Corporate governance disclosure

Presented by

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2012 Review of the Implementation Status of Corporate Governance Disclosures: Case study Jamaica

Report by Syntegra Change Architects Ltd of Trinidad & Tobago
In collaboration with Private Sector Organization of Jamaica (PSOJ), and Institute of Chartered Accountant of Jamaica (ICAJ)
With the support of the UNCTAD secretariat
Geneva, 2 November 2012
Possible Trends relating to Corporate Governance disclosures

- 1996 Financial Sector meltdown in Jamaica

- Period of Regulatory Reform
  - 2001 Jamaica entered a programme of regulatory reform (Banking Act, Financial Institutions Act, Financial Services Act, Securities Act)
  - 2002 International Financial Reporting Standards and International Standards on Auditing
  - 2004 Amended Companies Act
Possible Trends relating to Corporate Governance disclosures

 ➤ PSOJ Corporate Governance Leadership

 ➤ Between 2000-2005 work across the Caribbean to institute Corporate Governance codes

 ➤ PSOJ provides leadership in Corporate Governance with, including a Corporate Governance Committee of 13 prominent people, seminars, training, partnerships, and very successful national Corporate Governance awards since approximately 2008.

 ➤ PSOJ collaborated with Ministry of Finance and Office of Prime Minister with responsibility for governance in the public sector with a view to assist with the development of the Corporate Governance Framework for Public Bodies in Jamaica.
Jamaican statutory framework related to Corporate Governance

The Corporate Governance Practices Disclosure requirements are within

1. Companies Act, 2004
3. JSE Rule Amendments 2010
4. Bank of Jamaica Standard of Best Practice for Effective Corporate Governance of Deposit-Taking Entities of 2008
5. Jamaica Public Bodies Corporate Governance Framework 2011
6. PSOJ Corporate Governance Code 2006, 2009
10. Public Bodies Management and Accountability Act 2011 (PBMA)
Companies in sample also bound by other laws and regulations that affect their corporate governance practices

1. Protected Disclosures Act of 2011
3. Contractor-General Act
4. Proceeds of Crime Act
6. Insurance Act (Act 26 of 2001)

Jamaica is the only English Speaking Caribbean Country to have a Corporate Governance Code
Purpose: evaluate the level of implementation of good practices in corporate governance disclosures in Jamaica

Not attempting to measure the quality of the disclosure of individual items. Instead, the focus was to measure the existence of the selected disclosure items.

Sample of 26 enterprises was compared with the ISAR benchmark of 51 disclosure items.

Sample includes 26 of 38 members of the Jamaican Stock Exchange (JSE) Composite Index and therefore comprises a representative sample of members trading ordinary stocks on the JSE ‘Main Market’.

Sources of information: Annual Reports, Company Website, By-Laws, Articles of Incorporation, Sustainability Reports, JSE website and direct representation – and any other information source accessible from the position of an ‘interested investor’.

Method: collection of accessible data, create individual company disclosure findings summary sheets, mail findings records to boards of all sample companies for review, comments and correction (30% response rate to findings review).
Jamaican enterprises disclosure practices

- Financial Transparency
- Board and Management Structure and Process
- Ownership Structure and Exercise of Control Rights
- Auditing
- Corporate Responsibility and Compliance

Emerging markets Average
Financial transparency

- Nature, type and elements of related-party transactions
- Impact of alternative accounting decisions
- Critical accounting estimates
- Financial and operating results
- Board's responsibilities regarding financial communications
- Company objectives
- Decision making process for approving related-party transactions
- Rules and procedures governing extraordinary transactions
Ownership structure and exercise of control rights

- Availability and accessibility of meeting agenda*
- Ownership structure*
- Changes in shareholdings*
- Process for holding annual general meetings*
- Control and corresponding equity stake
- Control rights
- Control structure
- Anti-Takeover measures

AGM, Agenda, Ownership Structure are clear

Underlying processes, mechanisms, and rules are disclosed far less often
Board and management structure and process

- Risk management objectives, system and activities*
- Composition of the board of directors*
- Checks and balances mechanisms
- Governance structures, such as committees and other mechanisms to...
- Types and number of outside board and management positions*
- Qualifications and biographical information on board members*
- Material interests of senior executives and board members*
- Independence of the board of directors*
- Role and functions of the board of directors*
- Composition and function of governance structures*
- Determination and composition of directors' remuneration*
- Existence of procedures for addressing conflicts of interest among board...
- Performance evaluation process for board members*
- Professional development and training activities for board members*
- Existence of succession plan for senior executives and board members*
- Availability of advisorship facility for board members or board committees*
- Duration of directors' contracts*
- Compensation policy for senior executives departing the firm as a result...

