

# **The Role Of The Board In Disclosure: An Examination Of What Codification Efforts Say**

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## **I. Introduction**

This paper was prepared for the South-Eastern Europe Corporate Governance Roundtable on Transparency and Disclosure: Implementation and Enforcement, sponsored by the OECD, the World Bank and the Investment Compact for South East Europe. The paper is intended to respond to the question: What is the role of the board of directors in transparency and disclosure?<sup>2</sup>

In order to answer this question, a comparison of 32 national and international codes was conducted.<sup>3</sup> The comparison shows that the importance of transparency and disclosure is broadly recognized. There is also wide agreement on the basic parameters of disclosure, including the essential functions of the board in overseeing disclosure as well as the content of disclosures.

There is less agreement on detail, in particular on the division of responsibility between management and directors, and on the depth of the board's involvement in disclosure. Most codes see the director in an oversight role. Others suggest considerable disclosures coming directly from the board, and participation in the disclosure and communications process. Even where the board is seen as fulfilling mainly an oversight role, the number and level of detail of the tasks assigned to it would appear to make the work of a director a fulltime job. In part, these differences reflect differing perceptions of the role of the board in general. In some countries, particularly in certain transition countries, directors become considerably more involved in the details of management.

Establishing a model for board oversight could, in principle, be done by aggregating the distinct recommendations of the codes. However, more is not always better. A large number of detailed responsibilities, especially for boards in transition economies, is likely to be of questionable utility. For one, an excessive focus on detail comes at the risk of losing sight of the big picture issues. Secondly, time and resources are always limited. Consequently, this paper seeks to clearly identify the fundamental responsibilities.

## **II. The Codes**

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<sup>1</sup> The views expressed in this document are strictly those of the author and do not necessarily reflect those of the Organisation for Economic Co-operation and Development.

<sup>2</sup> Throughout this paper, "board" is meant to refer to the unitary board of directors in a single-tier system and to the "supervisory board" in the two-tier system. Where the "management board" is referred to under the two-tier system, it is always referred to explicitly as such.

<sup>3</sup> All countries have requirements in law. Codes were selected for comparison because they reflect "best practice" and market expectations. Codes are typically designed to complement and supplement legislation, which often sets a minimum standard.

Thirty-two codes were selected from over 100 publicly available codes on corporate governance.<sup>4</sup> The selection is composed primarily of European countries with a significant number of transition countries and smaller European economies. The European countries reviewed include Austria, Belgium, Denmark, Greece, Finland, France, Germany, Italy, Portugal, Spain, and the UK. Transition countries and European accession countries included: Bulgaria, Cyprus, the Czech Republic, Lithuania, Malta, Poland, Romania, Russia, the Slovak Republic and Slovenia. Some international codes were included such as those of the Commonwealth Association of Corporate Governance, the European Association of Securities Dealers (EASD), Euroshareholders, the European Bank for Reconstruction and Development (EBRD) and the OECD.

The issuing bodies vary quite considerably. Codes are most commonly the work of stock exchange sponsored committees, or securities markets regulators. The peer group contains a smattering of other organizations including government, industry, universities, directors associations, investor groups, and international governmental and non-governmental organizations. In many cases, different constituencies co-sponsor and collaborate on the drafting of codes. Taken together, they provide a clear and representative picture of what is expected of the board with respect to its responsibility for transparency and disclosure.

Of course, the codes are quite varied and important differences exist. Some represent practices in countries with both one and two-tier board structures, countries with civil and common-law traditions, and insider and outsider governance systems. The countries themselves differ in terms of size, the relative importance of the equity market within the economy, the development of the legal infrastructure and other factors. Despite these differences, there is more consensus than there is disagreement.

Most of the codes that were reviewed, in particular those from transition economies, are recent, having been written between 2003 and 2004. As such, they tend to reflect current expectations, if not current practices.

### **III. What are the general responsibilities of the board?**

#### **A. *The general responsibilities of the board***

Most codes are process and output orientated. That is to say, they describe the board's duties as overseeing the process of producing the financial statements, drafting a policy on communications, or issuing a report to the general meeting of shareholders. The general responsibilities of the board for disclosure are typically placed within the context of the responsibility of the board and the company to be accountable to the general meeting of shareholders.

A small number of codes treat transparency as a duty of the board, equivalent to the duty of "loyalty" and the duty of "care". The best example of this is the Spanish code, which

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<sup>4</sup> A full list of the codes is included in the appendices, as are three tables that compare the relevant passages of the codes.

proposes a new “duty of transparency” or “duty of disclosure” for the board of directors.<sup>5</sup> While the Spanish code also contains detailed recommendations, it is a surprisingly principles-based approach for a civil law country. Among all of the codes reviewed, it articulates most clearly a duty of the board to be transparent in all relevant aspects of the companies operations, and raises transparency to the level of a board duty.<sup>6</sup>

How realistic are such principles-based views of the board’s role? In reality, boards focus on process, approving the annual accounts and exercising oversight of internal control. The notion that the board is responsible for creating an overall context of transparency is still not well engrained. The Polish code supports this estimation with its own frank assessment: “The role of the supervisory board is important in Polish companies, yet reporting by the supervisory board is still rare in practice.” It is also important to note that codes represent perceptions of best practice, not actual practice, and that the gap between the two may at times be large.

#### *B. The role of the board versus management*

The relative weighting of the importance of management versus the board in the disclosure process is quite different. The Austrian code, for example, specifies that the management board undertake all communications tasks; the supervisory board establishes rules and procedures. Similarly, in Brazil, the Chief Executive Officer (CEO) is assigned primary responsibility for disclosure, while the board approves. In the German code, the discussion also focuses on the responsibilities of the management board: “the Management Board has direct responsibility for the disclosure process... and ensures appropriate risk management and risk controlling in the enterprise.” Consolidated financial statements are submitted to the supervisory board for “examination”. Likewise, in the Slovak Republic, most responsibilities for disclosure appear to be assigned to the management board.

Other countries, place the board in a more prominent role, one where the board not only examines or approves, but is also responsible for ensuring that the company communicates fully to all of its stakeholders. For example, Euroshareholders specifies: “The members of the board are ... responsible for adequate disclosure to shareholders.” In France “...the main form of regulation should come from transparency: transparency between the executive and the Board of Directors, transparent management in relation to the market and transparency in relations with shareholders, in particular at the time of the general meeting.” The two general approaches cited above are not incompatible. In both cases the board has the overall responsibility, however, the importance given to managers versus directors differs in one or the other.<sup>7</sup>

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<sup>5</sup> The Commonwealth Code of Corporate Governance also raises the responsibility of the board from a checking, or oversight function to a proactive duty. The CACG code says, “...regardless of the letter of the law, directors have a responsibility to ensure that a corporation’s communication is in the spirit of transparency.”

<sup>6</sup> A number of codes take a different principles-based approach to the duty of transparency. They support a businessman’s version of the Hippocratic oath for doctors: “first do no harm.” The Commonwealth Code of Corporate Governance, for example, requires that “...directors must not knowingly or recklessly disseminate false or misleading information.”

<sup>7</sup> Beyond differences in relative weighting, there is also some confusion regarding the respective roles of managers and boards. While this is increasingly less the case, it was a problem in transition economies such as

Regardless of where the primary responsibility lies, codes from two-tier countries (with both a management and a supervisory board) are noticeably more explicit in describing the difference between management and board responsibilities in contrast to codes from one-tier countries that assign responsibility to a unitary board with a mix of executive and non-executive directors. The precise role of management versus directors is sometimes ambiguous in single-tier codes since code recommendations effectively refer to both. Since the relationship between management and the board is fundamental to understanding the ability of the board to assure effective oversight, many codes require that management and board responsibilities be fixed in the charter, by-laws, or other policy documents, and made available for public inspection. Clarity with respect to its own structure and function is, arguably, the first responsibility of the board.

Practically, no disclosure takes place without the support of management, company secretaries, investor relations and legal departments and other staff. Management prepares board meetings, drafts agendas, provides information, generates ideas, and is implicated in each step of the process. Managers must understand the importance of transparency and value it in order for the company to be transparent.

On the contrary, where the company culture does not support transparency, or where a culture of deception exists, the board will have great difficulty in fulfilling its promise, no matter how qualified and well intentioned it may be. Under such circumstances, dedicated and competent boards and committees will likely fail to uncover problems and will, in due course, fail their obligation to shareholders and to the markets. Ultimately, it is up to the board to select managers, and in particular, CEO's who espouse these same ideals.

#### ***IV. What are the specific responsibilities of the board?***

The codes were examined in order to identify specific disclosure responsibilities of the boards or specific duties intended to support the disclosure process. A number of things stand out from the examination. First, the number of responsibilities and associated tasks is truly daunting. Fulfilling expectations will be a challenge. Second, the issues under examination are often complex and require considerable technical expertise. For example, financial instruments are ubiquitous among larger companies as a tool to manage risk. They can simultaneously be useful tools for risk management and dramatically increase the risk in companies. Unfortunately, financial instruments are beyond the grasp of all save the most technically literate board members.<sup>8</sup> Third, the implications for getting it wrong—should the board, for example, fail in ensuring the integrity of internal controls—are not trivial. While not all governance failures are likely to result in an Enron or Parmalat style disaster, the implications of a governance failure may go well beyond the need for a restatement of the company's accounts.

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Russia, where the confusion began with the translation of “corporate governance” which was, at times, taken to mean “corporate management”.

<sup>8</sup>David Damant, President of the European Federation of Financial Analysts’ Societies, former member of the Board and the Executive Committee of the International Accounting Standards Committee.

The specific responsibilities of the board listed below summarize, in a condensed form, the areas most commonly cited in the codes.<sup>9</sup> They can be divided roughly into four responsibility areas: transparent governance, reporting on company performance, the external audit, and ensuring effective internal control. They provide a general summary of the many items that could fall under the board's responsibility for disclosure.

A. *Transparent governance:*

i. *Set the mandate of the board, adopt rules and procedures, and disclose them:*

Boards are increasingly expected to develop formal written mandates or policy statements that set out the general duties and operating principles of the board, and disclose them. The extent to which responsibilities and decision-making authorities have been delegated to management should form part of the statement. Boards may set out the disclosure and reporting obligations of the management and the board, including the content of the information that the company should disclose.

ii. *Ensure transparent governance:*

Boards often report on the company's governance structures, policies and governance performance. Basic information such as the company charter and by-laws should be publicly available under any circumstance. Board reporting may take a variety of forms including, statements of compliance with a national code of corporate governance,<sup>10</sup> and/or a consolidated annual report on the company's governance. In addition, boards are increasingly being asked to report on their own work and performance. Reports may cover number of board meetings held, and attendance of directors at meetings.

The markets generally wish to be assured regarding the qualifications and independence of directors. Some of the disclosures that make the company's governance framework more transparent include the identity of the members of the board, independent non-executive board members and any change in independence status. The definition of independence that the company uses may also be useful. It is reasonable to expect information on individual board members on: the level of education, qualifications, professional background, positions held, potential conflicts of interest and any factors affecting director independence.

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<sup>9</sup> A number of appendices have been included in this document to provide further detail on the contents of disclosure. They include a checklist developed by the United Nations Conference on Trade and Development and an extract from the Saucier Report from Canada.

<sup>10</sup> Many codes support disclosure on a "comply or explain" basis under which companies are expected to comply with the national code voluntarily, or offer an explanation why they do not. Most companies, of course, do not wish to explain why they might not comply. Consequently, comply or explain can have a significant coercive effect. Two make it mandatory: the Combined Code in the UK through listing requirements and the Predda code in Italy.

Boards are also expected to ensure that the process surrounding the organization of general shareholder meetings be transparent, including information on the proposals to be decided, and on the board nomination and election process.

In addition, the Company's annual report or report on corporate governance should contain a statement on remuneration policy as well as details of the remuneration of both executive and non-executive directors. The Lithuanian code underscores that remuneration for the members of the company's supervisory and management bodies should be based on transparent and clear principles and procedures. Most codes now recommend that disclosure be on an individual basis, and at a minimum, disclosed in the aggregate.

*B. Reporting on company performance*

*i. Mission statements:*

A limited number of codes assign the responsibility for defining and disclosing the mission of the company to the board. Most codes recognize a role for the board in defining the mission of the company, and guiding and approving company strategy, if not the responsibility for actually setting it. A number of codes suggest board involvement in disclosing corporate targets, plans and prospects.

*ii. Financial reporting:*

It is generally accepted that the board has responsibility for reporting on the financial and operating results of the corporation. Almost all codes describe the basic responsibility of the board for reviewing financial statements, approving them, and then submitting them to shareholders. The board, in addition to the external auditor, provides some level of assurance that the financial statements accurately represent the situation of the company. Providing credible assurances is a difficult and complex task that involves checking the consistency of disclosed accounting and financial statements and the external auditor's report, ensuring the integrity of the company's accounting and financial reporting systems, overseeing the independent audit and maintaining an appropriate relationship with the company's auditors among others.

*iii. Going concern:*

The "going concern" concept is well defined in accounting standards, and is a central conclusion arrived at during the audit. While the fact that a company is a going concern should emanate clearly from the audited financial statements, many codes suggest that the board confirm to the general meeting of shareholders that the company continues to be a going concern.

*iv. Address the general meeting of shareholders:*

Addressing shareholders at the general meeting is recognized as a key role of the board. A number of codes expect the board to present a clear and accurate evaluation of the company's situation to the general meeting, be available to answer questions and discuss the results with shareholders, and provide sufficient explanation of proposals put before the meeting, including proposed dividends and dividend policy.

*v. Oversee ongoing disclosure:*

A number of codes suggest that the board's responsibilities extend beyond the approval of the annual financial statements. Some call for the board to provide oversight and assessments of other interim and price-sensitive public reports. This may extend to all public reports, reports to regulators, as well as to information stipulated by statutory requirements. Some codes suggest that it is the board's responsibility to make sure that the company maintains appropriate relationships with the market regulators.

*vi. Develop a communications policy and programme:*

When codes refer to communications, they generally mean something broader than the annual report or other ongoing reporting requirements of regulators. Boards are in many cases, expected to watch over all communications that the company has with the markets, regulators and other stakeholders.

A considerable number of codes suggest that the board develop or approve a communications policy that includes a role for an investor relations department in communicating with institutional investors. It is generally suggested that this policy be disclosed.

A large number of codes refer to the need for "fair disclosure" to underpin corporate communications. Fair disclosure seeks to ensure an even playing field for all investors. It is the opposite of "selective disclosure" where price-sensitive information is provided to a limited number of market participants before it becomes public. Often tolerated in the past, selective disclosure is increasingly viewed by regulators as being inconsistent with the integrity of the financial markets.

*vii. Stakeholder communications:*

Relatively few codes devote attention to the role of stakeholders other than shareholders. Those that do, suggest that the board is also responsible for ensuring that the corporation communicates effectively with other stakeholders. The content of communications could include quantitative and qualitative matters concerning employees such as ethics or labor policies, and other stakeholders in the corporation.

C. *The external audit:*

i. *The audit committee*<sup>11</sup>

The Audit Committee's primary purpose is to protect the interests of the company's shareholders. The role of the audit committee is the most well developed element of all of the codes and is, in the cases of the UK Combined Code, and Canada's Saucier Report, the central element of the code.

In some countries, the law requires audit committees. Most codes recommend them regardless of statutory requirements, in particular in larger companies, or companies with complex financial arrangements. Where for practical reasons it is not possible to establish a committee, the full board has the responsibilities of the committee. The duties of the audit committee are universally understood to be inseparable from those of the Board. The entire board remains responsible for the duties assigned to committees.

The audit committee is responsible for the audit (both internal and external), assisting the board in supervising the selection of auditors and the audit process, and the accounting issues of the company. The central concern of the committee is to assess the reliability of the systems whereby the accounts are drawn up and the validity of accounting methods, rather than to go into details of the accounts.

Like other committees (nominations and remuneration) that are designed to assist the board in areas where there is the potential for conflict of interest between the company and shareholders, the audit committee is expected to exercise judgment in its work independent from management.

In order to secure independent judgment, codes typically aspire to a committee fully staffed by independent and financially expert directors. Most codes temper their recommendations in the face of practical constraints. The Bratislava Stock Exchange, for example, recommends that a majority of independent members be achieved over a five-year period. Other codes recommend that audit committees be

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<sup>11</sup> Some countries (Brazil, Italy, Russia and certain SEE countries among others) have special structures that are sometimes referred to as "audit commissions" or "revision commissions". Recent discussions between Brazil and the US SEC have resulted in an understanding that the Brazilian "conselhos fiscais" will be accepted by the US as equivalent to, or substitutes for the audit committee that is required by law for US listing. Discussions between the EU and the US have resulted in a similar understanding and acceptance of comparable European structures. Notwithstanding this compromise, revision commissions have different mandates and responsibilities that flow from a different legal context. Revision commissions have the advantage that they are appointed by and report directly to the general meeting of shareholders. Their disadvantage is that they are afforded a less detailed insight into the workings of the company than one could expect for a board committee. No truly authoritative study has been done on the merits and demerits of these structures, and many companies in Russia and Brazil now have both. It remains to be seen what role the revision commission will play compared to the audit committee. In the meantime, companies that rely exclusively on revision commissions may wish to borrow from the extensive literature available on audit committees to see the extent to which this structure can be adapted to meet market expectations.



staffed fully by non-executive directors and that the Chairman not be a former member of management.

Since the work of the audit committee requires a strong technical foundation, many codes recommend that all members of the committee have some financial expertise and experience in the preparation of financial statements. The Saucier Report recommends that: "All members of the audit committee should be 'financially literate' and at least one member should have accounting or related financial expertise."

For smaller companies the minimum recommended size of the audit committee in the various codes was two, however, most suggest a minimum of three members. Recommended meeting frequencies range from twice to four times per year. Often it is recommended that the number of committee meetings and meeting attendance be reported.

Written terms of reference that describe the powers and reporting procedures of the audit committee should be approved by the board and disclosed, as should its members and whether they are non-executive directors, or independent. Some codes note that these powers should not be delegated.

*ii. The audit committee's duties*

A large number of specific duties are mentioned in the codes. They are grouped below into four broad categories of: financial supervision, internal control, auditor selection and monitoring, and accountability. Audit committees are expected to:

- a. *Financial supervision:*
  - Monitor the financial position of the company and the integrity of the financial statements
  - Assess the appropriateness of accounting standards
  - Monitor any formal announcements relating to the company's financial performance
- b. *Internal control:*
  - Evaluate the adequacy and appropriateness of internal control and risk management
  - Review internal audit plans and reports;
  - Preserve the company's assets by understanding the company's risk environment and determine how to deal with those risks
  - Evaluate compliance with laws and regulations
- c. *Auditor selection and monitoring:*
  - Prepare the decision concerning appointment of the external auditor;

- Maintain contacts with the auditor, and examine the auditor's reports
- Evaluate the advisory services supplied by the external auditor
- Recommend the auditor to the board, for approval by shareholders
- Appoint, re-appoint and remove the external auditor
- Review and monitor the external auditor's independence
- Develop and implement policy on the engagement of the external auditor to supply non-audit services
- Maintain communications on such matters between the board, management, the independent auditors and the internal auditors

*d. Accountability:*

- Report to the board on its activities
- Be available at the general meeting of shareholders

These duties are, of course, ultimately also the responsibility of the board. However, the company decides to organize the duties of the board versus the audit committee, the responsibilities and duties should be disclosed.

*iii. Relationship with the external auditor:*

Law and regulation commonly require that the auditor be accountable to shareholders. In practice, and by tradition, management has handled the relationship between the auditor and the company. When partners in audit firms speak of the "client", they are most likely referring to the company and its management, and not the shareholders—entirely understandable since the company pays the bill.

