholders give due consideration to minority;	Minority not restrain corporate action;	Elect/remove board members;	<u>Not mentioned clearly in the code;</u>	
Accountability	Insider trading is prohibited;	BD accountable to shareholders;	Avoid/disclose conflicts of interests;	<u>Not mentioned clearly in the code;</u>	
Leadership	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Act by BD, Chair, CEO;	<u>Not mentioned clearly in the code;</u>	
Employee	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Company organs properly address concerns of legitimate people;	<u>Not mentioned clearly in the code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	<u>Not mentioned clearly in the code;</u>	Related party transaction disclosed;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Code of ethics (conduct)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	BD take care of;	<u>Not mentioned clearly in the code;</u>	
Group and subsidiaries	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Institutional investors state their voting policies;	<u>Not mentioned clearly in the code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				



Exhibit 2 – Corporate Governance system  
(source: Brazil Code of Best Practice of CG)

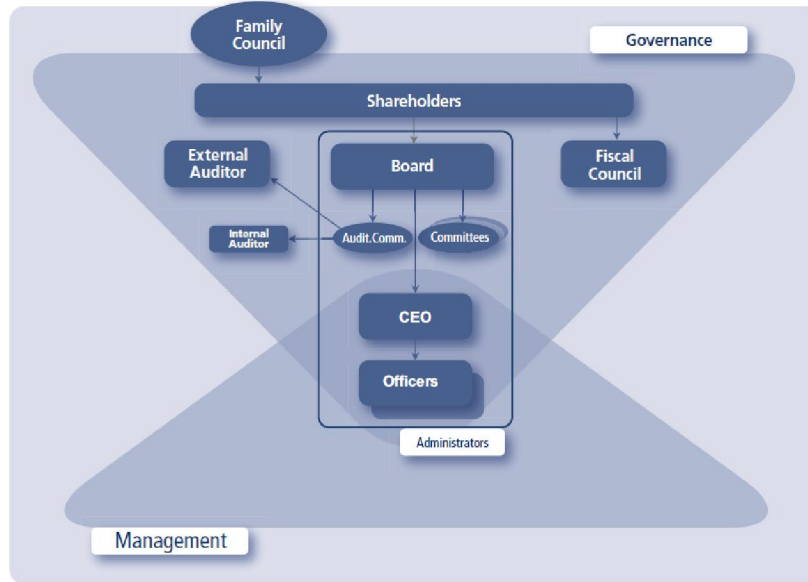


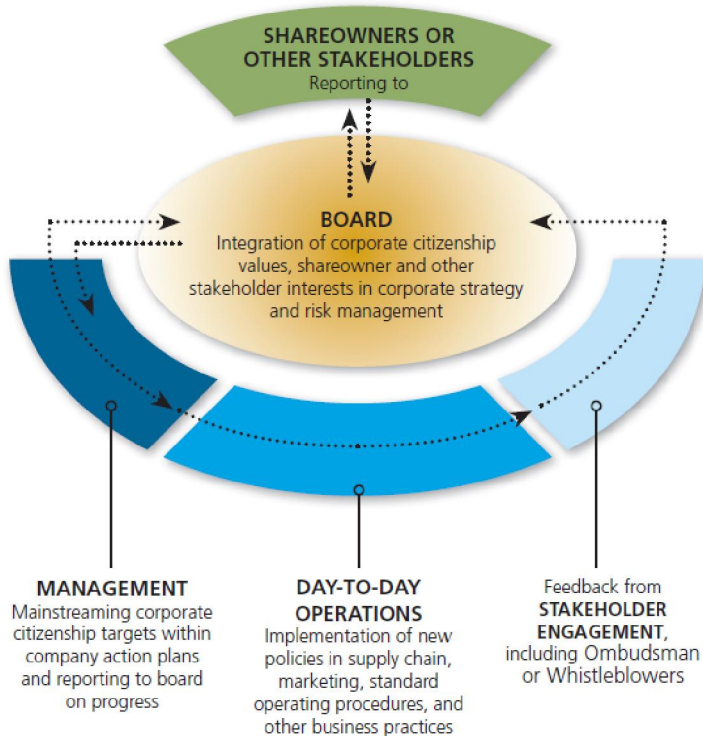
Exhibit 3 – Evaluation of 2010 ECODA Code Corporate Governance