Even though disclosure is mandated, the priority may be perceived to be low.
Auditing

Internal control systems* 100
Process for interaction with internal auditors 70
Process for interaction with external auditors 60
Process for appointment of external auditors 50
Duration of current external auditors 40
Scope of work and responsibilities for internal auditors 30
Board confidence in the independence and integrity of external auditors 20
Rotation of external auditors 10
External auditors' involvement in non-audit work and fees paid to auditors 0

While all disclosed audited accounts, the underlying processes relating to auditors not found to be disclosed often.
Corporate responsibility and compliance

Policy and performance in connection with environmental and social responsibility*

A Code of Ethics for company employees

A Code of Ethics for the board and waivers to the ethics code

Impact of environmental and social responsibility policies on sustainable development

Mechanisms protecting the rights of other stakeholders*

Policy on "whistle blower" protection*

Existence of employee elected director(s) on the board

(zero)
31 Items from ISAR benchmark required by Jamaican laws and regulations

**Part 1**

<table>
<thead>
<tr>
<th>Financial Transparency</th>
<th>Findings (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and operating results*</td>
<td>100</td>
</tr>
<tr>
<td>Critical accounting estimates*</td>
<td>100</td>
</tr>
<tr>
<td>Impact of alternative accounting decisions*</td>
<td>100</td>
</tr>
<tr>
<td>Nature, type and elements of related-party transactions *</td>
<td>100</td>
</tr>
<tr>
<td>Company objectives*</td>
<td>88</td>
</tr>
<tr>
<td>Board's responsibilities regarding financial communications*</td>
<td>88</td>
</tr>
<tr>
<td>Decision making process for approving related-party transactions*</td>
<td>81</td>
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<table>
<thead>
<tr>
<th>Ownership Structure and Exercise of Control Rights</th>
<th>Findings (%)</th>
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</thead>
<tbody>
<tr>
<td>Availability and accessibility of meeting agenda*</td>
<td>88</td>
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<tr>
<td>Ownership structure*</td>
<td>85</td>
</tr>
<tr>
<td>Changes in shareholdings*</td>
<td>38</td>
</tr>
<tr>
<td>Process for holding annual general meetings*</td>
<td>23</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Auditing</th>
<th>Findings (%)</th>
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<tr>
<td>Internal control systems*</td>
<td>88</td>
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</table>

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<tr>
<th>Corporate Responsibility and Compliance</th>
<th>Findings (%)</th>
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<tbody>
<tr>
<td>Policy and performance in connection with environmental and social responsibility*</td>
<td>65</td>
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<tr>
<td>Mechanisms protecting the rights of other stakeholders*</td>
<td>15</td>
</tr>
<tr>
<td>Policy on &quot;whistle blower&quot; protection*</td>
<td>8</td>
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</table>
### 31 Items from ISAR benchmark required by Jamaican laws and regulations

#### Part 2

<table>
<thead>
<tr>
<th>Board and Management Structure and Process</th>
<th>Findings (%)</th>
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</thead>
<tbody>
<tr>
<td>Composition of the board of directors*</td>
<td>96</td>
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<tr>
<td>Risk management objectives, system and activities*</td>
<td>96</td>
</tr>
<tr>
<td>Governance structures, such as committees and other mechanisms to prevent conflicts of interest*</td>
<td>88</td>
</tr>
<tr>
<td>Qualifications and biographical information on board members*</td>
<td>85</td>
</tr>
<tr>
<td>Types and number of outside board and management positions*</td>
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</tr>
<tr>
<td>Composition and function of governance structures*</td>
<td>73</td>
</tr>
<tr>
<td>Role and functions of the board of directors*</td>
<td>73</td>
</tr>
<tr>
<td>Independence of the board of directors*</td>
<td>73</td>
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<tr>
<td>Material interests of senior executives and board members*</td>
<td>73</td>
</tr>
<tr>
<td>Determination and composition of directors' remuneration*</td>
<td>58</td>
</tr>
<tr>
<td>Existence of succession plan for senior executives and board members*</td>
<td>35</td>
</tr>
<tr>
<td>Professional development and training activities for board members*</td>
<td>35</td>
</tr>
<tr>
<td>Performance evaluation process for board members*</td>
<td>35</td>
</tr>
<tr>
<td>Duration of directors' contracts*</td>
<td>19</td>
</tr>
<tr>
<td>Availability of advisorship facility for board members or board committees*</td>
<td>19</td>
</tr>
<tr>
<td>Compensation policy for senior executives departing the firm as a result of a merger or acquisition*</td>
<td>4</td>
</tr>
</tbody>
</table>
Reporting by enterprise

Jamaican listed companies are required to disclose 31 items.

77% of companies disclose less than 31 items.
Reporting by enterprise

Company practices highly variable

United Kingdom Peru
Thailand Japan
Hungary
Czech Republic
South Africa
Malaysia
Colombia
India
United States Turkey
Argentina
Poland
China
Philippines
Brazil
Indonesia
Russian Federation
Chile
Republic of Korea
Jamaica
Israel
Morocco
Egypt
Mexico

0 10 20 30 40 50
Conclusion

- Many laws and regulations supporting Corporate Governance framework
- Mix of different Codes and Standards
- Lack of a central reference document needed to facilitate consistency and a coordinated programme
- The JSE & Public Bodies mandate each company to provide its own Corporate Governance framework
- However, the PSOJ, the lead organization in Corporate Governance in Jamaica does not obligate its members to comply with its Corporate Governance Code but strongly encourages them
- Given that the market capitalization of the 38 companies on JSE represents almost 50% of GDP, further progress is important for the Jamaica’s sustainable advancement in economic growth.
- A possible policy recommendation would be to require all listed companies to post their Corporate Governance disclosures in a unified summary format to a central address, such as Financial Services Commission (FSC) website.
- The FSC may also want to give consideration to summarize the disclosed information and prepare on a scorecard to compare the results on an annual basis
Thank you