Shareholders increasingly seek to assert their authority and to minimize possible compromises to the independence of the auditor. Some codes suggest that the audit committee explicitly affirm that the external auditor is accountable to the board and the audit committee, as representatives of shareholders, and that shareholder representatives have the ultimate authority and responsibility to select, evaluate and recommend replacement of the external auditor.

Audit committees should steer the procedure for selecting the auditor. It is sometimes suggested that their selection or extension of terms should be preceded by a tender offer supervised by the audit committee. A proposal for the election of the external auditor prepared by the board or the audit committee should then be disclosed in the notice to the general meeting. The audit committee should have direct communication with external auditor and should be able to meet with the external auditor without the presence of management. Most codes agree that the board should establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors.

iv. *Ensuring the independence of the external auditor:*

The audit committee needs to assure itself and shareholders that the auditors are independent. In order to do so, it must have access to all information about the audit firm's relationship with the corporation necessary to come to a reasonable conclusion. A number of different approaches may be employed to ensure that the auditors have no relationship, whether direct or indirect, with the company that might influence their judgment. Some of the approaches suggested in codes include:

- a. Prohibiting or restricting hiring the company's auditor for other services that may cause conflicts of interest
- b. When the board allows the hiring of the auditor for other services, it can establish which other services may be hired, and what the maximum annual proportion such services have in relation to audit fees
- c. The Polish code requires a "yes" vote of at least two independent board members to approve the auditor and requires the company to publish what votes were cast by the independent members of the board
- d. Prohibiting independent auditors from being members of the supervisory board
- e. The auditor can be required to annually submit a letter to the board of directors confirming their independence
- f. The duration of the term of office of the auditor can be limited
- g. Audit firms may be rotated after a specified number of years
- h. If rotation is not possible, regular rotation of audit partners may be feasible
- i. Annual reporting of fees paid to auditor with a breakdown of fees paid for non-audit services

The audit committee should report to the shareholders on the actions it has taken to safeguard the independence of the auditor, including satisfying itself that the auditor is independent in accordance with applicable standards.<sup>12</sup>

D. *Ensuring effective internal control and management information systems:*

The internal audit is traditionally subject to dual reporting responsibilities. In principle, the internal auditor should report to management administratively and to the board functionally. In practice, the relationship between the internal auditor, management and the board is rarely so neat. Internal control is a key managerial function that provides indispensable information to management on a variety of issues.

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<sup>12</sup> Many organizations provide detailed guidance on how to manage the relationship between the company and the auditor. One of the most complete and authoritative international guidelines is that of the International Organization of Securities Commissions (IOSCO) entitled: Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence A Statement of the Technical Committee of the International Organization of Securities Commissions of October 2002 which is reproduced in its entirety in the appendices.

The Institute of Internal Auditors (IIA) sees the modern auditor as being increasingly dependent on management. At the same time, it recognizes that internal auditors must continue to work together with the audit committee and the board to ensure successful audits.<sup>13</sup>

Full separation of internal control and audit from management is probably neither possible nor desirable. According to IIA, internal auditors are, nevertheless, expected to be independent from management.

Among the codes reviewed, views on the primary reporting responsibility of the internal auditor vary. In Slovenia, where the internal auditor reports to the management board, the executive is vested with a more active role: “The Management Board shall provide for establishment and operation of a proper and effective system of internal control. The persons, responsible for the area of internal control shall be directly accountable to the Management.”

Other countries envisage a much more active role for the board. The Spanish code, suggests considerable direct operational influence, including “...full access to the internal audit and the ability to express its opinion about the selection, appointment, reappointment and removal of the internal audit manager, and participate in setting his/her remuneration, and the ability to express its opinion about this department’s budget.”

Most codes describe the board’s responsibility as a higher-level responsibility for ensuring the integrity of the corporation’s internal control and management information systems. Where a corporation has an internal audit function, the audit committee should, at a minimum, approve its mandate, ensure it has adequate resources, and that the director of internal audit has direct and open communication with both the board and the external auditor. Where it does not exist, the board should cause a formal internal audit function to be established.

The specific responsibilities of directors are to annually review the effectiveness of internal controls, and procedures and report the findings to shareholders. The review should cover all systems of internal control, including financial, operational as well as compliance and risk management and include: procedures to identify and report to the Board and (where appropriate) to shareholders situations of conflict of interest affecting directors, managers or other senior employees of the company. With respect to risk management, codes cite the execution of unusual and complex transactions, transactions on financial instruments and their level of risk. A number of codes suggest that companies without an internal control function should examine the need annually and justify the absence of this function to shareholders.

## V. *What is the disclosure role of other committees?*

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<sup>13</sup> IIA Research Foundation, Standards for the Professional Practice of Internal Auditing, and Independence and Objectivity: A Framework for Internal Auditors.

It is well accepted in law that board functions may be delegated, at least to some degree, to board committees. Companies establish committees where there is a significant potential for conflict of interest, usually in the areas of audit, remuneration and nominations, though some codes also mention risk oversight, disclosure and corporate governance committees.

In smaller companies and in transition economies, a large number of committees is inadvisable for a number of reasons. For one, committees require financial and administrative resources and most companies lack experience in running multiple committees. Too many committees can lead to excessive compartmentalization of topics and, in a worst-case scenario, can lead to confusion. Finally, there is a scarcity of qualified directors in all except for the most developed markets.

Of the various committees, the audit committee is most important—at least from the perspective of investors. This is because the audit committee is the key to securing their confidence and the integrity of markets. Whatever committees a company eventually decides to establish, each has its own responsibility for disclosure. Their first duty is to be transparent with respect to their own governance and disclose their formal charter, number and/or proportion of non-executive directors, the proportion of independent directors and information on the chairman.

## *VI. What are the responsibilities of individual board members?*

Sometimes, individual board members have an obligation to disclose information. Usually, it is information required to assess the director’s qualifications to fulfill the tasks that will be required of him. The Russian code of corporate governance requires all board members to disclose “information about their education, qualification, professional background, positions taken and potential conflicts of interest” as part of the nomination and election process. Many codes require companies to disclose a definition of independence, and information on directors’ interests and any matters that affect the director’s independence.

It may occur in the normal course of business that a director experiences a conflict of interest or becomes a related party in a transaction.

Disclosure of conflicts of interest may be handled at two different levels. The Austrian code, for example, requires disclosure only to the supervisory board. The Maltese code goes further; “In certain circumstances it may be appropriate for the Board to disclose in a public document that an actual conflict or potential for conflict of interest has arisen”. The Polish and Slovenian codes are similar. Most countries take a two-pronged approach with an obligation to inform the board first and then, if the conflict is material, to make public disclosure. Finally, some codes require disclosure of the actions that the board took to remedy the conflict of interest. Conflicts of interest usually mean that the affected board member must abstain from taking part in related decisions.

With respect to related party transactions, most codes do not make outright prohibitions, though some suggest that this may be an option under company policy. The Cyprus code reflects the most common position: “Directors and executive directors should announce

immediately to the Board and shareholders through the annual financial statements regarding any material interest that might arise from transactions of the company.” As with conflicts of interest, directors are usually expected to abstain from voting on transactions in which they are a related party.

There is virtually no discussion of requirements that transactions occur at arms length or fair prices, though a number of codes suggest that the audit committee has the responsibility to monitor and disclose the nature of potential related party transactions, and whether they are to the benefit of the company.

Perhaps one of the largest individual responsibilities of directors has nothing to do with the disclosures they make or oversee, but the attitude they bring to the boardroom. In any group interaction, it is often difficult for an individual to go against group opinion, even if his views are entirely justified. Individuals tend to moderate their views or submit in the face of group pressure. Therefore, the board depends critically upon directors who are able to observe with a critical eye, exercise independent judgment, and speak out and stand up for their views.

## **VII. What are the criteria for good disclosure?**

### *A. The characteristics of good information*

Not all disclosure is good disclosure, and while there is a tendency among investors to demand ever more, and for companies to provide it, more is not always better. Disclosure is best if it has certain characteristics. Some of the characteristics that are mentioned in the codes are:

- Regularity
- Timeliness
- Accuracy
- Comprehensiveness
- Comparability
- Detail

Disclosure is also best when it drives to the point of the matter. Accounting scandals in both the US and Europe demonstrate that misleading investors and other stakeholders is easy, even while adhering to the letter of the law. The code of the Commonwealth Association of Corporate Governance demands disclosure that clearly describes what is fundamentally important. Beyond being timely and accurate, good disclosure requires substance to prevail over form. The Commonwealth also suggests that information must be “reliable, frank and robust in times of crisis” and useful, *i.e.* it must “enable readers to evaluate the situation in order to take appropriate action”.

### *B. Fair disclosure*

A large number of codes develop the concept of fairness in disclosure and creating a so-called “even playing field” for investors. The French MEDEF code recommends that: 1) Each

corporation should have a rigorous policy for communications with analysts and the market, 2) Certain practices of “selective disclosure”, intended to assist analysts with their forecasts of results, should be dropped; and, 3) The normal method for communication is a press release, which makes the same information available to all at the same time. Judging by the frequency of its mention, fair disclosure issues appear to be of significant concern.

Listings of companies on foreign markets, either directly or indirectly through American or Global Depository Receipts, often creates the problem that international markets have access to better information than domestic investors. One of the codes specifies that when companies are listed elsewhere, information available to foreign investors should be made available equally to domestic investors. The opposite is, of course, also possible, that foreign investors do not have access to information on an equal footing with domestic markets. This is often the case with respect to notice of general meetings of shareholders, which frequently comes too late for foreign investors to act upon.

### *C. Methods of disclosure*

Increasingly, fair and timely disclosure is becoming synonymous with making information accessible on the Internet. Posting on the Internet has the great advantage of being simple, cheap, simultaneous, and globally accessible. A disadvantage is that it does not arrive in a mailbox or a fax tray; the user of the information must make an effort to check to see if new information is available. Another disadvantage is that the legal status of disclosure on the Internet is uncertain in many jurisdictions. Regardless of these drawbacks, the Internet is the tool of choice for putting certain types of basic information such as charters, by-laws, policy statements and other information in the public domain.

Other methods are by publication in journals, e-mail, normal mail, fax, official filings, and by posting on an information clearinghouse. Each has advantages and disadvantages.

Eventually, electronic share voting may become possible as technical hurdles are overcome and as legal restrictions are removed. Directors should be aware of the advantages and disadvantages of each different method--in particular the potential of new technologies--and should strive to find methods that allow the broadest possible access to information.

Finally, a number of codes recommend disclosure in English in addition to the local idiom. Such recommendations come from diverse countries such as Brazil, France, Germany and Lithuania. While the status of English language disclosure will depend on the jurisdiction, English is increasingly accepted as the language of international business and disclosure. Obviously, dual language disclosure brings additional costs. However, many companies find it a necessity since a significant portion of their ownership is foreign.

### *D. High quality standards*

Disclosure is always better if information is compiled, prepared and presented according to a high quality standard. Identifiable standards exist for many different types of disclosure including financial, human resource and environmental disclosure.

The vast majority of codes that mention standards make specific reference to International Financial Reporting Standards. A smaller number also cite US GAAP. The preference for IFRS is not surprising given the strong representation of EU members and accession countries in the peer group, and given its increasing global acceptance.

Interestingly, the Spanish code cautions against the use of IFRS or US GAAP. It bases its reticence to endorse IFRS “on the proven fact that European companies have, to a great extent, remained immune to the financial problems in the US precisely because they had not adopted the new accounting principles now being imposed in the European Union.” The extent to which the governance failures in the US can be attributed directly to US GAAP, and whether they would have occurred in a similar fashion had IFRS been used is open to debate. Whatever standards are selected, the board is responsible for understanding the repercussions of its choice, and should be able to identify and disclose major differences resulting from different accounting treatments.

Only one country specifically cites International Standards for Audit (ISA) as promulgated by the International Federation of Accountants.

#### ***VIII. What information needs to be given to boards?***

Information must be made available to the markets in order to assess the company and its governance. However, information must also flow to the board for it to fulfill its oversight function. Some codes place the onus of furnishing information on the company. The Danish code places the obligation squarely upon the executive: “In all circumstances the executive board must ensure that the supervisory board is provided with essential information, whether the supervisory board has requested it or not”. The French MEDEF code places some level of responsibility on the board. The Russian code is both cynical and unambiguous: “If [the board of directors] rely solely on the information furnished by executive bodies, they will not be able properly to discharge their duties... it is advisable that members of the board of directors demand additional information, when such information is necessary to make a balanced decision.” Within the company, the responsibility for providing sufficient information is usually that of the Chairman, assisted by the corporate secretary.

#### ***IX. What does the reality look like?***

Up to this point, the paper has focused on expectations. Some attention needs to be paid to what happens in practice.

In 1994, the Toronto Stock Exchange sponsored one of the earlier codes of corporate governance, which became known as the Dey report (for Peter Dey, the Chairman of the committee that drafted it). Many of the recommendations in the code correspond to those that are observed in other codes in this paper. In 1999, a follow-up study was done to measure how well Canadian companies complied with the requirements of the code. The results of this survey were published in the cleverly named Report on Corporate Governance: Five Years to the Dey.



A. *Five Years to the Dey*

Among the group of questions posed to Canadian executives, three dealt with the disclosure responsibilities of the board. The questions and responses are as follows:

- i. *Which of the following documents, if any, does the board approve before it is released?*
- 48% Annual Financial Statement
  - 50% Annual Information Form
  - 50% Information Circular
  - 54% MD & A
  - 75% Directors Circular
  - 77% Issuer Bid Circular
  - 79% Prospectus
  - 83% Quarterly Financial Statements
  - 83% Rights Offering Circular
  - 99% Take-Over Bid Circular

- ii. *Please check all statements which describe the board's involvement in communications with shareholders.*

- 25% Board has participated in developing corporate policy regarding communications with most external audiences
- 36% Board discusses communication issues as they arise
- 70% Board approves press releases on all material matters, not just financial statements

- iii. *Please identify the extent to which the board is involved in internal control and management systems.*

- 4% Little involvement to date
- 4% Board has reviewed but not formally approved control and management systems
- 24% Board or board committee has hands-on role in drafting internal control and management systems
- 27% Board has reviewed and formally approved control and management systems
- 39% Board directs development of new control systems or changes to existing ones

While the results for board oversight of internal control are encouraging, overall, responses were less than overwhelming and set off another round of governance soul-searching and code drafting in Canada. One of the conclusions that can be drawn from the Canadian and other similar experiences is that creating change among corporations is hard and that significantly raising governance standards is, like any cultural change, easier said than done.

The original Dey code did serve to nudge governance forward in Canada, however, probably not as much as some expected or would have liked. Another lesson that might be drawn for companies in the SEE region is that while the ultimate goal should be a high standard of performance, it is probably wise to set realistic goals in order to have a possibility of actually achieving them. The danger of setting overly aggressive goals is certain failure, and possibly even encouraging a culture of acceptance of non-compliance when these goals are systematically not met.

#### B. *Costs and governance in smaller companies*

Good corporate governance has costs, and these costs are generally more difficult to carry for small and medium companies. A recent survey by Foley & Lardner LLP in Chicago found that 20% of 115 companies surveyed said they are even considering going private as a result of new corporate governance and disclosure reforms. The respondents consisted mostly of what Foley & Lardner define as small and mid-sized companies *i.e.* companies with annual revenue under US \$1 billion.<sup>14</sup> According to the companies, governance costs after the passage of the Sarbanes-Oxley Act of 2002<sup>15</sup> more than doubled to almost US \$ 3 million per annum.

Good governance should not kill the goose that lays the golden eggs. Some of the codes recognize the important resource limitations that smaller companies suffer, and modify their recommendations accordingly. Smaller companies need to be doubly cautious about establishing committees, and will likely need to have the full board cover more issues. Where committees are established, their membership may need to be reduced from what is recognized best practice for larger companies.

The Slovak code, issued by the Financial Market Authority is realistic in recognizing that best practice standards will take some time to achieve. While it requires the establishment of audit committees, it allows for a five-year period before they are composed by a majority of independent directors. Most other code recommendations will need to be applied in accordance with the capacity of small companies to do so..

#### C. *The effectiveness of disclosure as a governance tool*

Better transparency is not, by itself, the key determinant of good governance. Nor is disclosure an effective substitute for substantive regulation<sup>16</sup>—at least not in the transition economy context.

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<sup>14</sup>Most SEE companies would qualify as small or medium under this definition.

<sup>15</sup>The Sarbanes-Oxley Act of 2002 is, perhaps, the most significant revision of US securities law since the passage of the securities acts of the 1930's. Its clauses focus on governance and transparency issues. Given the number of foreign companies that list in the US either directly or indirectly using American Depositary Receipts, the Act is having a global impact. It also requires registration of foreign auditors and their compliance with a certain set of norms if they audit companies that will list in the US.

<sup>16</sup> As suggested by Louis Lowenstein, Colombia University.

The incentives for good disclosure do not work as neatly in practice as theory predicts. A reduced cost of capital (a key argument made by policy makers) is often cited as a key incentive for being more transparent. Theory says that companies that are more transparent are treated better in the markets, where ratings agencies and other users of information factor good governance into the pricing of equities, eventually pushing share prices up and the cost of capital down. If one can reduce the overall cost of capital in a country by even a small fraction, the cumulative impact on the cost of capital in the economy and the ensuing welfare gain is enormous.

But, it is doubtful that the average manager will perceive a reduced cost of capital as an incentive. For the dishonest, or merely self-interested manager, it is still considerably easier to extract rents than it is to, for example, introduce and apply IFRS in the company, wait for the promised reduction of financing costs, and to cash in on an (hopefully well-designed) incentive scheme that ties his compensation to the company's capital cost. Too many factors come into play. It is easier, for example, to design a remuneration scheme so that bonuses are paid out regularly regardless of how the company performs, or to engage in related party transactions conducted at less than "arms-length".

Bernard Black suggests in a comprehensive study of the relationship between corporate governance and stock market valuation, that the value of disclosure, in the absence of other substantive checks upon managers or owners is, in fact, quite limited: "Disclosure alone is of limited value where company insiders can freely loot the value of minority shares, even in the face of reasonably full disclosure and press coverage." He illustrates his findings by citing the case of the Russian company Yukos whose controlling shareholder Mikhail Khodorkovsky looted the company and its subsidiaries under the full glare of the Russian and Western press.<sup>17</sup> Black's conclusion is that if management is able to extract large gains without penalty, then ownership structures and the enforcement of ownership rights are more likely to indicate potential for governance abuses. Disclosure is one link in the chain.

Black's conclusions do not diminish the need for disclosure. They may even reinforce it. While the highest priority in countries like Russia should be the enforcement of laws, stiff penalties, institutions and legal recourse, transparency with respect to controlling shareholders, related party transactions and ownership structure, can assist in securing substantive rights. A strong board, committed to transparency, may thus be the first line of defense.

## **X. Conclusions**

Codes tend to place a large emphasis on the financial reporting obligations of the board, as well as on board oversight of the audit function. This is because they are the keys to investor confidence and the integrity of markets. Indeed, several of the reviewed codes were drafted

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<sup>17</sup> Bernard Black, Stanford Law School, The Corporate Governance Behavior and Market Value of Russian Firms, March 2001. The Russian Investor Protection Association (somewhat incongruously) nominated Yukos as one of the best-governed Russian companies shortly after Black published this article. Today, Khodorkovsky is in jail on charges of theft and tax evasion and Yukos faces bankruptcy as government authorities seek to force it to pay past taxes.

out of concern for financial reporting. The original Cadbury Code specifically addressed financial aspect of corporate governance, and the UK Combined Code further develops the theme of board responsibility for systems of internal control.