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Advisory authority delegated by BD;	BD delegate responsibilities;	BD set appropriate BD committees;	More effective discharge of its duties;	
Nomination (HR) committee	Lead the process for board appointment;	Clear distinction b.t ED and NED;	BD delegate responsibilities; evaluate the balance of skill, knowledge, experience of board; Advisory authority delegated by BD;	<u>Not mentioned clearly by the Code;</u>	
Compensation or Remuneration committee	Propose remuneration for all executives;	Define and monitor structure of remuneration for senior MGT;	BD delegate responsibilities; Advisory authority delegated by BD;	<u>Not mentioned clearly by the Code;</u>	
CEO	BD supervise CEO;	Exercise executive authority over operation;	Leading executive MGT; consider as chief risk officer; board evaluate CEO;	<u>Not mentioned clearly by the Code;</u>	
The Chair	Prepare an agenda; too close to MGT will lack of objectivity and credibility;	Lead board ; set agenda of annual meeting ;	Welding capable individuals into board team; Chair recognize strengths and address weakness of the board, propose new board member;	High performing board team;	
CEO and The Chair relationship	Chairman encourage BD members to take certified director qualification;	After consultation with CEO and chairman, BD may find extra information from MGT;	Responsibilities separated;	<u>Not mentioned clearly by the Code;</u>	
Corporate Secretary	<u>Not mentioned clearly by the</u>	Report to chair and CEO;	Help BD fulfill compliance schedule;	Ensure board receive	

(Board)	<u>Code:</u>			information in a timely way;	
Compliance officer	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Board of Directors	Clear division b.t running BD and running co. business;	Directors receive induction on joining BD, update skill/knowledge;	Risk oversights; define corporate strategy;	For long term success of firm;	As understood from the code;
Executive director	<u>Not mentioned clearly by the Code;</u>	Full time;	1 or more may join one tier board;	<u>Not mentioned clearly by the Code;</u>	
Non-executive (external) director	Part time; add new skill /knowledge not available within firm;	BD ensure NED have access to independent professional advice;	Involve in one tier board; outside perspective on strategy and control;	<u>Not mentioned clearly by the Code;</u>	
Independent director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	Joining: A key step in development of unlisted firm;	Ensure MGT team take correct step and use resources in the most efficient manner;	
CFO	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Management team (senior)	Too much power, MGT will lose touch with BD;	Not the firm key decision makers;	BD delegation authority to MGT; access to NED;		
Supervisory board	Over time , advisory board members can join BD;	w/o formal decision making duties;	Advisory board may be an interim step of BD; include NED in 2 tier board;	<u>Not mentioned clearly by the Code;</u>	
Internal control	Take into account of financial, operational, strategic risks;	BD responsible for a sound formal IC and RM;	MGT establish IC and RM (delegated);	<u>Not mentioned clearly by the Code;</u>	
Internal audit	<u>Not mentioned clearly by the Code;</u>	Reliable and understandable information;	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
External (Independent) audit	<u>Not mentioned clearly by the Code;</u>	Reliable and understandable information;	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Disclosure and transparency	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	ED and NED compensation is transparent;	Establish the legitimacy of firm as a responsible firm in society;	
Shareholders and Minority Stockholder	Respect shareholder interests; may require ongoing dialogue with BD;	BD have satisfactory dialogue with shareholders;	set proper governance framework; enter agreements among themselves;	<u>Not mentioned clearly by the Code;</u>	
Accountability	<u>Not mentioned clearly by the Code;</u>	Directors usually declare potential conflicts of interest to BD;	Each employee, manager, BD member understand scope of their duties;	<u>Not mentioned clearly by the Code;</u>	As understood from the code;
Leadership	<u>Not mentioned clearly by the Code;</u>	BD is the primary decision-making body;	Act by CEO;	<u>Not mentioned clearly by the Code;</u>	As understood from the code;

Employee	Staff recruitment and remuneration delegated to MGT;	Justify their action to someone else;	As one of key external stakeholders;	<u>Not mentioned clearly by the Code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	<u>Not mentioned clearly by the Code;</u>	Academics, external think-tanks may support information for BD;	May appoint lawyer, accountant to ensure BD fulfill statutory duties;	<u>Not mentioned clearly by the Code;</u>	
Code of ethics (conduct)	<u>Not mentioned clearly by the Code;</u>	Support for employee personal development;	CG align interests of MGT with shareholders and stakeholders;	<u>Not mentioned clearly by the Code;</u>	
Group and subsidiaries	<u>Not mentioned clearly by the Code;</u>	Group appraisal examine how board operates as a collective decision-making body;	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Exhibit 4 – How responsible business embedded into function of BD  
(source: IFC and Global Compact 2009)



## Exhibit 5 – Evaluation of EFAMA Code 2011

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Nomination committee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Compensation, Remuneration committee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
CEO	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	Mentioned as the company or IMC;	<u>Not mentioned clearly by the Code;</u>	
The Chair	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
CEO and The Chair relationship	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Corporate Secretary	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Compliance officer	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Board of Directors	<u>Not mentioned clearly by the Code;</u>	Active dialogue with investee companies;	board construction, election, succession and remuneration as conventional CG issues;	<u>Not mentioned clearly by the Code;</u>	
Executive/Representative director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Non-executive director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Independent director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
CFO	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Management team ( <i>Senior Administration</i> )	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	In the best interests of investors; enhance portfolio value;	

Supervisory for the board	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Supervisory for the managers	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Internal control	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Internal or statutory audit	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
External audit	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Disclosure and transparency	Report on firm exercise of ownership rights;	A documented policy available to public;	Publicly confirm compliance to the Code on web;	<u>Not mentioned clearly by the Code;</u>	
Shareholders and Minority Stockholder	<u>Not mentioned clearly by the Code;</u>	Adequate policy on voting rights;	Reports comprise both qualitative and quantitative information;	<u>Not mentioned clearly by the Code;</u>	
Accountability	<u>Not mentioned clearly by the Code;</u>	Effective policy for procedures for monitoring corporate events;	Report to investors how firm discharge responsibilities;	<u>Not mentioned clearly by the Code;</u>	
Leadership	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Employee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	Meeting with CEO/MGT of investee companies;	Handle issues around insider information;	Pension funds, investment trusts, insurance companies – are clients/investors of IMC;	Protect and enhance value;	
Code of ethics (conduct)	<u>Not mentioned clearly by the Code;</u>	Effective;	Based on good judgement rather than description;	<u>Not mentioned clearly by the Code;</u>	
Group and subsidiaries	<u>Not mentioned clearly by the Code;</u>	Cooperate with other investors;	Engagement between IMC (Investment MGT companies) and companies in which they invest;	<u>Not mentioned clearly by the Code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Exhibit 6 – Evaluation of Corporate Practices 1997

Subjects or	Main quality	Sub quality	Responsibilities	Objectives	Note
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<b>parties</b>	<b>factors</b>	<b>factors</b>			
Audit committee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Nomination committee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Compensation, Remuneration committee	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
CEO	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	BD select CEO and monitor his/her performance;	<u>Not mentioned clearly by the Code;</u>	
The Chair	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
CEO and The Chair relationship	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Corporate Secretary	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Compliance officer	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Board of Directors	Monitor financial resources of the company;	Independent from MGT; elected for a strict term of office;	Clearly established and well-understood division of authority; Approve major transactions;	<u>Not mentioned clearly by the Code;</u>	
Executive/Representative director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	Adopt sound business standards;	<u>Not mentioned clearly by the Code;</u>	
Non-executive director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Independent director	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
CFO	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Management team ( <i>Senior Administration</i> )	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	Clearly established and well-understood division of authority;	<u>Not mentioned clearly by the Code;</u>	
Supervisory for the board	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	

		<u>Code:</u>			
Supervisory for the managers	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Internal control	Processes to secure effective control of business;	MGT structure foster information sharing;	Report conflicts of interest affecting BD, MGT;	<u>Not mentioned clearly by the Code;</u>	
Internal or statutory audit	Monitor professional good business practice;	Competent IA;	Auditing the compliance with internal procedures;	<u>Not mentioned clearly by the Code;</u>	
External audit	Independent; audit the accounts;	Examine the integrity of financial system;	Shareholder Assembly approve EA;	<u>Not mentioned clearly by the Code;</u>	
Disclosure and transparency	<u>Not mentioned clearly by the Code;</u>	Disclose personal financial interest of BD;	Fairness and transparency in dealing with suppliers;	<u>Not mentioned clearly by the Code;</u>	
Shareholders and Minority Stockholder	<u>Not mentioned clearly by the Code;</u>	Systematic and open communication with shareholders;	Oversee MGT performance; join in key decision;	<u>Not mentioned clearly by the Code;</u>	
Accountability	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	Pay all fairly computed taxes;	<u>Not mentioned clearly by the Code;</u>	
Leadership	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	
Employee	Concerns for employee's long term welfare; training;	Effective systems for consultation with employee on employment conditions;	Non-discrimination in recruitment, compensation and promotion;	<u>Not mentioned clearly by the Code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	Sensitive to concerns of , communicate local population;	Transparent purchasing policy;	Committed to pay suppliers promptly;	<u>Not mentioned clearly by the Code;</u>	
Code of ethics (conduct)	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	BD assess general business conduct;	<u>Not mentioned clearly by the Code;</u>	
Group and subsidiaries	<u>Not mentioned clearly by the Code;</u>	<u>Not mentioned clearly by the Code;</u>	Firm consult with relevant public interest groups;	<u>Not mentioned clearly by the Code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				