The overall impression is that the codes have high, perhaps unrealistic, expectations, especially in the context of emerging markets. Boards are expected to develop communications policies, review financial statements, accounting and audit standards, conduct tenders for auditors, ensure transparent governance practices, and make sure that the company treats investors fairly with respect to information. Some issues, such as the use of financial instruments are technical and complex. One can legitimately wonder how the board, even with the assistance of a committee, can effectively manage these responsibilities. A gradual and realistic approach may serve to avoid the creation of a culture of non-compliance.

Some codes distinguish clearly between management and board responsibilities. Equally as many, do not. This may reflect the desire of governance committees to not be overly rigid or prescriptive. On the other hand, it appears that there is some genuine confusion about where the responsibilities of directors and managers begin and end. Lest there be any confusion, one of the key first steps is to be clear about the mandate and responsibilities of both the board and its committees.

Views of what is good governance, and good disclosure are converging. The type of information that the codes require is becoming more similar. This may be due to a number of factors including global interest in governance issues, the pervasive influence of the OECD Principles of Corporate Governance, international efforts to promote better regulation of securities markets and increasing acceptance of IFRS.

Overall, there appears to be a trend towards greater reliance on disclosure. Common law countries have traditionally pursued more of a disclosure-based approach to regulation. Civil law countries have a tradition of greater reliance upon substantive (merit-based) regulation. Despite very different legal origins and governance traditions, there appears to be a growing consensus on the responsibilities of the board.

Among the areas in which a strong consensus has emerged is the role of the audit committee and the importance of internal audit. The audit committee is the most important tool to help the board achieve its overall goal of transparency.

Codes focus on larger companies and, with very few exceptions take into account the special circumstances of smaller and medium-sized companies that define the economies of the SEE region. More attention needs to be addressed to how to practically enhance governance in smaller companies.

The human element is simultaneously the most overlooked element of good governance and quite possibly the most important. Transparency cannot be achieved in the absence of good will by management and the personal engagement of directors. One of the largest contributions of directors to transparency may be the attitude they bring with them to the

boardroom. Transparency depends critically upon their ability to observe with a critical eye, exercise independent judgment, and to speak out and stand up for their views.

## **List of Appendices**

### **Codes Reviewed**

#### **Comparative Matrices:**

- General Disclosure and Transparency Responsibilities of the Board
- Board Responsibilities for Audit and Audit Committees
- Internal Control, Related Parties and Conflicts of Interest, and Other

**Saucier Report:** Contents of Governance Disclosure on the Board

**UNCTAD Governance Disclosure Checklist**

**UK Combined Code, Terms of Reference - Audit Committee**

**Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence, A Statement of the Technical Committee of the International Organization of Securities Commissions**

## **Codes Reviewed**

Austria  
Belgium  
Brazil (2)  
Bulgaria  
Canada (2)  
The Commonwealth  
Cyprus  
Czech Republic  
Denmark  
European Association of Securities Dealers (EASD)  
European Bank for Reconstruction and Development (EBRD)  
Euroshareholders  
Finland  
France  
Germany  
Greece  
Italy  
Lithuania  
Malta  
Poland (2)  
Portugal  
Romania  
Russia  
Slovak Republic  
Slovenia  
Spain  
Turkey  
UK  
OECD

<b>General Disclosure and Transparency Responsibilities of the Board</b>								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure



General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
Austria		1) The management board provides the supervisory board with comprehensive information on all relevant issues including on risks and risk management, 2) if an event of major significance occurs, the management board shall immediately inform the chairperson of the supervisory board, 3) the supervisory board shall be immediately informed of any circumstances that may have a material impact on the profitability or liquidity of the company, 4) Ensuring that the supervisory board is supplied with sufficient information is a joint task of the management and supervisory boards, 5) The management board has overall responsibility for communications tasks	The supervisory board adopts internal rules of procedure which stipulate the disclosure and reporting obligations of the management board	A report shall be published once a year regarding compliance with the Code, including explanations on deviations from the Code		IFRS or US GAAP required	...establishment of a body to handle communications	Required
Austrian Working Group on Corporate Governance								
Austrian Code of Corporate Governance								
November, 2002								
(Two-tier System, Civil Law)								

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
Belgium  Belgian Commission for Corporate Governance  Corporate Governance for Belgian Listed Companies  December, 1998  (One-tier System, Civil Law)	1) It is the board of directors' task to supervise the implementation of policy and the control of the company and to report to the shareholders 2) It is the board's duty to present a clear and accurate evaluation of the company's situation to the general meeting of shareholders					In addition to national standards, IFRS or US GAAP suggested		
Brazil  Comissao de Valores Mobiliários  CVM Recommendations on Corporate Governance  June, 2002  (Two-tier System, Civil Law)								
Brazil  Brazilian Institute of Corporate Governance  Code of Best Practice of Corporate	1) No mention of disclosure as a Board responsibility, 2) The CEO must disclose all relevant information, whether or not				Management prepares the annual report and submits it to the board who approves it and subsequently recommends its acceptance or	IFRS or US GAAP required		All information that may in any way affect investment decisions should be disclosed immediately to all users

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
Governance  April, 2001  (Two-tier System, Civil Law)	mandatory, to the owners and stakeholders				rejection by the general assembly of shareholders			
Bulgaria  Corporate Governance Initiative for Bulgaria  Corporate Governance Guidelines  2001	1) No mention of the responsibility of the Board for disclosure, 2) Proposal to prescribe for managing bodies to discuss with shareholders at the general meetings the annual and semi-annual reports for the company's activities					Proposal to introduce IFRS for listed companies		

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
<p>Canada</p> <p>Joint Committee on Corporate Governance</p> <p>Beyond Compliance: Building a Corporate Governance Culture (Saucier Report)</p> <p>November, 2001</p> <p>(One-tier System, Common Law)</p>	<p>1) Setting the broad parameters within which the management team operates: examples include... approving a communications policy that includes a framework for investor relations and a public disclosure policy, which may involve a process for monitoring the relationship between the corporation and investment dealers, 2) the integrity of the corporation's internal control and management information systems</p>	<p>1) boards should develop formal, written mandates setting out their responsibilities, and the way in which they structure their operations to carry out these responsibilities 2) it is important that the mandate be disclosed, and that performance against the mandate be assessed, 3) It is not necessary, in our view, to disclose the results of this assessment but there should be disclosure that the assessment has taken place</p>			<p>1) The audit committee mandate should set out its responsibilities with regard to the disclosure of financial and related information 2) the audit committee or the board should review quarterly financial reports and related financial documents before any public disclosure of the information., 3) Audit committees, as a matter of best practice, should ask external auditors to review this material before considering it</p>		<p>... approving a communications policy that includes a framework for investor relations and a public disclosure policy</p>	
<p>Canada</p> <p>Toronto Stock Exchange</p> <p>Guidelines for Improved Corporate Governance (Dey Report)</p> <p>1994</p> <p>(One-tier System, Common Law)</p>	<p>Responsibility for: 1) a communications program for the corporation, 2) the integrity of the corporation's internal control and management information systems</p>							

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
Commonwealth Association of Corporate Governance CACG Guidelines: Principles for Corporate Governance in the Commonwealth November, 1999 (One-tier System, Common Law)	The board should: 1) ensure that the corporation communicates with shareholders and other stakeholders effectively, 2) serve the legitimate interests of the shareholders of the corporation and account to them fully, 3) regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times		1) The board should ensure that communications are timely and accurate, 2) should be understandable, transparent with substance prevailing over form, 3) information should be reliable, frank and robust in times of crisis, 4) communication must enable readers to evaluate the situation in order to take appropriate action, 5) requirements for communication with shareholders will be prescribed by statute and/or regulation; regardless of the letter of the law, directors have a responsibility to ensure that a corporation's communication is in the spirit of transparency, 6) Directors must not disclose price sensitive confidential information, unless authorized, 7) directors, must not knowingly or recklessly					The board should ensure that all shareholders are treated fairly and provided with appropriate information on an equal basis, irrespective of the significance or otherwise of their interest in the corporation

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
			disseminate false or misleading information					
Cyprus Corporate Governance Code September, 2002 as amended in November, 2003  (One-tier System, Civil Law)	The Board of 1) Directors should introduce formal and transparent procedures as regards the way in which the principles governing financial reporting, corporate governance and internal auditing are to be applied and that a suitable relationship is maintained with the company's auditors, 2) The Board' responsibility to submit a balanced, detailed and understandable assessment extends to all public reports, reports to regulators, as well as to information needed by statutory requirements, 3) Boards should use the Annual General Meeting in order to		The Board should state in its annual report on corporate governance that the company plans to continue to function as a going concern for the next twelve months	1) whether the principles of the Code are being implemented 2) confirm that it complies with the principles of the code and, in the event that it does not, explain why not	The Board should submit a balanced, detailed and understandable assessment of the company's position and prospects	The Audit Committee should report to the Board on the selection of accountancy principles for the consolidation of accounts and submit to the Board of Directors for review, an advisory document stressing all the repercussions from such a selection	The Board should appoint a director or managing director as Investor Liaison Officer to liaise between shareholders and the company	All information regarding the company should be distributed fairly, inexpensively and in a timely fashion to all shareholders

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
	communicate with investors and encourage their participation							
Czech Republic  (Two-tier System, Civil Law)  Based upon OECD Principles	1) The Company should be headed by an effective board of directors and supervisory board which should lead it and account to the shareholders, 2) The board should be accountable to the shareholders and ensure proper internal controls and auditing procedures		1) Independent non-executive board members should be identified in the annual report, 2) Board members should declare that they will voluntarily forfeit any remuneration in case of bad financial performance, 3) the board should report that the business is a going concern, 4) The board of directors should consider interim and other price-sensitive public reports and reports to regulators as well as information required to be presented by statutory requirements		The board is responsible for ensuring the integrity of the company's accounting and financial reporting systems	The audit should be carried out to the highest international accounting standards	The board is responsible for overseeing the process of disclosure and communications	
Denmark  Report on Corporate Governance in Denmark  The Copenhagen Stock Exchange Committee on	It is recommended that the supervisory board adopts an information and communication policy		It is recommended that the company develops procedures which ensure that the company immediately publishes all essential information of			IFRS or US GAAP recommended	It is recommended that 1) the supervisory board adopts an information and communication policy 2) the board ensure flexible	It is recommended that the supervisory board make all investor presentations accessible on the Internet at the same time

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
<p>Corporate Governance</p> <p>(Norby Committee)</p> <p>December, 2003</p> <p>(Two-tier System, Civil Law)</p>			<p>importance for how the shareholders and the financial markets evaluate the company and its activities, as well as its business goals, strategies and results</p>				<p>continuous dialogue between the company and the shareholders by: holding investor meetings; continuously evaluating if information technology can be used to improve investor relations, including using part of the company's website to deal with corporate governance related issues, and; making all investor presentations accessible on the Internet at the same time</p>	
<p>Europe</p> <p>European Association of Securities Dealers (EASD)</p> <p>Corporate Governance Principles and Recommendations</p> <p>May, 2000</p> <p>(Both One and Two-Tier Systems)</p>	<p>1) Key areas of concern include: accounts and budgets... audit and control systems, disclosure and communication of information,</p> <p>2) boards are agents who perform orientation and monitoring functions for</p>		<p>The existence of anti-take-over devices must be disclosed and justified in an appropriate statement to shareholders</p>	<p>Disclosures should cover: governance structures and policies, their implementation and their degree of compliance with these recommendations and other relevant rules and codes of practice</p>	<p>1) Relevant, timely, accurate and understandable disclosure should be made of material information necessary for the proper evaluation of the status and the situation of the company, 2) Disclosures should cover: accounts, operational and financial results, historical and current</p>		<p>The board should adopt a "statement of practice" for ... communicating with persons or institutions inside or outside the company</p>	



General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
	which they are accountable to all shareholders				performance and prospects as a going concern			
Europe  EBRD  Sound Business Standards and Corporate Practices: A Set of Guidelines  September, 1997  (Both One and Two-Tier Systems)								
Europe  Euroshareholders  Euroshareholders Corporate Governance Guidelines 2000  February, 2000  (Both One and Two-Tier Systems)	1) The members of the board are also responsible for adequate disclosure to shareholders, 2) A basic principle in any corporate governance framework is openness and transparency between the various corporate bodies							

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
Finland		1) The company shall describe the duties and the operation principles of the supervisory board, 2) The information of the duties, operating principles ...permits the shareholders to evaluate the effectiveness of the operations of the supervisory board, 3) Efficient operation of the board requires, that the essential duties and working principles of the board be defined in a written charter [that] permits the shareholders to evaluate the operation of the board	1) The information on the number of board meetings and attendance frequency permits the shareholders to evaluate the effectiveness of board work, 2) The company shall ensure that at least the following matters are presented on the website of the company: information on compliance with the Corporate Governance Recommendation as well as possible deviations and their explanations; information on compliance with the Corporate Governance Recommendation as well as possible deviations and their explanations; general meeting; articles of association; board of directors; supervisory board; managing director and other executives; auditor; shares, share capital, principal shareholders and disclosed notifications on major holdings for the past 12 months; redemption clauses of the articles of association;	The company shall ensure that at least the following matters are presented on the website of the company: information on compliance with the Corporate Governance Recommendation as well as possible deviations and their explanations	The good corporate governance of a listed company requires a reliable, up-to-date disclosure practice		1) The company shall have a website on Internet, 2) The company shall disclose on its website all the information that has been published pursuant to the statutory obligation of listed companies to provide information	
	HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers Working Group							
	Corporate Governance Recommendation for Listed Companies							
	December, 2003							
	(One-Tier System, Civil Law)							

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
			shareholder agreements known to the company; annual report					
France  MEDEF, AFEP-AGREF  The Corporate Governance of Listed Companies  October, 2003  (Single-Tier System, Civil Law)	...the main form of regulation should come from transparency: transparency between the executive and the Board of Directors, transparent management in relation to the market and transparency in relations with shareholders, in particular at the time of the general meeting	The Board ... monitors the management and secures the quality of information provided to shareholders and to the market, through the accounts or in connection with major transactions				As regards off-balance-sheet items, it will be up to the accounting-standardization bodies, if appropriate, to develop rules allowing suitable presentation in the financial statements	It is up to each Board of Directors to define its communication policy, in particular as regards the frequency of publication of results	1) Each corporation should have a very rigorous policy for communications with analysts and the market, 2) Certain practices of "selective disclosure", intended to assist analysts with their forecasts of results, should be dropped, 3) The normal method for communication is a press release, which makes the same information available to all at the same time
Germany  Government Commission  German Corporate Governance Code  May, 2003  (Two-Tier System, Civil Law)	1) Management Board has direct responsibility for the disclosure process, 2) The Management Board ensures appropriate risk management and risk controlling in the enterprise			1) The Management Board and Supervisory Board shall report each year on the enterprise's Corporate Governance in the Annual Report, 2) This includes the explanation of possible deviations from the recommendations of this Code	1) Shareholders and third parties are mainly informed by the Consolidated Financial Statements, 2) The Consolidated Financial Statements will be prepared by the Management Board and examined by the auditor and Supervisory Board	The Consolidated Financial Statements and interim reports shall be prepared under observance of internationally recognized accounting principles	1) Information on the enterprise which the company discloses shall also be accessible via the company's Internet site, 2) The Internet site shall be clearly structured. Publications should also be in English	1) The company's treatment of all shareholders in respect of information shall be equal, 2) All new facts made known to financial analysts and similar addressees shall also be disclosed to the shareholders by the company without delay
Greece	1) The Board of Directors should		1) The establishment of			Information should be prepared,	The Board... has the	Channels for dissemination of

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
<p>Committee on Corporate Governance in Greece under the co-ordination of the Capital Market Commission</p> <p>Principles on Corporate Governance in Greece, Recommendations for its Competitive Transformation</p> <p>October, 1999</p>	<p>present to the general shareholder meeting a clear and credible evaluation of the existing situation and the prospects of the corporation.</p> <p>2) The consistency of disclosed accounting and financial statements, including the report of the (independent) certified accountants, the existence of risk evaluation procedures, supervision, and the degree of compliance of the corporation's activities to existing legislation, 3) statements should contain all necessary information, in comprehensive form, required by investors and their consultants for the formation of a clear profile of the corporation's financial situation and prospects</p>		<p>transparency involves the disclosure of information on:</p> <p>The financial and operating results of the corporation;</p> <p>The corporation's ownership structure;</p> <p>Members of the Board of Directors and management;</p> <p>Quantitative and qualitative matters concerning employees and other stakeholders in the corporation;</p> <p>Governance structures and policies;</p> <p>Corporate targets and prospects;</p> <p>The execution of unusual and complex transactions, transactions on derivative products and their level of risk, 2) Sufficient explanation of proposals put before an extraordinary general meeting or proposals considered as extraordinary</p>			<p>audited and disclosed according to the prevailing rules of the European Union and should be in the spirit of the rules of the Organisation for Economic Co-ordination and Development.</p>	<p>responsibility... for...the reporting of the corporation's activities to its shareholders.</p>	<p>information should provide fair, timely and cost efficient access to relevant information</p>

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
			business must be provided in advance of the meeting with adequate time within which shareholders can evaluate them					
Italy  Committee for the Corporate Governance of Listed Companies  Corporate Governance Code (Preda Code)  July, 2002	1) The board of directors shall: supervise the general performance of the company, with special reference to situations of conflict of interest, paying particular attention to the information received from the executive committee, the managing directors and the internal control committee and periodically comparing the results achieved with those planned; report to the shareholders at shareholders' meetings, 2) The board is also the collective body responsible for verifying the existence of the controls needed to monitor the performance of the	Where, in order to promote the effective and efficient management of the company, the board has delegated powers to the chairman, it shall disclose adequate information in its annual report on the powers delegated					The chairman of the board of directors and the managing directors shall, while complying with the procedure for the disclosure of documents and information concerning the company, actively endeavour to develop a dialogue with shareholders and institutional investors, They shall designate a person or, create a corporate structure to be responsible for this function. The Committee also recognises that, in smaller companies with a simpler organisation, the task of handling investor relations can be performed directly by appropriately identified members	The specification that the dialogue with institutional investors must be established in compliance with companies' communication procedures is intended as a reminder that it must not lead to the communication of important facts before they are communicated to the market

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
	company						of the top management of the company.	
Lithuania National Stock Exchange of Lithuania The Corporate Governance code for the Companies Listed on the National Stock Exchange of Lithuania 2004	1) The collegial body elected by the general shareholders' Meeting should ensure integrity and transparency of the company's financial statements and the control system. 2) Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. 3) All factors affecting the candidate's independence, the		The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies and their remuneration; 5. Material foreseeable risk factors; 6. Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders;	Recommends transposition of parts of code into company articles of incorporation			Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information 1) Information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website, 2) information should be published and placed on the company's website not only in Lithuanian, but also in English,	1) Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information, 2) Information should be disclosed to all simultaneously

General Disclosure and Transparency Responsibilities of the Board								
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	sample list of which is set out in Recommendation should be also disclosed		8. Governance structures and strategy					
Malta  Working Group of the Malta Stock Exchange  The Code of Principles of Good Corporate Governance  October, 2001	The Board should act in the best interest of the business enterprise in a manner based on transparency, accountability and responsibility		The Board should ensure The Company provide the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions... and that long-term strategic decisions are communicated, 2) Sufficient explanation of proposals put before an extraordinary general meeting or proposals considered as extraordinary business must be provided in advance of the meeting with adequate time within which shareholders can evaluate them	Not defined as a board responsibility. It is recommended that each company should, at least once in every year report on whether it has adopted these Principles and the extent to which these have been adopted and the mechanisms to implement them. The WG thought that it would be convenient for such a statement to be made in the Annual Report. The WG is also of the view that the auditors or legal counsel of the company should themselves report on the disclosure made by the company in the annual report.	The Board must ensure that the financial statements of the company and Annual Audit thereof have been completed.		1) Communication with the market is crucial for Listed Companies and the integrity of the market itself, 2) The Board should ensure that the Company communicates with the market effectively, 3) Where practicable, the Board should be prepared to enter into a dialogue with institutional shareholders and market intermediaries, 4) Directors must not disclose price-sensitive confidential information unless that disclosure has been authorised by the Board	
Poland  Best Practices		The management board cares for transparency and	Members of the supervisory board and the					

General Disclosure and Transparency Responsibilities of the Board								
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Committee of the Corporate Governance Forum		effectiveness of the company management system	management board and the expert auditor of the company should, within their powers and to the extent necessary for the settlement of issues discussed by the general meeting, provide the participants of the meeting with explanations and information concerning the company, 2) The supervisory board submits to the general meeting an annual concise evaluation of the company's standing, 3) The evaluation should be part of the annual report of the company, made available to all shareholders early enough to allow them to become acquainted with the same before the annual general meeting, 4) The company should have a procedure in place for obtaining information from members of the supervisory board					
Best Practices in Public Companies in 2002								
2002								
(Two-tier System, Civil Law)								



General Disclosure and Transparency Responsibilities of the Board								
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			and for making it available to the public					
Poland Polish Corporate Governance Forum  The Corporate Governance Code for Polish Listed Companies  June, 2002  (Two-tier System, Civil Law)	The role of the supervisory board is important in Polish companies, yet reporting by the supervisory board is still rare in practice	1) The management board and the supervisory board should operate as regulated by relevant by-laws, 2) These by-laws, as well as the articles of association of the company, should be available from the company website.	Every year the supervisory board should present a report to the shareholders on the position of the company, its prospects, functioning of its corporate governance framework, as well as the company's system of internal controls and information policy	1) Every year the company should publish a report providing a detailed description of its corporate governance framework, 2) it should include information on how the company achieves compliance with this Code or explains reasons for non-compliance, 3) for the information to be credible, it should be approved—if not prepared—by the supervisory board, 4) information about the independence of a supervisory board member				[The code recognizes a] right of equal access to information
Portugal  National Commission on the Securities Market  Recommendations on Corporate Governance		1) Information should be disclosed on the sharing of powers between the different bodies and departments or divisions of the company, 2) It is recommended that	Information should be disclosed to the public on the dividend policy commonly adopted by the company	It is recommended that listed companies and institutional investors include a mention in their annual reports of the adoption or degree of adoption of these	A description of the market behaviour of the shares should be made and issued at least once a year. It is recommended that board presents a brief description of the development		1),The company should ensure the existence of permanent contact with the market, respecting the principle of equality for shareholders and taking precautions	...respecting the principle of equality for shareholders and taking precautions against asymmetries in access to information among investors

General Disclosure and Transparency Responsibilities of the Board								
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February, 2000		for these matters which are central to the configuration of corporate governance, information be disclosed		recommendation with the grounds for this adoption	in market value of the shares of the issuing company, taking into account relevant facts, in particular the issue of shares or other securities that grant share subscription or acquisition rights, the announcement of results and the payment of dividends per category of shares with an indication of the net value per share, so as to allow investors to formulate an opinion in relation to the market behaviour of that year.		against asymmetries in access to information among investors, 2) For this purpose, the creation of an investor information department is recommended, 3) The use of new information technologies is encouraged for the disclosure of financial information and of preparatory documents for General Meetings. New technologies are not only an instrument for the modernization of listed companies, but also a requirement of the globalization of markets	

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Romania  International Center for Entrepreneurial Studies, University of Bucharest  Corporate Governance Initiative For Economic Democracy In Romania  June, 2000	1) The Board shall ensure the proper management of the company and effectively control it, 2) The Board shall draft and submit the annual report to the general meeting of shareholders for approval, on which the corporate business plan shall be based.	In all cases, the tasks and responsibilities of the executive officers shall be established by the Board of Directors		The board shall provide the shareholders, gathered in ordinary or extraordinary meeting, a report which should include A statement regarding any violations of this Code.	The board shall provide the shareholders, gathered in ordinary or extraordinary meeting, A financial statement prepared according to the accounting standards and practices in force in Romania, certified by internal and outside auditors, 2) If the company has among its shareholders foreign legal persons, or if GDR, ADR or EDR (Global Depository Receipts, American Depository Receipts or European Depository Receipts) have been issued, based on which the payment of its dividends is done in a convertible currency, the statement should	The company's operations and financial statements shall be based on international accounting standards		

General Disclosure and Transparency Responsibilities of the Board								
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					be made according to IAS (if IAS has not been fully introduced in the Romanian accounting standards), according to the requirements of a capital market of the EU countries, or according to GAAP system, as the case may be, 3) The uses of the funds obtained from the public by issuing new shares or bonds, 4) A detailed presentation of the company's debts, distinct from the accounting balance sheet, 5) Upon the written request of the shareholders, the board is bound to produce intermediate financial reports, and to supply additional information on the topics of interest to the shareholders			
Russia Federal Commission for the Securities Market Corporate	The board of directors should effectively control the financial and business activities of the company	The company's charter should assign approval of the procedures for internal supervision of financial and business	Members of the board of directors should be elected by means of a transparent procedure, 2) It is advisable that information about		2) The board of directors approves its annual financial and business plan, 3) provides efficient supervision of the financial and		The information policy of the company should provide for free and unhindered access to information about the company, 2)	Shareholders should have equal opportunities in terms of access to the same information

General Disclosure and Transparency Responsibilities of the Board								
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Governance Code  (Two-tier System, Civil Law)		operations of the company to the authority of the board of directors, 2) The authority of the board of directors should be clearly defined in the company's charter in a manner that is consistent with its functions, 3) A company's executive bodies are responsible for disclosure, 4) It is advisable that an internal company document setting forth rules of and approaches to disclosure (Regulation on Information Policy) be approved by the board of directors, this document contain a list of items subject to disclosure (in addition to those items requiring disclosure by law) as well as rules for their disclosure	independent directors is disclosed in the annual report, 3) The procedure and grounds for election of a new board of directors should be set forth in the company's charter, 4) The board of directors is accountable to shareholders and must enjoy their trust; therefore, shareholders should have an opportunity to receive full information about all candidates for members of the board of directors, 5) The board of directors should communicate to shareholders its opinion with respect to a proposed takeover, 6) Specifically, it is recommended that the company should publish on its website the text of its charter and amendments thereto, quarterly reports, offering circulars, audit reports, information on		business operations of the company...[and] compliance with established accounting procedures, and the accuracy of the financial information		the Regulation on Information Policy should state how often company officers intend to speak in public or give interviews to the mass media, how often conferences or other meetings with shareholders and potential investors are held,	

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			significant facts as well as information with respect to general shareholders meetings of the company and important resolutions of the board of directors					

General Disclosure and Transparency Responsibilities of the Board								
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<p>Slovak Republic</p> <p>Financial Market Authority</p> <p>Corporate Governance Code Based on the OECD Principles</p> <p>September, 2002</p> <p>(Two-tier System, Civil Law)</p>	<p>The boards should be accountable to the shareholders and ensure proper internal controls and auditing procedures</p>	<p>1) The executive board should undertake all key functions in the management of the company and the supervisory board should effectively supervise such functions, 2) It is essential that the direction and key management functions are performed by the executive board, and these include:</p> <p>a) ensuring a formal and transparent board nomination process, b) Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular systems for monitoring risk, financial control, and compliance with the law, c) Overseeing the process of disclosure and communications,</p>		<p>the emphasis is on encouraging companies to sign up to the Code, adopt some of the provisions now and to explain to shareholders in the annual report why they are not adopting other provisions together with a date when they anticipate being able to do so</p> <p>All statements by the companies regarding the Code should be the subject of independent verification and thus companies are encouraged to instruct their auditors to undertake this verification exercise as part of the annual audit.</p>	<p>The executive and supervisory boards should establish formal and transparent arrangements for considering how they should apply the financial reporting ...principles</p>			

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
		3) Presenting a balanced and understandable assessment of the company's position and prospects, 4) Maintaining a sound system of internal control to safeguard shareholders' investment and the company's assets, 5) Maintaining an appropriate relationship with the company's auditors and the financial markets regulator						
Slovenia  Ljubljana Stock Exchange,  Corporate Governance Code  March 2004  (Two-tier System, Civil Law)		The main tasks of the Supervisory Board are to appoint and to supervise the Management Board and advise it	1) When convening a General Meeting, the Management Board shall ensure proper information dissemination and effective execution of shareholders' rights using information technology, 2) The Management Board and the Supervisory Board shall respect the principle of equal treatment of shareholders before, between and after the procedure of	The company shall enclose a declaration of compliance with the Code to the annual report, disclosing how the company follows corporate governance principles and disclose and explain any discrepancy from the Code.	The Supervisory Board shall accurately and reliably report on its work annually to a General Meeting of Shareholders. The report presents in detail the performance of the Management Board and the company, the Supervisory Board's cooperation with the Management Board and the auditor, and the Supervisory Board's opinion on the		The Management Board is responsible for implementation of the company's communication strategy	1) The company's treatment of all shareholders in respect of information shall be equal, 2) The company shall use the media, determined in its Articles of Association, for timely public announcement of all important information in a manner that doesn't cause unequal conditions for investors trading in securities, 3) The company shall strive for wide



General Disclosure and Transparency Responsibilities of the Board								
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			takeover offer is concluded and publicly announce all material information about the procedures and decisions taken without delay, 3) The company shall as soon as possible publicly announce resolutions of the Supervisory Board, which are classified as price sensitive, 4) The Supervisory Board shall publish its terms of reference and make it available to all shareholders and to the workers' council		Auditor's Report. The Supervisory Board shall report in detail about the method of monitoring of the Annual Report, whether it approves it or has any comments on it			information dissemination by publishing information at the same time or after their public announcement on its web sites
Spain  Report By The Special Commission To Foster Transparency And Security In The Markets And In Listed Companies  January, 2003  (One-tier System, Civil Law)	1) The code develops the concept of the "duty of transparency" and the "duty of disclosure" of the board of directors, 2) it is the duty of the Board of Directors to establish the standard content of the information to be disclosed		1) the Commission recommends the establishment of duties of transparency regarding the following aspects of governance structures and practices: The company's ownership structure; The company's management structure;	1) It is of the utmost importance that the Board of Directors draft an annual report on the company's corporate governance structure and practices, 2) the aim is to introduce the "comply or explain"	Investors now need more information of greater quality in order to form a "true and fair view" of a listed company.	The Commission bases its concern on the proven fact that European companies have, to a great extent, remained immune to the financial problems in the US precisely because they had not adopted the new accounting principles now being imposed in the European Union.	In order to comply with the disclosure duty, the mechanisms which the information society places at companies' disposal – namely the Internet – should be used appropriately and regularly. The Internet should gradually and effectively replace more traditional disclosure mechanisms while ensuring that the information is	Information must be disclosed to the market in an equitable and symmetric manner

General Disclosure and Transparency Responsibilities of the Board								
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			Related-party and intra-group transactions; Risk control systems; Functioning of the Shareholders' Meeting, 2It is of the utmost importance that the Board of Directors draft an annual report on the company's corporate governance structure and practices, In any event, all the relevant information on this matter should be consolidated periodically into a special document which could be called "annual report on corporate governance" and kept up to date via the Internet so as to facilitate dissemination of that information or any other information of relevance so that the market can assess each company's guidelines and	principle into Spanish practice			disseminated more widely and effectively.	

General Disclosure and Transparency Responsibilities of the Board								
	General disclosure responsibilities of the board	Role of Board versus management	Specific disclosure responsibilities	Compliance with national code	Financial reporting	Accounting standards	Communications	Fair disclosure/selective disclosure
			practices in the area of corporate governance					
Turkey  Capital Markets Board of Turkey  Corporate Governance Principles  June, 2003	1) The board should conduct its activities in a fair, transparent, accountable and reliable manner, 2) The board should prepare collective Principles to be used in the information policy of the company, present them to the shareholders at the general shareholder meeting and disclose to the public	Authority and responsibility for each board member and executive should also be clearly defined, included in the annual report of the company and disclosed to public thereby	1) The board should define the mission/vision of the company and should disclose this to the public, 2) The ethical rules of the company should be prepared by the board, submitted to the general shareholder meeting for information and disclosed to the public	Unilateral declaration of the board, which covers information about whether or not the Principles are being properly applied, if the Principles are not being applied, the reasons for such non-application and all possible conflicts of interest due to the improper adoption of the Principles, should be included in the annual report and disclosed to public	1) The board shall be held responsible for the preparation and presentation of the company's periodical financial statements in accordance with the current legislation and international accounting standards and the reliability and accuracy thereof, 2) The board should adopt a separate decision to approve the periodical financial statements and annual report of the company, 3) the board should undertake the following responsibilities; to prepare the annual report and to finalize the same for presentation at the general shareholder meeting	Effective revision shall mean ... compliance with legislation and international accounting standards	The board should undertake the following responsibilities; To determine the information policy of the company	
UK  The Combined Code on Corporate Governance	The board's responsibility to present a balanced and understandable	The annual report should include a statement of how the board operates, including	1) The annual report should identify the chairman, the deputy chairman		The board should establish formal and transparent arrangements for considering how			

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July, 2003  (One-tier system, Common Law)	assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements	a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management	(where there is one), the chief executive, the senior independent director and the chairmen and members of the nomination, audit and remuneration committees, 2) It should also set out the number of meetings of the board and those committees and individual attendance by directors		they should apply the financial reporting and internal control principles			
Global  OECD  The OECD Principles of Corporate Governance  April, 2004  (One and Two-tier Systems, both Civil and Common Law)	The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders		1) Shareholders should have the opportunity to ask questions to the board, including questions relating to the annual external audit, 2) The board should fulfill certain key functions, including: Ensuring a formal and transparent board nomination and election process; Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control				The board should fulfil certain key functions, including: Overseeing the process of disclosure and communications, 2) The functions and responsibilities of the board and management with respect to disclosure and communication need to be clearly established by the board. In some companies there is now an investment relations officer who reports directly to the board.	Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly

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			are in place, in particular, systems for risk management, financial and operational control					

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Austria</p> <p>Austrian Working Group on Corporate Governance</p> <p>Austrian Code of Corporate Governance</p> <p>November, 2002</p> <p>(Two-tier System, Civil Law)</p>	<p>Required, 1) The supervisory board sets up an accounting committee irrespective of statutory regulations, 2) where supervisory boards have fewer than six members, this function may be assumed by all members, 3) the committee is responsible for the accounting and auditing issues of the company, 4) it evaluates the audit reports of the auditor and reports to the supervisory board, 5) The chairperson may not be a former member of the management board</p>				ISA or US GAAS required	
<p>Belgium</p> <p>Belgian Commission for Corporate Governance</p> <p>Corporate Governance for Belgian Listed Companies</p> <p>December, 1998</p> <p>(One-tier System, Civil Law)</p>				The board should ensure that the auditors have no relationship with the company, whether directly or indirectly, which could influence their judgment		
Brazil	1) The Board should also set up specialized			1) The board should prohibit or restrict hiring		As part of the analysis of the company's

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Comissao de Valores Mobiliários</p> <p>CVM Recommendations on Corporate Governance</p> <p>June, 2002</p> <p>(Two-tier System, Civil Law)</p>	<p>committees to analyze certain questions in depth, especially relationships with auditors and operations among related parties, 2) An audit committee, composed of members of the board of directors with experience in finance and including at least one board member representing minority shareholders, should supervise the relationship with the auditor</p>			<p>the company's auditor for other services that may present conflicts of interest, 2) When the board of directors allows the hiring of the auditor for other services, they should establish which other services may be hired, and what maximum annual proportion such services could represent in relation to the auditing costs</p>		<p>Corporate Governance financial statements, the fiscal board and the audit committee should meet regularly and separately with the auditors, without the presence of executive officers</p>
<p>Brazil</p> <p>Brazilian Institute of Corporate Governance</p> <p>Code of Best Practice of Corporate Governance</p> <p>April, 2001</p> <p>(Two-tier System, Civil Law)</p>	<p>Different committees, made up of a few members of the board, must be set up. For example: ...an audit committee</p>		<p>1) The independent auditors, jointly with the board of directors or their audit committee, establish their work plan and remuneration agreement, 2) The owners, board of directors and audit committee are the independent auditors' clients</p>	<p>1) The board of directors must ensure that the procedures adopted by the audit firm are independent and objective, especially when the same audit firm provides consulting work, 2) the independent auditors should not be members of the supervisory board, 3) The independent auditors should annually submit a letter to the board of directors confirming their independence</p>		
<p>Bulgaria</p> <p>Corporate Governance Initiative for Bulgaria</p> <p>Corporate Governance Guidelines</p> <p>2001</p>	<p>Global practice confirms the benefit from the existence of an auditing committee</p>		<p>Proposal for independent audit</p>			

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Canada</p> <p>Joint Committee on Corporate Governance</p> <p>Beyond Compliance: Building a Corporate Governance Culture (Saucier Report)</p> <p>November, 2001</p> <p>(One-tier System, Common Law)</p>	<p>1) All members of the audit committee should be “financially literate” and at least one member should have accounting or related financial expertise, 2) Audit committees should be composed solely of outside directors who are also unrelated</p>	<p>1) audit committees should adopt a formal written mandate approved by the full board 2) the mandate should be disclosed 3) The audit committee mandate should set out: a) its relationship with and expectation of the external auditors; b) its relationship with and expectation of the internal auditor function; c) its oversight of internal control; d) disclosure of financial and related information; and e) any other matters the audit committee feels are important</p>	<p>1) Audit committee should explicitly affirm that the external auditor is accountable to the board of directors and the audit committee, as representatives of shareholders, and that shareholder representatives have the ultimate authority and responsibility to select, evaluate and recommend replacement of the external auditor, 2) Auditors must recognize that their ultimate client is not management, 3) The audit committee should have direct communications with the internal and external auditors</p>	<p>1) The audit committee needs to assure itself that the auditors are independent 2) It must have access to all information about the audit firm’s relationship with the corporation necessary to come to a reasonable conclusion</p>		<p>The audit committee must develop a relationship with the external auditors that allows for full, frank and timely discussion of all material issues, with or without management as appropriate in the circumstances</p>
<p>Canada</p> <p>Toronto Stock Exchange</p> <p>Guidelines for Improved Corporate Governance</p> <p>(Dey Report)</p> <p>1994</p> <p>(One-tier System, Common Law)</p>	<p>The audit committee should be composed only of outside directors</p>	<p>The roles should be specifically defined</p>	<p>The audit committee should have direct communication with the internal and external auditor</p>			



Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Commonwealth</p> <p>Commonwealth Association of Corporate Governance</p> <p>CACG Guidelines: Principles for Corporate Governance in the Commonwealth</p> <p>November, 1999</p> <p>(One-tier System, Common Law)</p>	<p>1) An audit committee should be established to keep under review the scope and effectiveness of the audit (both internal and external</p>	<p>The board should establish, maintain and develop appropriate reporting procedures and proper written mandates or charters for committees such as the...audit committee which reviews amongst other things the internal audit function</p>	<p>The board should make sure that access between itself and the corporation's internal and external auditors is open and constructive</p>			
<p>Cyprus</p> <p>Corporate Governance Code</p> <p>September, 2002 as amended in November, 2003</p> <p>(One-tier System, Civil Law)</p>	<p>The Board should establish an Audit Committee made up of at least two non-executive directors, with written terms of reference clearly describing its powers and responsibilities, 2) members of the Committee, the majority of whom should be independent non-executive directors, should be identified in the annual report, 3) the Chairman of the Committee should be experienced in accounting and financial policy, 4) The Committee should meet at regular intervals at least twice a year, 5) The Chairman of the Board should make sure that the chairmen of the Audit Committee is available to answer questions at the AGM</p>		<p>1) The duties of the Audit Committee should include a proposal to the Board of Directors as regards the appointment, dismissal and remuneration of the company's auditors, the continual review of the extent and cost-effectiveness of the audit, as well as the independence and objectivity of the auditors, 2) should the auditors also provide the company with non-audit services, the Committee should keep the nature and extent of such services under review, keeping a balance between the maintenance of objectivity and value for money</p>			

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Czech Republic</p> <p>(Two-tier System, Civil Law)</p> <p>Based upon OECD Principles</p>	<p>1) The company should establish an audit committee the majority of whose members should be independent, 2) The board should be accountable to the shareholders and ensure proper internal controls and auditing procedures, 3) The chairman of the supervisory board should arrange for the chairmen of the audit committee to be available to answer questions at the General Meeting, 4) The members of the committee should be named in the report and accounts</p>	<p>1) The supervisory board should establish an audit committee with written terms of reference which deal clearly with its authority and duties 2) the board of directors should explain their responsibility for preparing the accounts, next to a statement by the auditors about their reporting responsibilities, 3) The executive and supervisory boards should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors</p>	<p>The board should be accountable to the shareholders and ensure proper auditing procedures</p>	<p>1) It is essential that the audit is objective and effective as such an audit gives reassurance to all those who have a financial interest in the company, 2) Where the auditors also supply a substantial volume of non-audit services to the company, the committee should keep the nature and extent of such services under review</p>		
<p>Denmark</p> <p>Report on Corporate Governance in Denmark</p> <p>The Copenhagen Stock Exchange Committee on Corporate Governance</p> <p>(Norby Committee)</p> <p>December, 2003</p> <p>(Two-tier System, Civil Law)</p>	<p>1) In companies with complex accounting and audit conditions the supervisory board should consider whether to establish an audit committee to assist the board in matters involving accounting and audit questions, 2) the company may benefit from disclosing essential items of the rules of procedure of the board committee as well as the names of the members, 3) The supervisory board must disclose whether it has</p>		<p>1) The result of the audit should be discussed at meetings with the supervisory board to review the auditor's observations and opinion, 2) When the supervisory board reviews the annual report together with the auditor the accounting policies and accounting estimates should be discussed., 3) The auditor agreement and the auditor's fee should be agreed between the company's supervisory board and the auditor</p>	<p>1) The supervisory board should in consultation with the executive board make a specific and critical assessment of the auditor's independence and competence to be used in connection with the nomination at the general meeting, 2) The supervisory board should adopt an overall, general framework for the auditor's provision of non-audit services with a view to ensuring the auditor's independence</p>		

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
	chosen to use board committees in the annual report and, if so, the reason why					
Europe  European Association of Securities Dealers (EASD)  Corporate Governance Principles and Recommendations  May, 2000  (Both One and Two-Tier Systems)	1) There should be a majority of independent board members on all board committees where there is a potential for conflicts of interest, 2) The chairman should be a non-executive board member...for the audit committee he or she should be independent, 3) The nomination process and criteria for board and board committee members should be disclosed, in particular with respect to independent board members	Terms of reference should be drawn up for each committee laying down its authority and its duties	Independent verification and certification of the existence of appropriate controls and the integrity of data, in particular disclosed information, should be obtained			
Europe  EBRD  Sound Business Standards and Corporate Practices: A Set of Guidelines  September, 1997  (Both One and Two-Tier Systems)	In the case of larger companies, independent committees of the Board with clear responsibility for matters such as overseeing the preparation of financial statements and deciding on management compensation and contract terms will often be appropriate					
Europe  Euroshareholders  Euroshareholders Corporate Governance Guidelines 2000  February, 2000						

<b>Board Responsibilities for Audit and Audit Committees</b>						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
(Both One and Two-Tier Systems)						

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Finland</p> <p>HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers Working Group</p> <p>Corporate Governance Recommendation for Listed Companies</p> <p>December, 2003</p> <p>(One-Tier System, Civil Law)</p>	<p>1) The audit committee shall be established, if the extent of the ... business requires, 2) The audit committee shall comprise at least three members, 3) members must have sufficient knowledge of accounting practices and preparation of financial statements, 4) Members ... shall be independent of the company, 9) Each committee shall report on their work to the board, 10) The company shall report the number of committee meetings held, 11) The company shall report the composition of each committee</p>	<p>1) The board shall define the duties of the audit committee [which] may include: a) follow-up of the financial position of the company; b) supervision of financial reporting, evaluation of the adequacy and appropriateness of internal control and risk management; c) handling of internal audit plans and reports; d) evaluation of compliance with laws and regulations; e) preparation of the decision concerning appointment of external auditor; f) contacts with the auditor, and examination of the auditor's reports; g) evaluation of the advisory services supplied by the external auditor, 2) The duties of the audit committee shall be disclosed, 3) The entire board remains responsible for the duties assigned to the committees, 4) The committees have no autonomous decision-making power and thus the board makes collectively the decisions</p>	<p>A proposal for the election of external auditor prepared by the board or the audit committee shall be disclosed in the invitation to the general meeting</p>	<p>1) The company shall report the fees of the external auditor during the financial year, 2) If the external auditor has been paid fees for non-audit services, such fees shall be reported separately</p>		
<p>France</p> <p>MEDEF, AFEP-AGREF</p>	<p>1) Each Board should appoint an audit committee, the duties of which are inseparable from those of the Board ... which is responsible for approving the</p>	<p>1) The committee does not act in the place of the board, 2) The main tasks of the audit committee are: a) to review the accounts and ensure the relevance and</p>	<p>1) the committee should steer the procedure for selection of the statutory auditors, 2) selection of the statutory auditors or extension of their terms should be preceded by a</p>	<p>1) The committee should obtain disclosure of the fees paid to the auditors' firm and network and ensure that the share that they represent in the turnover of the firm will</p>		<p>It should be possible to hold these interviews, if the committee so wish, out of the presence of the corporation's general management</p>

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>The Corporate Governance of Listed Companies</p> <p>October, 2003</p> <p>(Single-Tier System, Civil Law)</p>	<p>corporate accounts and for preparing the consolidated accounts, 2) Approving the accounts is the main occasion on which the Board assumes two of its essential duties: ... verification of the reliability and clarity of the information to be provided to the shareholders and the market, 3) The review of accounts, the monitoring of internal auditing, and the selection of statutory auditors should be subject to preparatory work by specialized committees of the Board, 4) The proportion of independent directors on the audit committee should be raised to two-thirds and the committee should not include any corporate officer, 5) When extension of the term of office of the audit committee's chairman is proposed by the appointments committee, it should be specially reviewed by the Board, 6) One should avoid the appointment to a corporation A's audit committee of a director from a company of whose similar committee a director from corporation A is a member</p>	<p>consistency of accounting methods used in drawing up the corporation's consolidated and corporate accounts; b) to ensure in-house procedures for the collection and review of information, 3) The central concern is to assess the reliability of the systems whereby the accounts are drawn up and the validity of methods selected to account for material transactions, rather than to go into details of the accounts, 4) As regards internal audit and risk review, the committee should review the material risks and off-balance-sheet commitments, interview the person in charge of internal audit, issue an opinion regarding that department's organization, and be informed of its programme of work, 5) Rules laying down the duties and mode of operation should be drafted by the audit committee and approved by the Board</p>	<p>tender offer supervised by the audit committee</p>	<p>not affect independence, 2) The duration of the term of office [of the auditor] also helps ensure their independence, 3) rotation of the statutory auditors' term is especially desirable, 4) the statutory auditing assignment should be exclusive of any other, 5) the statutory auditing assignment should be exclusive of any other, 6) subject to prior approval from the audit committee, services that are accessory or directly complementary to auditing may be performed</p>		
Germany	1) The Supervisory Board shall set up an	The ... Audit Committee handles issues of	The Supervisory Board commissions the auditor	Prior to submitting a proposal for election, the		

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Government Commission</p> <p>German Corporate Governance Code</p> <p>May, 2003</p> <p>(Two-Tier System, Civil Law)</p>	<p>Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement, 2) The Chairman of the Audit Committee should not be a former member of the Management Board of the company, 3) The Chairman of the Supervisory Board should not be Chairman of the Audit Committee</p>	<p>accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement</p>	<p>to carry out the audit and concludes an agreement on the latter's fee</p>	<p>Supervisory Board or, respectively, the Audit Committee shall obtain a statement from the proposed auditor stating whether its independence [could be questioned]</p>		
<p>Greece</p> <p>Committee on Corporate Governance in Greece under the co-ordination of the Capital Market Commission</p> <p>Principles on Corporate Governance in Greece, Recommendations for its Competitive Transformation</p> <p>October, 1999</p>	<p>The establishment of an Internal Audit Committee should be encouraged, 2) The meetings of the sub-committee should take place regularly, two or three times per year, 3) Should include in its composition at least three non-executive members of the Board of Directors</p>	<p>1)... will consist of non-executive members of the Board of Directors whose power and duties are clearly described during the approval of their appointment by the general shareholder meeting, 2) Should be established as a sub-committee of the Board of Directors to which it is accountable and should inform regularly, 3) The operation of the subcommittee should be characterized by clearly defined reference terms, which describe adequately participation, authority and duties, 4) Should disclose its composition in the corporation's annual</p>	<p>1) Should communicate with the internal (independent) and external auditors of the corporation with the purpose of achieving a settlement of all unresolved issues in the corporation, 2) The members of the Board of Directors should disclose to the Internal Audit Committee all necessary information regarding the prospects of the corporation</p>	<p>1) The Board of Directors should ensure the general shareholder meetings that the external auditors have no relationship with the corporation, directly or indirectly, which could affect their judgment and evaluation, 2) The Board of Directors should ensure the general shareholder meetings that the internal (independent) auditors are given the required financial and operating autonomy to accomplish their task completely</p>	<p>Information should be prepared, audited and disclosed according to the prevailing rules of the European Union and should be in the spirit of the rules of the Organisation for Economic Co-ordination and Development</p>	

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
Italy	The board of directors shall establish an internal control committee...made up of non-executive directors, of which the majority shall be independent	The internal control committee shall: a) assess the work programme prepared for internal control; b) assess the appropriateness of the accounting standards; c) assess the proposals put forward by auditing firms to obtain the audit engagement, the work programme for carrying out the audit and the results thereof; d) report to the board of directors on its activity and the adequacy of the internal control system at least once every six months; e) perform the other duties entrusted to it by the board of directors, particularly as regards relations with the auditing firm				
Committee for the Corporate Governance of Listed Companies						
Corporate Governance Code						
(Preda Code)						
July, 2002						
Lithuania	1) It is recommended that the collegial body should establish the Audit, ... committee, composed mainly of the members of the collegial body, who are not affected by the conflict of interest and who satisfy independence criteria, 2) Members of the committees should possess qualifications and expertise, necessary for performance of the functions	The Audit committee should monitor and evaluate the scope of the company's audit being performed, its results, price, independence and objectivity of the auditor and the audit inspectors and submit proposals concerning these issues to the general meeting	1) The Audit committee should monitor and evaluate the ...independence and objectivity of the auditor and the audit inspectors and submit proposals concerning these issues to the general meeting, 2) It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of	1) The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion, 2) It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company, 3) In order to ensure rotation of the firms of auditors		
National Stock Exchange of Lithuania						
The Corporate Governance code for the Companies Listed on the National Stock Exchange of Lithuania						
2004						



Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
	delegated to the committee concerned		auditors to the general shareholders' meeting	conducting the company's audit, it is recommended that the maximum term for conducting of the audit by the same firm of auditors should be fixed in the company's Articles of Association, 4) Where the company decides not to carry out rotation of the firms of auditors, it is recommended that the audit inspector in charge of the company's audit should be changed at least once in five years		
Malta  Working Group of the Malta Stock Exchange  The Code of Principles of Good Corporate Governance  October, 2001	1) It is good practice for the Board to create and maintain an Audit Committee in order to review procedures and internal control systems, 2) It is accepted best practice for a non-executive Director to chair the Audit Committee, for a majority of the members of this committee to be non-executive Directors and for the independent auditor and head of internal audit to attend meetings of this committee	1) The Board should determine the terms of reference, life span, composition, role and function of such committee and should establish, maintain and develop appropriate reporting procedures, 2) The Audit Committee's primary purpose is to protect the interests of the company's shareholders and assist the Directors in conducting their role effectively, 3) The Board should ensure that the Audit Committee establishes internal procedures and should monitor these on a regular basis, 4) The scope of this Committee's responsibilities should	The Audit Committee should also ensure that access between the internal and external auditors of the Company is open and constructive. the Board should satisfy itself that any issues raised by the external auditor and communicated to the Company have been adequately addressed.			

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
		include: to assist the Board of Directors in fulfilling its monitoring responsibility over the financial reporting processes, financial policies and internal control structures; maintain communications on such matters between the Board, management, the independent auditors and the internal auditors; and preserving the company's assets by understanding the Company's risk environment and determining how to deal with those risks				
Poland				When choosing an entity which is to provide expert services, including, in particular, the services of an expert auditor... the company should consider whether there exist circumstances limiting the independence of this entity when performing the entrusted tasks, 2) Without consent of at least one independent member of the supervisory board, no resolutions should be adopted on appointment of an expert auditor to audit the financial statements of the company, 3) The expert auditor should be selected by the		
	Best Practices Committee of the Corporate Governance Forum					
	Best Practices in Public Companies in 2002					
	2002					
	(Two-tier System, Civil Law)					

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
				supervisory board or general meeting of the company, upon receiving recommendations from the supervisory board		
Poland  Polish Corporate Governance Forum  The Corporate Governance Code for Polish Listed Companies  June, 2002  (Two-tier System, Civil Law)	1) The supervisory board may establish an audit committee, compose mainly of independent members of the board, 2) the committee is responsible for monitoring the financial situation of the company and its accounting system, 3) in doing so, the committee communicates with the auditor			1) The appointment process of the company's auditor should ensure independence of the auditor's opinion, 2) the company auditor should be appointed by the supervisory board or recommended thereby for appointment to the shareholder's general meeting, 3) the relevant resolution of the supervisory board should require a "yes" vote of at least two independent board members, 4) the board should consider the value of other services provided to the company by the potential candidate firms, 5) the company should publish information on the value of other services provided by the auditor, 6) at least once every five years the company should appoint a new auditor, 7) as an absolute minimum, the company should publish what votes were cast by the independent members when selecting the auditor		
Portugal  National Commission on the Securities Market	The board is encouraged to create internal control committees with powers conferred for matters in	The function of committees should be informative and consultative, since they				

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
Recommendations on Corporate Governance February, 2000	which there are potential situations of conflict of interests, such as the nomination of directors and managers, the analysis of the remuneration policy and assessment of the corporate structure and governance	are not supposed to replace the board in decision taking but rather provide information, advice and proposals				
Romania  International Center for Entrepreneurial Studies, University of Bucharest  Corporate Governance Initiative For Economic Democracy In Romania  June, 2000						
Russia  Federal Commission for the Securities Market  Corporate Governance Code  (Two-tier System, Civil Law)	1) It is recommended that the board of directors should create committees for preliminary consideration of the most important issues falling within its competence: the audit committee should provide for control over the financial and business operations of the company, 2) it is advisable that the board approves a by-law	1) The main functions vested in the audit committee is to develop recommendations for the board of directors on selection of an independent audit organization (auditor), as well as interaction with the audit commission of the company and the independent audit organization (auditor) of the company, 2) prior to its submission for approval by the general shareholders meeting, the opinion rendered by the	1) The audit committee should evaluate each nominee auditor of the company, 2) The audit committee should evaluate whether the audit is made in accordance with the established procedure and whether the independent audit organization (auditor) omitted any matters in carrying out the audit, 3) In this connection, the opinion of the independent audit organization (auditor) should be presented for	The board of directors, is primarily interested in the selection of an independent audit organization		

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
	providing procedures for establishment and operations, committees of the board of directors are headed by members of the board of directors who do not hold official positions with the company, 3) In order to provide due objectivity, the audit committee should include only independent directors, 4) If, for objective reasons, this is impossible, the audit committee should be headed by an independent director and its members should be independent and non-executive directors	independent audit organization (auditor) of the company should be presented for evaluation by the audit committee, 3) it is not advisable that persons holding official positions with the company or a legal entity competing with the company should be members of the audit committee	evaluation by the audit committee of the company before it is presented to shareholders at a general shareholders meeting			

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
<p>Slovak Republic</p> <p>Financial Market Authority</p> <p>Corporate Governance Code Based on the OECD Principles</p> <p>September, 2002</p> <p>(Two-tier System, Civil Law)</p>	<p>1) It should be regarded as best practice that the companies listed on the Bratislava Stock Exchange establish audit committees, which over a 5-year period are comprised of a majority of independent members, 2) at least three independent members of the supervisory board with written terms of reference which deal clearly with its authority and duties, 3) The members of the committee should be named in the report and accounts and should report initially to the supervisory board and should be available to report to the shareholders at the general meeting</p>		<p>The executive and supervisory boards should establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors</p>	<p>The duties of the audit committee should include keeping under review the independence and objectivity of the auditors</p>	<p>The audit should be carried out to the highest international accounting standards</p>	
<p>Slovenia</p> <p>Ljubljana Stock Exchange,</p> <p>Corporate Governance Code</p> <p>March 2004</p> <p>(Two-tier System, Civil Law)</p>	<p>1) The Supervisory Board may appoint an Audit Committee, 2) Its duties are: supervision of risk control, internal audit and the system of internal control, advising in the process of selection of the independent auditor and in preparation of his contract, and co-operation in determination of audit focal areas, 3) The Audit Committee shall evaluate the annual report and inform the Supervisory Board about its findings</p>	<p>The committees of the Supervisory Board may not take any decision in place of the Supervisory Board, but they may prepare proposals and documents and may act in an advisory capacity to the members of the Supervisory Board</p>	<p>1) The Supervisory Board must endeavor to propose an independent auditor who is in a position to perform the auditing independently, objectively and in compliance with auditing standards, 2) The appointed auditor shall be present at a General Meeting of Shareholders, 3) If there is no special Audit Committee in the company, the appointed auditor shall be present at the Supervisory Board meetings where decisions about the annual report or the</p>	<p>1) The candidate for auditing services should not come from an auditing company that already performs advisory services for the company or when these auditing services represent 30% or more of the auditing company's total income, 2) Shareholders shall as well be informed of any fact or circumstances, which could cause a conflict of interest for the proposed auditor, 3) The company shall not appoint the same auditor for more than 5</p>	<p>Auditing must be conducted in line with professional and ethical principles and standards, applied in the Republic of Slovenia</p>	

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
			system of internal control and risk management are taken	successive years		
Spain  Report By The Special Commission To Foster Transparency And Security In The Markets And In Listed Companies  January, 2003  (One-tier System, Civil Law)	1)The Law of Measures to Reform the Financial System requires listed companies to have an Audit Commission, the appointment of the Audit and Control Commission's members corresponds to the Board of Directors, 2) Those members should all be external directors and the proportion of domanial and independent directors should be similar to that on the Board itself., 3) The Audit Commission's chairman should be an independent director	1) Preparation of an annual report on the activities of the Audit and Control Commission which must be included in the directors' report, 2) Expressing its opinion on the annual accounts and quarterly and half-yearly accounts that must be delivered to the markets' regulatory or supervisory bodies, disclosing the internal control systems, the monitoring and compliance through internal audits and, if appropriate, the accounting criteria applied, 2) The Commission must also inform the Board about changes in accounting criteria and about on- and off-balance sheet risks	1) The power to report on and propose the selection, appointment, reappointment and removal of the external auditor, and the conditions of his/her engagement, 2) That power cannot be delegated to the management or to any other company body			
Turkey  Capital Markets Board of Turkey  Corporate Governance Principles  June, 2003	An audit committee in charge of supervision of the financial and operational activities of the company should be established.	1) The audit committee should supervise whether or not periodic financial statements and its footnotes are prepared in accordance with the current legislation and international accounting standards and should declare its opinion to the board in writing upon receiving the opinion of the independent audit firm, 2) The audit committee should convene at least once in three months and submit	1) The committee should be entitled to invite any executive, internal and external auditors to the committee meetings and to obtain their opinions, 2) The internal auditor also reports to the audit committee	1) Appointment of the external audit firm, preparation of audit agreements and initiation of audit process and all activities of the external audit firm should be made under the surveillance of the audit committee, 2) Appointment of the external audit firm and the services to be provided thereby should only be submitted to the board upon the preliminary approval		

Board Responsibilities for Audit and Audit Committees						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
		the outcome of such meeting to the board		by the audit committee		
UK  The Combined Code on Corporate Governance  July, 2003  (One-tier system, Common Law)	1) The board should establish an audit committee of at least three, or in the case of smaller companies two, members, who should all be independent non-executive directors,2) The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience, 3) The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available	The main role and responsibilities of the audit committee should be set out in written terms of reference and should include: to monitor the integrity of the financial statements, and any formal announcements relating to the company's financial performance; to review the company's internal control and risk management systems; to monitor and review the effectiveness of the company's internal audit function; to make recommendations to the board, for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and terms of engagement of the external auditor; to review and monitor the external auditor's independence and; to develop and implement policy on the engagement of the external auditor to supply non-audit services	The board should establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors.			
Global  OECD  The OECD Principles of Corporate Governance	1) Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement	1) The practice that external auditors are recommended by an independent audit committee of the board or an equivalent body	An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and			



<b>Board Responsibilities for Audit and Audit Committees</b>						
	Audit committees	Audit committee mandate and duties	Relationship with external auditor	Ensuring auditor independence	Audit standards	Private meetings with the auditor
April, 2004  (One and Two-tier Systems, both Civil and Common Law)	to tasks where there is a potential for conflict of interest, 2) When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board, 3) It is increasingly common for external auditors to be recommended by an independent audit committee of the board or an equivalent body and to be appointed either by that committee/body or by shareholders directly	and that external auditors are appointed either by that committee/body or by the shareholders' meeting directly can be regarded as good practice since it clarifies that the external auditor should be accountable to the shareholders, 2) In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition, 3) Such information is particularly important in the increasing number of jurisdictions where boards are establishing independent audit committees with powers to oversee the relationship with the external auditor and to act in many cases independently	objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects			

<b>Internal Control, Related Parties and Conflicts of Interest, and Other</b>							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
<p>Austria</p> <p>Austrian Working Group on Corporate Governance</p> <p>Austrian Code of Corporate Governance</p> <p>November, 2002</p> <p>(Two-tier System, Civil Law)</p>	<p>Required, 1) company discloses any changes in the shareholder structure, at threshold multiples of 5 percent, 2) disclose the shareholder structure by geographical origin and type of investor, any cross-holdings, the existence of syndicate agreements, restrictions on voting rights, and registered shares</p>	<p>Required disclosure to the supervisory board</p>	<p>Required disclosure to the supervisory board: 1) if a supervisory board has a conflict of interest, they disclose this to the chairperson of the supervisory board, 2) if the chairperson of the supervisory board has a conflict of interest, they shall disclose this to their deputy</p>	<p>1) Required for management and supervisory board members within 7 days of the transaction, 2) exempt below 10,000 Euros</p>	<p>Reports to management board not the supervisory board</p>		
<p>Belgium</p> <p>Belgian Commission for Corporate Governance</p> <p>Corporate Governance for Belgian Listed Companies</p> <p>December, 1998</p> <p>(One-tier System, Civil Law)</p>			<p>Information about the relevant interests of directors should be disclosed in the annual report</p>			<p>1) The total amount of the non-executives directors' remuneration separately in the annual report and both the fixed and the variable part of the remuneration 2) the principles underlying the calculation of the variable part should be disclosed 3) The membership of the remuneration committee should be disclosed in the annual report</p>	<p>Access to information is in particular the responsibility of the chairman, who may be assisted by the secretary to the board</p>
<p>Brazil</p> <p>Comissao de Valores Mobiliários</p> <p>CVM Recommendations on Corporate Governance</p>		<p>The board of directors should ensure that transactions among related parties are clearly reflected in the financial statements</p>					

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
June, 2002  (Two-tier System, Civil Law)							
Brazil  Brazilian Institute of Corporate Governance  Code of Best Practice of Corporate Governance  April, 2001  (Two-tier System, Civil Law)						Best corporate governance practices recommend that the annual report specify the stock ownership and remuneration of each of the board members and directors	All members of the supervisory board may request copies of the minutes of board of directors meetings, financial statements, in addition to clarifications and detailed information
Bulgaria  Corporate Governance Initiative for Bulgaria  Corporate Governance Guidelines  2001			An obligation to declare before the other board members the possible existence of a conflict of interest				

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
Canada					1) [The board has responsibility for] ... the integrity of the corporation's internal control and management information systems, 2) There are many aspects of the audit committee's relationship with the internal audit function that are important for the oversight of internal control and culture, 3) Where a corporation has an internal audit function, the audit committee should approve its mandate, ensure it has adequate resources, and that the director of internal audit has direct and open communication with the committee		
<p>Joint Committee on Corporate Governance</p> <p>Beyond Compliance: Building a Corporate Governance Culture (Saucier Report)</p> <p>November, 2001</p> <p>(One-tier System, Common Law)</p>							
Canada					1) It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control, 2) The audit committee should have direct communication with the internal ... auditor		
<p>Toronto Stock Exchange</p> <p>Guidelines for Improved Corporate Governance</p> <p>(Dey Report)</p> <p>1994</p> <p>(One-tier System, Common Law)</p>							

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
Commonwealth  Commonwealth Association of Corporate Governance  CACG Guidelines: Principles for Corporate Governance in the Commonwealth  November, 1999  (One-tier System, Common Law)			Full and timely disclosure of any conflict, or potential conflict, must be made known to the board		The board should implement a formal internal audit function		1) It should also adopt efficient and timely methods for informing and briefing board members prior to meetings, 2) The information needs of the board should be well defined and regularly monitored., 3) Each board member has a responsibility to be satisfied that, objectively, they have been furnished with all the material facts before making a decision
Cyprus  Corporate Governance Code  September, 2002 as amended in November, 2003  (One-tier System, Civil Law)		Directors and executive directors should announce immediately to the Board and shareholders through the annual financial statements regarding any material interest that might arise from transactions of the company	Directors and executive directors should announce immediately to the Board and shareholders through the annual financial statements any other conflict of interests with those of the company or related to it companies, that arises from the exercise of their duties		1) Directors should annually review the effectiveness of internal controls, and procedures which confirm the accuracy, completeness and validity of information that is given to investors and certify this in the report on corporate governance,2) The review should cover all systems of internal control, including financial, operational as well as compliance and risk management,3) Companies without Internal Control, should examine annually the need and	1) The Board of Directors should submit an annual Remunerations Report to shareholders, 2) The Company's report on corporate governance should contain a statement on remuneration policy and related criteria as well as details of the remuneration of both executive and non-executive directors	

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
					report and justify in the report on Corporate Governance, 4) The Board should also certify in the report on Corporate Governance that to the best of their knowledge, no violation has been notified to them regarding Exchange Law and regulations, apart from cases that are known		
Czech Republic  (Two-tier System, Civil Law)  Based upon OECD Principles		Members of the board and managers should be required to disclose any material interests in transactions... affecting the company	Members of the board and managers should be required to disclose any material interests in ... matters affecting the company		The board should be accountable to the shareholders and ensure proper internal controls to safeguard shareholders' investment and the company's assets, 2) The board should review the effectiveness of the company's system of internal control and report to shareholders on financial, operational and compliance controls and risk management, 3) Companies which do not have an internal audit function should from time to time review the need for		1) Management has an obligation to provide the board with appropriate and timely information, 2) directors should make further enquiries where necessary, 3) the chairman should ensure that all directors are properly briefed on issues, 4) Both the executive and supervisory board members should act on a fully informed basis

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
					one		
Denmark  Report on Corporate Governance in Denmark  The Copenhagen Stock Exchange Committee on Corporate Governance  (Norby Committee)  December, 2003  (Two-tier System, Civil Law)					It is recommended that the company's annual report contains information about the company's risk management activities, 2) The supervisory board should at least once a year review and assess the internal control systems within the company as well as the management's guidelines for and monitoring of such systems	It is recommended that the annual report contains information on the principles and size of the total remuneration to the members of the supervisory board and the executive board	In all circumstances the executive board must ensure that the supervisory board is provided with essential information, whether the supervisory board has requested it or not
Europe  European Association of Securities Dealers (EASD)  Corporate Governance Principles and Recommendations  May, 2000  (Both One and Two-Tier Systems)	1) Disclosures should cover: significant shareholders if known including cash-flow rights, voting power, diagrams of ownership and control cascades, crossshareholdings and guarantees, shareholder agreements, special voting rights, 2) Disclosures should cover: its board members and key executives, their characteristics, terms of office, remuneration and shareholdings in the company	1) Disclosures should cover: relations with the company where relevant and material, and directorships in other companies mentioning where they are reciprocal, 2) Disclosures should cover: related party transactions	Conflicts of interest should be avoided and where they can not, must be properly managed and disclosed, 2) Disclosures should cover: relations with the company where relevant and material, and directorships in other companies mentioning where they are reciprocal, 3) Where material conflicts of interest occur, they should be disclosed a. at least to the board; b. where significant, to the shareholders (via a shareholder statement)		1) Internal controls should provide for the integrity of corporate data, 2) Disclosures should cover: internal controls, material foreseeable risk factors and their monitoring procedures	Material elements of non-executive board members' remuneration including their participation in pension arrangements, stock-option plans or incentive schemes of whatever nature should be meaningfully disclosed at least in the aggregate	It should be the Chairman's responsibility that adequate and timely information is provided to board members ahead of meetings, and where necessary in between
Europe		a policy of disclosure	1) a policy of		Disclosure policy		

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
<p>EBRD</p> <p>Sound Business Standards and Corporate Practices: A Set of Guidelines</p> <p>September, 1997</p> <p>(Both One and Two-Tier Systems)</p>		<p>of personal financial interest of Board members in company related transactions as well as a policy of non-involvement of Directors with a personal interest in matters to be decided</p>	<p>disclosure of personal financial interest of Board members in conflict-of interest situations as well as a policy of non-involvement of Directors with a personal interest in matters to be decided,</p> <p>2) internal controls should include: procedures to identify and report to the Board and, where appropriate, to shareholders situations of conflict of interest affecting Directors, managers or other senior employees of the company</p>		<p>should encompass: competent internal audit and compliance officers reporting to the Board of the company, with responsibility for auditing the compliance with internal procedures as well as for monitoring all aspects of legal compliance, professional good conduct and good business practice, 2) internal controls should include: procedures to identify and report to the Board and, where appropriate, to shareholders situations of conflict of interest affecting Directors, managers or other senior employees of the company</p>		
<p>Europe</p> <p>Euroshareholders</p> <p>Euroshareholders Corporate Governance Guidelines 2000</p> <p>February, 2000</p> <p>(Both One and Two-Tier Systems)</p>		<p>Members of the board should be required to disclose their interests in transactions ... affecting the company</p>	<p>Members of the board should be required to disclose their interests in ... matters affecting the company</p>				



Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
<p>Finland</p> <p>HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers Working Group</p> <p>Corporate Governance Recommendation for Listed Companies</p> <p>December, 2003</p> <p>(One-Tier System, Civil Law)</p>	<p>The company shall report the following information on directors: ... shareholdings in the company, holdings and rights based on a share-related compensation system of the company</p>	<p>1) The information on the board members and their holdings permits the shareholders to evaluate the operating capabilities of board members and their relationships to the company, 2) The company shall report the following information on directors: other simultaneous key positions of trust, 3) Each director shall provide the board with sufficient information that will allow the board to evaluate his/her qualifications and independence</p>	<p>1) The information on the board members and their holdings permits the shareholders to evaluate the operating capabilities of board members and their relationships to the company, 2) The company shall report the following information on directors: other simultaneous key positions of trust, 3) Each director shall provide the board with sufficient information that will allow the board to evaluate his/her qualifications and independence</p>	<p>...information on the insider administration procedures permits the shareholders to evaluate the insider administration of the company</p>	<p>1) The company shall define the operating principles of internal control, 2) The company shall describe the criteria according to which the risk management is organized, 3) The company shall describe the manner in which the internal audit function of the company is organized</p>	<p>1) The company shall describe the criteria for compensation of the members of the supervisory board, 2) The information of the ... compensation criteria of the supervisory board permits the shareholders to evaluate the effectiveness of the operations of the supervisory board, 3) The company shall report the fees and other benefits of the directors for their board and committee work during the reporting year, 4) The shareholdings of the directors can be increased by paying the fees or part of the fees for board and committee work in the form of shares of the company, 5) It is not recommended that a non-executive director participate in a share-related compensation system, 6) The company shall report the number of shares and share-related rights granted to the directors in compensation during the reporting year, 7) The company shall describe the criteria</p>	<p>The company shall provide sufficient information of the operations of the company to the directors</p>

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
						and decision-making procedure concerning the compensation system covering the managing director and other executives.	
France  MEDEF, AFEP-AGREF  The Corporate Governance of Listed Companies  October, 2003  (Single-Tier System, Civil Law)		It is also desirable, at the time of review of the accounts, for the [audit] committee to consider the major transactions in connection with which conflicts of interest could have arisen	It is also desirable, at the time of review of the accounts, for the [audit] committee to consider the major transactions in connection with which conflicts of interest could have arisen	Directors must disclose transactions entered into in the corporation's securities	1) Each listed corporation should have reliable internal procedures to identify and evaluate its commitments and risks, and provide shareholders and investors with relevant information in this respect, 2) the annual report should specify the internal procedures set up to identify and monitor off-balance-sheet commitments, and to evaluate the corporation's material risks, 3) methods used for informing shareholders and investors regarding off-balance-sheet commitments and material risks should be developed and clarified		1) The Board ... should be informed in a timely fashion of the corporation's cash position, 2) Corporations are bound to provide ... directors the information required for effective participation in proceedings of the Board, 3) ... should also include any relevant information, including criticism, relating to the corporation, such as articles in the press and financial analysts' reports, 4) Conversely, the directors are bound to request the appropriate information that they consider as necessary to perform their duties
Germany  Government Commission  German Corporate Governance Code		Notes on the relationships with shareholders considered to be "related parties" pursuant to the applicable accounting regulations shall be	In its report, the Supervisory Board shall inform the General Meeting of any conflicts of interest which have occurred together with their treatment	The purchase or sale of shares in the company or of related purchase or sale rights (e.g. options) and of rights directly dependent on the stock market price of		The Consolidated Financial Statements shall contain information on stock option programmes and similar securities-based incentive systems of the	Providing sufficient information to the Supervisory Board is the joint responsibility of the Management Board and Supervisory Board

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
May, 2003  (Two-Tier System, Civil Law)		provided in the Consolidated Financial Statements		the company by members of the management board and supervisory board of the company or its parent company and by related parties shall be reported without delay to the company		company	
Greece  Committee on Corporate Governance in Greece under the coordination of the Capital Market Commission  Principles on Corporate Governance in Greece, Recommendations for its Competitive Transformation  October, 1999		Members of the Board of Directors and executive managers should be required to disclose information on any private material interest involved in transactions or other matters affecting the corporation	Members of the Board of Directors and executive managers should be required to disclose information on any private material interest involved in transactions or other matters affecting the corporation	Actions and transactions based on insider information or undertaken for private benefit should be prohibited	Internal auditors should be subject to oversight in a satisfactory manner		Internal audit procedures should be established ensuring that all members of the Board have timely, full and equitable access to all information required for the exercise of their duties
Italy  Committee for the Corporate Governance of Listed Companies  Corporate Governance Code  (Preda Code)  July, 2002		1) ... the board of directors should establish guidelines and criteria for identifying such transactions, 2) The information provided to the shareholders' meeting shall be sufficiently detailed, so as to allow the advantages the transactions offer the company to be understood, 3) The	1) Directors who have an interest, even if only potential or indirect, in a transaction with related parties shall: promptly inform the board in detail of the existence of the interest and of the related circumstances; abandon the board meeting when the issue is discussed, 2) Directors'		1) The board of directors is responsible for the internal control system; it shall lay down the guidelines for the system, periodically check that it is adequate and working properly, and		The chairman shall call the meetings of the board and shall take steps to ensure that the members of the board are provided reasonably in advance of the date of the meeting (except in cases of necessity and as a matter of urgency) with the documentation and information needed

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
		bodies with delegated powers shall also provide adequate information on transactions that are atypical, unusual or with related parties whose examination and approval are not reserved to the board of directors	independence shall be periodically assessed by the board of directors on the basis of the information provided by each interested party, 3) The results of assessments shall be communicated to the market, 4) Every year the board shall collect data on the positions held by directors on the boards of directors or auditors of other listed companies and of companies of the other categories specified in the text and publish the results in the report on operations		verify that the main risks facing the company are identified and managed appropriately, 2) shall appoint one or more persons to run it and provide them with appropriate resources, 3) the internal control system shall not be placed hierarchically under a person responsible for operations and shall report on their activity to the managing directors and to the internal control committee and the members of the board of auditors		for the board to express an informed view on the matters it is required to examine and approve
Lithuania  National Stock Exchange of Lithuania  The Corporate Governance code for the Companies Listed on the National Stock Exchange of Lithuania  2004			It is recommended that information about the members' professional background, qualifications, and potential conflicts of interest that may have an effect on the members' decisions should be disclosed, 2) a member of the company's supervisory and management body	The internal rules should contain a provision stipulating the obligation of the members of the company's supervisory and management bodies and the company's employees, who enjoy access to inside information, to immediately disclose information about	The collegial body elected by the general shareholders' meeting ... should ensure integrity and transparency of the company's ... control system.	It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies, 2) Determination of the remuneration for	The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body, 2) To enable the collegial body members to discharge their duties effectively, the company should furnish them with the

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
			should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible	said transactions with the securities issued by the company to the company and its shareholders.		the members of the company's supervisory and management bodies should be based on transparent and clear principles and procedures	relevant, accurate and timely information
Malta  Working Group of the Malta Stock Exchange  The Code of Principles of Good Corporate Governance  October, 2001		The Company should consider making available for inspection to its shareholders for a period not less than 15 days particulars of service contracts and particulars of any contract in which a Director of the Company is materially interested and which is significant in relation to the business of the Company and its subsidiaries taken as a whole	In certain circumstances it may be appropriate for the Board to disclose in a public document that an actual conflict or potential for conflict of interest has arisen	It is the Directors' responsibility not to make improper use of information acquired by them by virtue of their position as a Director	The Board should regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times	1) Companies [remuneration committees] should set out a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Director, 2) The Annual Report should contain a report by the Remuneration Committee on the remuneration policy of the company and a brief outline of the remuneration of each director, 3) Disclosure of directors' remuneration is considered a significant element in the overall accountability of the directors towards	1) Directors should ensure that they have sufficient and adequate information about the Company. 2)The Board should set up internal and external reporting systems so that the Board is supplied, in a timely manner, with information in a form and of a quality appropriate to enable the Board to discharge its duties 3)The Chairman is responsible primarily for the working of the Board and for ensuring that all relevant issues are on the Agenda supported by all available information

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
						shareholders with respect to their own remuneration, 4) The Company's Annual Report should contain a statement made by the Remuneration Committee, or until such time as a Remuneration Committee is set up, the Board, which provides useful and meaningful information to shareholders on the effect of the company's arrangements for remuneration policy including profit-sharing, share options and pension benefits	
Poland Best Practices Committee of the Corporate Governance Forum Best Practices in Public Companies in 2002 2002 (Two-tier System, Civil Law)		Information on personal, actual, and organizational connections of a supervisory board member with a given shareholder, and, in particular, with the majority shareholder, should be available to public	A supervisory board member should inform the remaining members of the board of any conflict of interest that arises, and should refrain from participating in discussions and from voting on passing a resolution on the issue in which the conflict of interest has arisen			The aggregate remuneration of all members of the supervisory board should be disclosed in the annual report	
Poland Polish Corporate Governance Forum	The company should disclose up-to-date information on its current ownership	The company should provide access to information about members of its	Members of the management board and the supervisory board should be	The company should regulate trading in its securities by its supervisory board	Every year the supervisory board should present a report to the	The company should provide access to information about members of its	

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
<p>The Corporate Governance Code for Polish Listed Companies</p> <p>June, 2002</p> <p>(Two-tier System, Civil Law)</p>	and control structures....	supervisory board, including... positions held with other companies	obliged to disclose any conflicts of interest, 2) The company should provide access to information about members of its supervisory board, including...links to the company or the controlling shareholder, positions held with other companies...	members, managers and any other persons who have privileged access to information so as to prevent any violation of the interests of shareholders and investors, and in particular the right of equal access to information	shareholders on... the company's system of internal controls and information policy	supervisory board, including...the forms and amount of remuneration	
<p>Portugal</p> <p>National Commission on the Securities Market</p> <p>Recommendations on Corporate Governance</p> <p>February, 2000</p>	Shareholder agreements regarding the exercise of rights in the company or regarding the transferability of shares, when relevant to the organisation of companies, should be disclosed to the public.	It is recommended that, within the internal organisation of the company, specific regulations be established aimed at regulating situations of conflict of interest between members of the board and the company particularly regarding the prevention of improper use of business opportunities and company assets	Information should be disclosed on the actual functions of each member of the board of directors and executive management of the company, as well as their positions in other companies, 2) It is recommended that, within the internal organisation of the company, specific regulations be established aimed at regulating situations of conflict of interest between members of the board and the company particularly regarding the prevention of improper use of business opportunities and company assets	It is recommended that, within the internal organisation of the company, specific regulations be established aimed at regulating situations of conflict of interest between members of the board and the company particularly regarding the prevention of improper use of business opportunities and company assets	Internal control procedures, besides the possibility of them having a significant impact on the level of corporate efficiency, are thus privileged means to guarantee transparent corporate governance		The board should be informed, at all times, of the issued under discussion and decisions taken by the Executive Committee

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
Romania  International Center for Entrepreneurial Studies, University of Bucharest  Corporate Governance Initiative For Economic Democracy In Romania  June, 2000		The board may submit A report identifying those family members of the board members and of the executive officers (including board members and managers of a subsidiary or manager of a branch of the company) who are doing business with the company (e.g. suppliers, dealers)	Whenever a situation arises that could be regarded as a conflict of interest the person subject to the potential conflict shall so notify the other members of the Board or the shareholders' representative, 2) The board may submit a report [that] shall disclose any potential conflicts of interest	Where an executive officer is selling or buying the shares of the company in which he is working, either directly or indirectly, he shall notify the secretariat of the Board regarding this transaction	1) The board shall provide the shareholders, gathered in ordinary or extraordinary meeting, a report regarding the effectiveness of the internal audit, 2) The auditor shall also analyze the practices and procedures of the internal control and of the internal auditors, and if he thinks that they are not adequate, based on written conclusions, he shall make recommendations to the shareholders and to the Board for their improvement	The annual income of each Board member shall be disclosed by a detailed report, itemizing each element thereof (monthly payments and meeting fees)	1) The essential information to be submitted to the board should include: The essential information to be submitted to the board should include: i. Working plans and annual budgets; ii. Capital, workforce and cash flow budget statements; iii. Quarterly and semi-annual performance indicators; iv. Audit reports; v. Notifications received from fiscal bodies; vi. Incidents or serious risks of accidents; vii. Failure to pay timely obligations; viii. Failure to collect receivables ; ix. Significant complaints; x. Any decision of the board or of a manager, head of section or other decision-maker which resulted in constraints being imposed on the company's activities; xi. Proposals regarding association or collaboration with a third party; xii. Improvements to the marketing policy; xiii. Transactions



Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
							involving substantial payments to customers or suppliers; xiv.Labour conflicts; xv.Proposals to manage financial risk by contractual clauses or hedging transactions, 2) This information may also be requested by shareholders of the Board
Russia  Federal Commission for the Securities Market  Corporate Governance Code  (Two-tier System, Civil Law)			Members of the board should immediately inform the board of directors through the secretary of the company of both such [a conflict of] interest and the grounds for it	It is advisable that the board of directors approve a document regulating the use of insider information. This document may be incorporated into the company's Regulation on Information Policy	1) The board of directors should approve... internal control procedures, 2) approval of internal control procedures should be assigned to the board of directors of the company, 3) one of the important functions of the board of directors - the guarantor of the rights of shareholders - is the establishment of a risk management mechanism, procedures should provide for prompt notification of the board of directors of all substantial deficiencies in the risk management	It is recommended that the annual report ... contain information on the total amount of remuneration and/or compensation of members of the board of directors	1) If [the board of directors] rely solely on the information furnished by executive bodies, they will not be able properly to discharge their duties, 2) it is advisable that members of the board of directors demand additional information, when such information is necessary to make a balanced decision, 2) Members of the board of directors should have access to all information that they need to properly discharge their duties

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
					mechanisms		
Slovak Republic		Members of the board and managers should be required to disclose any material interests in transactions or matters affecting the company and should abstain from participating in any vote on such transactions			1) The board should be accountable to the shareholders and ensure proper internal controls and auditing procedures, 2) The executive and supervisory boards should establish formal and transparent arrangements for considering how they should apply ... internal control principles		The managers of the company have an obligation to provide the executive board with appropriate and timely information. However, information volunteered by management is unlikely to be enough in all circumstances and members of the executive board should make further enquiries where necessary
Financial Market Authority							
Corporate Governance Code Based on the OECD Principles							
September, 2002							
(Two-tier System, Civil Law)							
Slovenia			In its report, the Supervisory Board shall inform the General Meeting of Shareholders of any conflicts of interest which have occurred together with their treatment	1) Each member of the Supervisory Board is obliged to report to the company any change in his holdings of the company's or group company's shares no later than in 24 hours after the transaction is concluded., 2) The company must publicly disclose this information.	1) For protection of shareholders' interests and the company's assets, the Management Board shall provide for establishment and operation of a proper and effective system of internal control, 2) The persons, responsible for the area of internal control shall be directly accountable to the Management Board and impartial in their work	1) The total compensation of the members of the Supervisory Board shall be reported in the Notes of the consolidated financial statements, 2) Compensation for each individual member should be reported	The Management Board and the Supervisory Board are jointly accountable for providing timely and comprehensive information
Ljubljana Stock Exchange,							
Corporate Governance Code							
March 2004							
(Two-tier System, Civil Law)							
Spain					Full access to the internal audit and the ability to express its opinion about the selection, appointment, reappointment and		The Board and the persons that comprise it must have the necessary information in order to improve their functions and make them more
Report By The Special Commission To Foster							

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
Transparency And Security In The Markets And In Listed Companies  January, 2003  (One-tier System, Civil Law)					removal of the internal audit manager, and participate in setting his/her remuneration, and the ability to express its opinion about this department's budget		efficient; it is their responsibility to identify and request that information
Turkey  Capital Markets Board of Turkey  Corporate Governance Principles  June, 2003			The audit committee should scrutinize full compliance with the in-house regulations and policies which aim to avoid any possible conflicts of interests that may arise among members of the board, the executives and other employees of the company and to prevent abuse of confidential information	Under no conditions, may the confidential information and information that is not revealed to public and/or that comprises trade secrets be used for the benefits of the board members, their spouses and third persons as per the relevant legislation	1) The board should establish an internal control and risk management mechanisms, 2) The board also takes all necessary measures for sound functioning of such mechanisms implemented, 3) The audit committee should take all necessary measures in order to ensure that internal ...auditing [is] carried out adequately and transparently		In order to ensure that the board members perform their duties fully, they should be provided with easy access to all kinds of information in a timely manner
UK  The Combined Code on Corporate Governance  July, 2003  (One-tier system, Common Law)					1) The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets, 2) The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders	1) There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors, 2) No director should be involved in deciding his or her own remuneration	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties

Internal Control, Related Parties and Conflicts of Interest, and Other							
	Ownership and control	Related party transactions	Conflicts of interest	Share trading and insider trading	Internal control	Remuneration	Provision of information to directors
Global OECD  The OECD Principles of Corporate Governance  April, 2004  (One and Two-tier Systems, both Civil and Common Law)		Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation			Good practice takes this to mean that they should be satisfied that key corporate information and compliance systems are fundamentally sound and underpin the key monitoring role of the board advocated by the Principles	Disclosure should include, but not be limited to, material information on: Remuneration policy for members of the board and key executives	The principle calls for board members to act on a fully informed basis

## **Saucier Report**

### **Contents of Governance Disclosure on the Board**

The disclosure regarding a company's system of corporate governance should be complete. While the disclosure may be relatively brief it should address at least the following points:

- Mandate of the board, which should set forth duties and objectives;
- The composition of the board, whether the board has a majority of unrelated directors and the basis for this analysis;
- If the company has a significant shareholder whether the company satisfies the requirement for fairly reflecting the investment of minority shareholders
- In the corporation and the basis for this analysis;
- If the board does not have a chair separate from management, the structures and processes which are in place to facilitate the functioning of the board
- independently of management;
- Description of the board committees, their mandates and their activities;
- Description of decisions requiring prior approval by the board;
- Procedures in place for recruiting new directors and other performance-enhancing Measures, such as assessment of board performance;
- Measures for receiving shareholder feedback and measures for dealing with Shareholder concerns; and
- The board's expectations of management.

## UNCTAD Governance Disclosure Checklist

<b>I. Financial disclosure</b>	
<i>In particular, the group stressed the importance of disclosure of the company's financial and operating results, related-party transactions and critical accounting policies.</i>	
<p><i>1. The group agreed that enterprises should disclose all the financial information necessary for shareholders and other stakeholders to properly understand the nature of their business and how it was being developed for the future. In particular, any accounting policies to which the published results of the enterprise are especially sensitive should be disclosed, and the impact of alternative accounting decisions discussed.</i></p>	
<p><i>2. The group recognized that enterprises should disclose all related-party transactions and in addition any related-party relationships where control exists. At a minimum, disclosure should be made of the nature, type and elements of the related-party transactions. Even related-party relationships where control exists, irrespective of whether there have been transactions with parties under common control, should be disclosed. The decision-making process for approving related-parties transactions should also be disclosed. Members of the board and managers should disclose any material interests in transactions or other matters affecting the company.</i></p>	
<p><i>3. Critical accounting policies that are key to the portrayal of an enterprise's financial condition and operating results should be disclosed.</i></p>	

<b>Non-Financial Disclosures</b>	
<b>A. Company Objectives</b>	
4. <i>The ad hoc consultative group agreed that the objectives of the enterprise should be disclosed.</i>	
<b>B. Ownership and Shareholders' Rights</b>	
5. <i>The ad hoc group recognized that the ownership structure should be fully disclosed to all shareholders. It was also recognized that changes in the shareholdings of substantial investors should be disclosed to the market as soon as a company became aware of them.</i>	
6. <i>The group took a view that disclosure should be made of control structure and of how shareholders or other members of the organization can exercise their control rights through voting or other means. It also discussed that any arrangement under which some shareholders may have a degree of control disproportionate to their equity ownership, whether through differential voting rights, appointment of directors or other mechanisms, should be disclosed.</i>	
7. <i>The group agreed that rules and procedures governing the acquisition of corporate control in the capital markets and extraordinary transactions such as mergers and sales of substantial portions of corporate assets should be disclosed.</i>	

**C. Governance Structures and Policies**

**The structure, role and functions of the board**

<p>8. <i>The group took the view that the composition of the board should be disclosed, in particular the balance of executives and non-executive directors. Where there might be issues that stakeholders might perceive as challenging the independence of non-executive directors, companies should disclose why those issues are not significant and do not impinge on the independence of the directors.</i></p>	
<p>9. <i>The group took the view that board's role and functions must be fully disclosed.</i></p>	
<p><b>Board committees</b></p>	
<p>10. <i>The ad hoc consultative group suggested that such governance structures be disclosed. In particular, the group agreed that the board should disclose structures put in place to prevent conflicts between the interests of the directors and management on the one side and those of shareholders and other stakeholders on the other.</i></p>	
<p>11. <i>It was also agreed that the composition and functions of any such groups or committees should be fully disclosed. Where any director has taken on a specific role for the board or within one of these structures, this should be disclosed.</i></p>	



**D. Members of the Board and Key Executives**

<b>1. Duties and qualifications</b>	
<p><i>12. The group recommended that the duties of individual directors be disclosed. It was agreed that the number of directorships held by an individual director should be disclosed.</i></p>	
<p><i>13. The experts took the view that there should be sufficient disclosure of the qualifications and biographical information of all board members to assure shareholders and other stakeholders that the members can effectively fulfil their responsibilities. There should also be disclosure of the mechanisms which are in place to act as “checks and balances” on key individuals in the enterprise.</i></p>	
<p><i>14. There should be disclosure of the types of development and training that directors undergo at induction and on an ongoing basis (continuing education).</i></p>	
<p><i>15. Therefore, the group suggested that the board disclose facilities, which may exist to provide members with professional advice. The board should also disclose whether that facility has been used during the year in question.</i></p>	
<b>2. Evaluation mechanism</b>	
<p><i>16. The ad hoc group agreed that the board should disclose whether it has a performance evaluation process in place, either for the board as a whole or for individual members.</i></p>	

<p><i>Disclosure should be made of how the board has evaluated its performance and how the results of the valuation are being used.</i></p>	
<b>Directors' remuneration</b>	
<p><i>17. The ad hoc consultative group took the view that directors should disclose a transparent and accountable mechanism for setting directors' remuneration. Disclosure should be as full as possible to demonstrate to shareholders and other stakeholders that pay is tied to the company's long-term performance as measured by recognized criteria. Information regarding pay packages should include salary, share options and other associated benefits, financial or otherwise, as well as reimbursed expenses. Where share options are used as incentives but are not treated as expenses in the accounts, their cost should be fully disclosed using a widely accepted pricing model.</i></p>	
<p><i>18. The group discussed that the length of directors' contracts as well as the nature of compensation payable to any director for cancellation of service contract should be disclosed. Specific reference could be made to any special arrangement that might relate to severance payments to directors in the event of a takeover.</i></p>	
<b>Succession planning</b>	
<p><i>19. The group took the view that the board should disclose whether it has established a succession plan for key</i></p>	

<p><i>executives and other board members to ensure that there is a strategy for sustaining the business. It also recognized that there might be confidentiality issues and that the details of any individual plan should not necessarily be publicly disclosed.</i></p>	
<p><b>Conflict of interest</b></p>	
<p><i>20. The group suggested that conflicts of interests affecting members of the board should, if they were not avoidable, at least be disclosed. The board of directors should disclose whether it has a formal procedure for addressing such situations, as well as the hierarchy of obligations to which directors are subject.</i></p>	
<p><b>E. Material Issues Regarding Employees and Other Stakeholders</b></p>	
<p><i>21. The group recommended disclosure of whether there was a mechanism protecting the rights of other stakeholders in a business.</i></p>	
<p><b>F. Environmental and Social Stewardship</b></p>	
<p><i>22. The group took the view that the board should disclose its policy and performance in connection with environmental and social responsibility and the impact of this policy and performance on the firm's sustainability.</i></p>	
<p><b>G. Material Foreseeable Risk Factors</b></p>	
<p><i>23. The group took the view that the board should give appropriate disclosures and assurance regarding its risk management objectives, systems and activities. In particular, it was agreed that the board should disclose existing provisions for</i></p>	

<p><i>mitigating the possible negative effects of risk-bearing activities. The board should report on internal control systems and their effectiveness.</i></p>	
<b>H. Independence of Auditors</b>	
<p><i>24. The group agreed that the board should disclose that it had confidence that the auditors are independent and their integrity had not been compromised in any way. The process for interaction with and appointment of internal and external auditors should be disclosed.</i></p>	
<b>III. Annual General Meetings</b>	
<p><i>25. The group discussed the need for disclosure of the process for holding annual general meetings. Notification of the agenda should be made in a timely fashion, and the agenda should be made available in the national language (or one of the official languages) of the enterprise and, if appropriate, an internationally used business language.</i></p>	

## **UK Combined Code Terms of Reference - Audit Committee**

The Combined Code on Corporate Governance (the Combined Code) states that:

“The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company’s auditors”<sup>18</sup> .

The Combined Code goes on to say that the main role and responsibilities of the Audit Committee should be “set out in written terms of reference.”<sup>19</sup> Such statements express a clear need for an Audit Committee, the requirement for which is also supported by other influential organisations such the Commonwealth Association for Corporate Governance and the International Corporate Governance Network.

The Guidance on Audit Committees (The Smith Report) recognises that “Audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the company”<sup>20</sup> .

As with most aspects of corporate governance, the above principles make it clear that, not only should companies go through a formal process of considering their internal audit and control procedures and evaluating their relationship with their external auditor, but they must be seen to be doing so in a fair and thorough manner. It is, therefore, essential that the Audit Committee is properly constituted with a clear remit and identified authority.

As regards the make up of the Committee, we have followed the Combined Code and recommend a minimum of three independent non-executive directors (although two is permissible for smaller companies<sup>21</sup>). The Board should satisfy itself that at least one member of the Committee has recent and relevant financial experience. We have made specific recommendations that others may be required to assist the Committee from time to time, according to the particular items being considered and discussed.

Although not a provision in the Code, the Higgs Review, states as good practice, in its Non-Code Recommendations, that the Company Secretary (or their designee) should act as Secretary to the Committee<sup>22</sup> . The Smith Report states that the Company Secretary should attend the Audit Committee. It is the Company Secretary’s responsibility to ensure that the Board and its Committees are properly constituted and advised. There also needs to be a clear

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<sup>18</sup> *The Combined Code on Corporate Governance July 2003*, C.3.

<sup>19</sup> *The Combined Code on Corporate Governance July 2003*, C.3.2

<sup>20</sup> *Audit Committees - Combined Code Guidance January 2003* 1.4 Note that references are to the original version published in January 2003. A slightly modified version of the Smith Guidance, with a different numbering sequence, was appended to the Combined Code published in July 2003

<sup>21</sup> A smaller company is defined as one which is below the FTSE 350 throughout the year immediately before the reporting year.

<sup>22</sup> *Review of the role and effectiveness of non-executive directors, January 2003* para 11.30

co-ordination between the main Board and the various Committees where the Company Secretary would normally act as a valued intermediary. In addition, although the responsibility for internal controls clearly remains with the Board as a whole, the Company Secretary would normally have the day-to-day task of reviewing the internal control procedures of the company and responsibility for drafting the governance report.

The frequency with which the Committee needs to meet will vary from company to company and may change from time to time. As a general rule, most Audit Committees would be expected to meet quarterly – the Combined Code provides that the Committee should meet at least three times a year.

The list of duties we have proposed are those which we believe all Audit Committees should consider. Some companies may wish to add to this list and some smaller companies may need to modify it in other ways. The Combined Code includes a provision for a report on the Audit Committee to be included in the company's Annual Report<sup>23</sup>. Such report will need to disclose the following:

- Role and main responsibilities of the Audit committee;
- Composition of committee, including relevant qualifications and experience; the appointment process; and any fees paid in respect of membership;
- Number of meetings and attendance levels;
- A description of the main activities of the year to:
  - Monitor the integrity of the financial statements;
  - Review the integrity of the internal financial control and risk management systems;
  - Review the independence of the external auditors, and the provision of non audit services;
  - Describe the oversight of the external audit process, and how its effectiveness was assessed;
  - Explain the recommendation to the Board on the appointment of auditors.

The Chairman of the Committee should attend the AGM prepared to respond to any questions that may be raised by shareholders on matters within the Committee's area of responsibility<sup>24</sup>. The Combined Code also requires that the terms of reference of the Audit Committee, explaining its role and the authority delegated to it by the Board, be made available on request and placed on the company's website.<sup>25</sup>

There is clearly a need for there to be a guiding document for the effective operation of the Audit Committee. This has led the ICSA to produce this Guidance Note proposing model terms of reference for an Audit Committee. The document draws on the experience of senior

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<sup>23</sup> *The Combined Code on Corporate Governance – July 2003* C.3.3 and

*Audit Committees - Combined Code Guidance* 6.1, 6.2

<sup>24</sup> *The Combined Code on Corporate Governance – July 2003* D.2.3 and

*Audit Committees - Combined Code Guidance* 6.3

<sup>25</sup> *The Combined Code on Corporate Governance – July 2003* C.3.3

Company Secretaries and best practice as carried out in some of the country's leading companies.

Companies which have a US Listing may need to amend these terms in light of the requirements of the recently introduced rules following the Sarbanes Oxley Act.

The Combined Code also requires that the terms of reference of the Audit Committee, explaining its role and the authority delegated to it by the Board, be made available on request and placed on the company's website<sup>26</sup>.

While this Guidance Note is aimed primarily at the corporate sector, the doctrine of good governance, including the introduction of Audit Committees, is increasingly being recognised and adopted by other organisations particularly in the public and not for profit sectors. The principles underlying the content of this Guidance Note are applicable regardless of the size or type of organisation and we trust that it will be useful across all sectors.

*Reference to "the Committee" shall mean the Audit Committee.*  
*Reference to "the Board" shall mean the Board of Directors.*

*The square brackets contain recommendations which are in line with best practice but which may need to be changed to suit the circumstances of the particular organisation.*

## 1. Membership

- 1.1. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least [3] members.
- 1.2. All members of the Committee shall be independent non-executive directors<sup>27</sup> at least one of whom shall have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee<sup>28</sup>.
- 1.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.4. The external auditors will be invited to attend meetings of the Committee on a regular basis.

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<sup>26</sup> *The Combined Code on Corporate Governance* A.4.1

<sup>27</sup> An independent non-executive director is defined in *Combined Code* provision A.3.1

<sup>28</sup> Except on appointment, the Chairman of the Company is not considered to meet the test of independence. *Combined Code* provision A.3.1

1.5. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director remains independent.

1.6. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **2. Secretary**

2.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

## **3. Quorum**

3.1. The quorum necessary for the transaction of business shall be [2] members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **4. Frequency of Meetings**

4.1. The Committee shall meet [*at least three times a year at appropriate times in the reporting and audit cycle*] [*quarterly on the first Wednesday in each of January, April, July and October*] and otherwise as required<sup>29</sup>.

## **5. Notice of Meetings**

5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than [5] working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6. Minutes of Meetings**

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<sup>11</sup> The frequency and timing of meetings will differ according to the needs of the company. Meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with Board meetings).



- 6.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

## **7. Annual General Meeting**

- 7.1. The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **8. Duties**

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### **8.1. Financial Reporting**

- 8.1.1. The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
  - 8.1.2. The Committee shall review and challenge where necessary:
    - 8.1.2.1. the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
    - 8.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
    - 8.1.2.3. whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
    - 8.1.2.4. the clarity of disclosure in the company's financial reports and the context in which statements are made; and
    - 8.1.2.5. all material information presented with the financial statements, such as the operating and financial review and the corporate

governance statement (insofar as it relates to the audit and risk management);

8.1.3. The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

## 8.2. **Internal Controls and Risk Management Systems**

The Committee shall:

8.2.1. keep under review the effectiveness of the company's internal controls and risk management systems; and

8.2.2. review and approve the statements to be included in the Annual Report concerning internal controls and risk management <sup>30</sup>.

## 8.3. **Whistleblowing**

*The Committee shall review the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.*

## 8.4. **Internal Audit**

The Committee shall:

8.4.1. monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system <sup>31</sup>;

8.4.2. approve the appointment and removal of the head of the internal audit function;

8.4.3. consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;

8.4.4. review and assess the annual internal audit plan;

8.4.5. review promptly all reports on the company from the internal auditors;

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<sup>12</sup> Unless this is done by the Board as a whole.

<sup>31</sup> If the company does not have an internal audit function, the Committee should consider annually whether there should be one and make recommendation to the Board accordingly. The absence of such a function should be explained in the Annual Report.

8.4.6. review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and

8.4.7. meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

## 8.5. External Audit

The Committee shall:

8.5.1. consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

8.5.2. oversee the relationship with the external auditor including (but not limited to):

8.5.2.1. approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;

8.5.2.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.5.2.3. assessing annually their independence and objectivity taking into account relevant [UK] professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;

8.5.2.4. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);

8.5.2.5. agreeing with the Board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;

8.5.2.6. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements; and

- 8.5.2.7. assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- 8.5.3. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.5.4. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 8.5.5. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 8.5.5.1. a discussion of any major issues which arose during the audit,
  - 8.5.5.2. any accounting and audit judgements, and
  - 8.5.5.3. levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit.

- 8.5.6. review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.5.7. review the management letter and management's response to the auditor's findings and recommendations; and
- 8.5.8. develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

#### 8.6. **Reporting Responsibilities**

- 8.6.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.6.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.6.3. The Committee shall compile a report to shareholders on its activities to be included in the company's Annual Report.

#### 8.7. **Other Matters**

The Committee shall:

- 8.7.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 8.7.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 8.7.3. give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;
- 8.7.4. be responsible for co-ordination of the internal and external auditors;
- 8.7.5. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- 8.7.6. at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **9. Authority**

The Committee is authorised:

- 9.1. to seek any information it requires from any employee of the company in order to perform its duties;
- 9.2. to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 9.3. to call any employee to be questioned at a meeting of the Committee as and when required.

Perpetual Board Disclosure Policy

Our Investor Relations Policy

The board is committed to ensuring that shareholders are fully informed of all material matters that affect the position and prospects of the group. It seeks to accomplish this through:

- The annual report distributed in August each year;
- The chairman's and managing director's addresses to the annual general meeting, which are mailed to shareholders;
- Letters from the chairman to all shareholders in February (on the release of the half yearly financial results), in May each year, and whenever significant developments occur; and

- Posting significant information on Perpetual's internet site as soon as it is disclosed to the market.

Perpetual also has a market disclosure policy to ensure compliance with the continuous disclosure obligations under ASX Listing Rule 3.1 and Corporations Act. The managing director, chief financial officer and company secretary are members of the continuous disclosure committee responsible for deciding what information is required to be disclosed to the ASX. Perpetual ensures that all senior executives give regular sign-offs as to whether there are matters that require disclosure to the ASX. The board also fully recognises its disclosure obligations, and this is a standing agenda item at each scheduled board meeting. Copies of major announcements lodged with the ASX in the past year can be found on the company's website.

**Principles of Auditor Independence and the  
Role of Corporate Governance in Monitoring an  
Auditor's Independence**

**A Statement of the Technical Committee  
of the  
International Organization of Securities Commissions**

**October 2002**

**Introduction**

1. The International Organization of Securities Commissions' Objectives and Principles of Securities Regulation recognize that issuers should make full, accurate and timely disclosure of financial results and other information that is material to investors' decisions. The principles also recognize that accounting and auditing standards of a high and internationally acceptable quality contribute to promoting relevant and reliable financial information useful to a wide range of users for decision-making purposes. Specifically, the principles note that, among other things, regulation should be intended to ensure:

- An independent verification of financial statements and compliance with accounting principles through professional external auditing.
  - Any audit is conducted pursuant to well-defined and internationally acceptable standards.
  - Rules designed to ensure the independence of the auditor.
  - A mechanism for enforcing compliance with accounting and auditing standards.
2. The purpose of this Statement is to build on these principles by setting forth the views of the IOSCO Technical Committee on the principles that should govern independence of auditors of financial statements of listed entities. It reflects the interest of securities regulators in ensuring that auditor independence requirements contribute to promoting investor confidence in published financial statements, irrespective of whether such requirements are the responsibility of securities regulators in their jurisdictions. The Technical Committee recognizes that, while regulations on auditor independence exist in many individual jurisdictions, these regulations may differ in approach, scope, terminology and substance. Accordingly, the Statement also sets forth principles relating to the oversight of an external auditor's independence by a body or bodies within an entity's corporate governance structure. For ease of reference, this Statement uses the term "audit committee" to refer to such a governance body or bodies. The Technical Committee believes these principles and the supporting guidance are relevant regardless of the specific auditor independence regulations that exist in a particular jurisdiction.
3. The principles and supporting guidance relating to audit committees and similar governance bodies address such a body's role in relation to auditor independence only; they do not describe other significant functions that may be performed in overseeing the quality and integrity of an entity's financial reporting.

## **Principles of auditor independence**

4. The external auditor plays a critical role in lending independent credibility to published financial statements used by investors, creditors and other stakeholders as a basis for making capital allocation decisions. Indeed, the public's perception of the credibility of financial reporting by listed entities is influenced significantly by the perceived effectiveness of external auditors in examining and reporting on financial statements. While any consideration of the effectiveness of external audits involves a wide variety of issues, it is fundamental to public confidence in the reliability of financial statements that external auditors operate, and are seen to operate, in an environment that supports objective decision-making on key issues having a material effect on financial statements. In other words, the auditor must be independent in both fact and appearance.
5. The importance of auditor independence standards that are reasonable and yet comprehensive, rigorous, robust and enforceable has been underlined by several significant corporate failures in which questions have been raised about the quality of financial reporting and, in particular, the independence of the auditor. The Technical Committee therefore encourages national and international professional accounting bodies to continue to work with regulators to strengthen existing national and international standards governing independence. Strengthened independence standards that, to the extent possible within the constraints of national laws, are consistent internationally, are a necessary element in reassuring the investing public that auditors are in a position to exercise objective judgment in concluding on management's representations in an entity's financial statements.
6. *Auditors of listed entities should be independent, both in fact and in appearance, of the entity being audited.*
7. *Standards of independence for auditors of listed entities should be designed to promote an environment in which the auditor is free of any influence, interest or relationship that might impair professional judgment or objectivity or, in the view of a reasonable investor, might impair professional judgment or objectivity.*
8. At present, the details of specific regulations and professional standards governing auditor independence vary from jurisdiction to jurisdiction, sometimes significantly. Differences relate to matters such as:
  - the scope of persons and entities, both within and outside the audit firm, to whom independence rules apply;
  - the types of financial, business or other relationships that an audit firm or individual within a firm may have with an entity that the firm audits;
  - the types of non-audit services that can be provided by an auditor to an entity that it audits; and
  - the safeguards that need to be implemented to protect against threats to independence.
9. Despite these differences, the Technical Committee has noted a growing consensus among securities regulators as to the nature of the threats to an auditor's independence and the limitations on the extent to which those threats can be mitigated by voluntarily applied safeguards of various types. Further, there appears to be a growing consensus among securities regulators that a framework of principles



governing independence is not sufficient in itself to protect investors without the greater clarity provided by specific prohibitions on activities and relationships considered unacceptable regardless of any safeguards applied.

10. The Technical Committee believes there is also a growing consensus that:

- establishment of standards governing auditor independence is not sufficient of itself to provide assurance that auditors are in fact independent; the standards must be supported by rigorous requirements for audit firms to establish and maintain internal systems and processes for monitoring, identifying and addressing threats to independence and ensuring compliance with the standards.
- the adequacy and effectiveness of audit firms' internal systems and processes relating to independence must be assessed and evaluated by an external oversight body (see IOSCO Technical Committee Statement on Principles for Auditor Oversight, October 2002).
- a governance body independent of management of an entity being audited should oversee both the process of selection and appointment of the external auditor and the conduct of the audit.

11. The Technical Committee has not in this Statement attempted to prescribe comprehensive standards of auditor independence and nor is it endorsing any particular existing set of auditor independence standards. The Committee notes, however, that the Code of Ethics for Professional Accountants of the International Federation of Accountants provides a useful analysis of potential threats to an auditor's independence under the following headings:

- Self-interest, where an auditor could benefit from a financial or other form of interest in or relationship with the company being audited, e.g., an investment in the company or undue dependence on fees from assurance or non-assurance services
- Self-review, e.g., performance of services for an audit client that result in the audit firm auditing its own work
- Advocacy, e.g., acting as an advocate for an audit client's position in dealings with third parties
- Familiarity, e.g., long association of an audit engagement partner or other key engagement personnel with a particular client or a recent former partner or senior staff member of an audit firm serving as CFO or in some other key management role at an audit client
- Intimidation, e.g., threat of replacement of an auditor over a disagreement on the application of accounting principles.

*12. Standards of auditor independence should establish a framework of principles, supported by a combination of prohibitions, restrictions, other policies and procedures and disclosures, that addresses at least the following threats to independence:*

- *self-interest;*
- *self-review;*
- *advocacy;*
- *familiarity; and*
- *intimidation.*

*13. Standards of auditor independence should identify appropriate safeguards that the*

*auditor should implement in order to mitigate threats to independence that arise from permissible activities and relationships.*

*14. Standards of auditor independence should address specifically the need to ensure appropriate rotation of the audit engagement team such that senior members of a team do not remain in key decision-making positions for an extended period.*

*15. Standards of auditor independence should require the auditor to identify and evaluate all significant or potentially significant threats to independence, including those arising from recent relationships with the entity being audited that may have preceded the appointment as auditor, and document how the auditor has applied safeguards to mitigate those threats.*

*16. Securities market regulators should ensure that there is a system in place to require prompt disclosure of information about the replacement of an auditor of a listed entity.*

17. In some jurisdictions, replacement of an auditor requires the prior approval of a regulator. In other jurisdictions, when an entity replaces its auditor, it must disclose whether within a defined period of time prior to the change there were any disagreements with the former auditor on any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure and whether any disagreements were resolved to the former auditor's satisfaction. The former auditor may be required to confirm assertions by the former client's management concerning any matters of disagreement.

#### **The audit committee**

18. The governance structure of an entity can play an important role in monitoring and safeguarding the independence of its external auditor. The exact form of an entity's governance structure and the roles that any individual governance bodies perform in relation to the external auditor may vary depending on the requirements of national laws. In some jurisdictions, a single body commonly known as an "audit committee" oversees all matters relating to the external auditor. In other jurisdictions, more than one body within the governance structure of a listed entity may assume this responsibility. For ease of reference, this paper uses the term "audit committee" to refer to any governance body or bodies with responsibilities for overseeing the external auditor, regardless of whether they have that title.

*19. The Technical Committee believes that, regardless of the particular legal structure in a jurisdiction, a governance body that is in both appearance and fact independent of management of the entity being audited and acts in the interests of investors should oversee the process of selection and appointment of the external auditor and the conduct of the audit.*

20. While the auditor is accountable and commonly reports to the shareholders, he or she does not in practice have a direct relationship with them. The audit committee should therefore serve as a proxy for the shareholders.

*21. The audit committee should be the key representative body with which the external auditor interacts.*

*22. The audit committee should be established with a mandate that permits it to carry out its responsibilities free of any unreasonable restraints. Those responsibilities should include matters such as evaluating whether the audit fees charged by the*

*auditor appear adequate in relation to the work required to support an audit opinion without regard to fees that might be paid to the auditor for other services.*

*23. The audit committee should on a regular and frequent basis meet with the auditor without management present and discuss with the auditor any contentious issues that have arisen with management during the course of the audit and whether they have been resolved to the auditor's satisfaction.*

*24. When selecting an auditor to recommend for appointment or reappointment, the audit committee should satisfy itself that the auditor is independent in accordance with applicable standards.*

*25. Examples of procedures the audit committee might follow to satisfy itself, both initially and on an ongoing basis, as to the auditor's independence include:*

- *obtaining an understanding of professional and regulatory requirements pertaining to objectivity and independence that apply to the auditor in the entity's home jurisdiction. When an entity's securities are offered or listed in one or more foreign jurisdictions, the audit committee would also consider any additional requirements that may apply in those foreign jurisdictions;*
  - *considering all relationships between the auditor<sup>2</sup> and management that might affect the auditor's ability to act objectively, discussing those relationships with the auditor and obtaining an understanding of how the auditor would guard against any identified threats;*
  - *seeking from the audit firm information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including how its incentive and compensation policies for partners and senior staff align with the interest of the audit committee in ensuring independence;*
  - *seeking from the audit firm information about how it monitors compliance with independence requirements by foreign affiliated or unaffiliated firms that carry out significant portions of the audit work required in order to permit the auditor to express an opinion on the consolidated financial statements of the entity; and*
  - *discussing with the audit firm the findings of quality control inspections of the firm's systems and processes for maintaining independence.*
- 26. To monitor independence effectively, it is good practice for the audit committee to discuss with the auditors, at least annually, matters relating to their independence, including all significant threats to independence identified by the auditors and the safeguards implemented. To provide support for such discussions, the audit committee may wish to consider obtaining a written statement from the auditors:*
- *confirming that they are, and have been throughout the conduct of the audit engagement, independent in accordance with the terms of all relevant professional and regulatory requirements; and*
  - *summarizing all significant services provided to the entity and its affiliates, together with related fees, identifying separately audit services, other services required to be provided by the entity's auditor, such as in connection with an offering of securities, and other non-audit services grouped according to the nature of the services provided.*

*27. The audit committee should oversee establishment of the entity's policies governing the circumstances in which contracts for the provision of permitted non-audit*

*services can be entered into with the company's external auditors and the procedures that must be followed before doing so. The audit committee should also monitor compliance by management with those policies and procedures.*

28. To ensure it is satisfied the auditor's independence will not be compromised, the audit committee might consider, for example, the desirability of implementing a policy that all material non-audit services to be provided by the auditor must be approved in advance by the audit committee. The audit committee may also wish to consider requiring an open tendering process for all contracts with the auditor in excess of a specified monetary value. When the skills and expertise required to provide a particular non-audit service are readily available on similar terms from service-providers other than the entity's external auditor, even the appearance that independence could be compromised may be sufficient to militate against engaging the auditor.

29. *The audit committee should establish policies relating to the hiring from an entity's audit firm of senior officers for the entity, including the Chief Executive Officer and the Chief Financial Officer.*

30. In establishing such policies, the audit committee may wish to consider in particular matters relating to the hiring of senior members of the audit engagement team and the safeguards that could be put in place to mitigate any potential for compromising the independence of the audit.

31. *The audit committee should report to the shareholders on the actions it has taken to safeguard the independence of the auditor, including satisfying itself that the auditor is independent in accordance with applicable standards.*

32. Such reports to shareholders should, inter alia, describe the policies and procedures followed to establish that any contracts for non-audit services to be provided by the auditor do not compromise the auditor's independence. The nature of any non-audit service contracts entered into and the amount of the related fees should be disclosed.