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## **2009 Review of the implementation status of corporate governance disclosures: an examination of reporting practices among large enterprises in 12 emerging markets**

**Report by the UNCTAD secretariat**

### *Executive summary*

This report presents the results of the 2009 Review of the implementation status of corporate governance disclosure. This review examines the disclosure practices of a sample of 88 emerging market enterprises from the smallest twelve markets found in the MSCI Emerging Markets Index. The twelve countries whose enterprises are included in this study are: Argentina, Chile, Colombia, Czech Republic, Egypt, Hungary, Morocco, Peru, Philippines, Poland, Thailand, and Turkey.

The main findings of this study show that the enterprises in the study are reporting about 70 per cent of the disclosure items recommended by ISAR, about the same amount of information provided by enterprises from the larger emerging markets studied by UNCTAD in 2008. Further analysis indicates that some subject areas, such as corporate responsibility and compliance issues, are significantly less reported than other areas, such as financial transparency. The findings also indicate that while enterprises are, on average, more likely to disclose information if it is required, significant gaps in compliance still exist. The findings are largely consistent with the findings of UNCTAD's 2008 study which looked at the corporate governance disclosure practices of enterprises in larger emerging markets.

The study concludes that good disclosure rules are necessary but not sufficient: such rules must be complemented by mechanisms to boost compliance including training programmes to build awareness and technical capacity.

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## Introduction

1. Corporate governance has been a major area of work for the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) since 1989 (E/C.10/AC.3/1989/6). Since the twenty-first session of ISAR, the group of experts has requested an annual review of the implementation status of corporate governance disclosure. Annual reviews were presented at the twenty-first, twenty-second, twenty-third, twenty-fourth, and twenty-fifth sessions of ISAR. At the twenty-fifth session, ISAR considered the document 2008 CG Review of the implementation status of corporate governance disclosures: an examination of reporting practices among large enterprises in 10 emerging markets (TD/B/C.II/ISAR/CRP.1, hereafter the “2008 CG Review”).

2. UNCTAD’s studies on this subject use as a benchmark ISAR’s conclusions on corporate governance disclosure found in the 2006 UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* (UNCTAD/ITE/TEB/2006/3). This study follows up the data presented in the 2008 CG Review. While the 2008 CG Review looked at the reporting practices of enterprises from the top 10 most heavily weighted United Nations member States found in the MSCI EM Index, this study examines the actual disclosure practices and requirements of enterprises from the smallest 12 markets, by index weighting, within the MSCI EM Index. This line of enquiry is expected to provide policymakers and other interested parties an indication both of what enterprises are reporting and the compliance of enterprises with corporate disclosure rules and regulations. The findings, along with detailed analysis, are presented in Chapter I below.

3. The findings show that on average, and as a group, enterprises from the smallest 12 markets of the MSCI EM Index are reporting on the same number of subjects regarding their corporate governance practices as the ten largest emerging markets studied in 2008. Further analysis indicates that, while required disclosure items are reported more frequently than non-required disclosure items, there are still significant gaps in compliance among enterprises vis-à-vis the reporting requirements of their home markets.

## I. Status of implementation of good practices in corporate governance disclosure

### A. Background and methodology

#### 1. ISAR benchmark

4. The purpose of this study is to evaluate the level of implementation of good practices in corporate governance disclosure highlighted in the 2006 UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* (based on the ISAR document TD/B/COM.2/ISAR/30). This 2006 UNCTAD guidance forms a benchmark (hereafter the “ISAR benchmark”) of 52 disclosure items on corporate governance. This benchmark was used in earlier ISAR studies on this subject from 2005 to 2008, as well as in country case studies of Egypt and China (both in 2007). Readers should note that, as was the case with ISAR’s previous annual reviews on this subject, this report is not intended as a measure of the quality of disclosure within individual markets; it is a measure of the existence of the selected disclosure items within the public reports of the companies studied.

5. Compared to previous reviews, one minor change was made to the benchmark list of indicators: the item on “Disclosure practices on related party transactions where control exists” was removed. This disclosure item was subtracted due to its

substantial similarity with the other disclosure item on “Nature, type and elements of related-party transactions”.

6. The complete set of 52 disclosure items are grouped into five broad categories, or subject areas, of corporate governance disclosure, and are presented and analysed by category in section B below. These categories are:

- (a) Financial transparency;
- (b) Board and management structure and process;
- (c) Ownership structure and exercise of control rights;
- (d) Corporate responsibility and compliance; and
- (e) Auditing.

## 2. Sample studied

7. The present study uses the ISAR benchmark to measure the disclosure practices of 88 leading enterprises from 12 emerging markets. The sample used in this study is comprised of selected enterprises<sup>1</sup> from each of the smallest 12 markets found in the Emerging Markets Index produced by Morgan Stanley Capital International (hereafter the “MSCI EM Index”).<sup>2</sup> The MSCI EM Index tracks more than 700 publicly listed enterprises, which account for roughly 85 per cent of the market capitalization of 23 emerging markets.<sup>3</sup> Table 1 below provides a list of the economies included in the MSCI EM Index:

**Table 1. The 23 economies included in the MSCI EM Index (as of March 2009)**

1. Argentina	14. Malaysia
2. Brazil	15. Mexico
3. Chile	16. Morocco
4. China	17. Peru
5. China, Taiwan Province of	18. Philippines
6. Columbia	19. Poland
7. Czech Republic	20. Russian Federation
8. Egypt	21. South Africa
9. Hungary	22. Thailand
10. India	23. Turkey
11. Indonesia	
12. Israel	
13. Republic of Korea	

8. The smallest 12 markets, by index weighting, within the MSCI EM Index are listed in table 2 below, along with their total index weighting. In addition, table 2 shows the weighting of the enterprises surveyed for this study. The enterprises selected for this study are the top 10 largest enterprises from each country (by index weighting). Where countries have less than 10 enterprises included in the MSCI EM Index, all of the enterprises for that country are included in the study. The selected

<sup>1</sup> Note that in some countries, some of selected enterprises by index weighting, were related enterprises. This study sought to avoid reviewing the reporting practices of different entities within the same industrial conglomerate, and for this reason the “selected top enterprises” described in this paper may not correspond exactly with the top enterprises by index weighting for each country; in some cases the selected top enterprises consists of enterprises selected from among the top 15 largest enterprises by index weighting.

<sup>2</sup> MSCI is a commercial provider of financial information, including equity indices tracking publicly listed enterprises around the world. The MSCI EM Index is considered by institutional investors to be the industry standard to gauge emerging markets performance, and is an important tool for facilitating foreign portfolio investment to developing countries and countries with economies in transition.

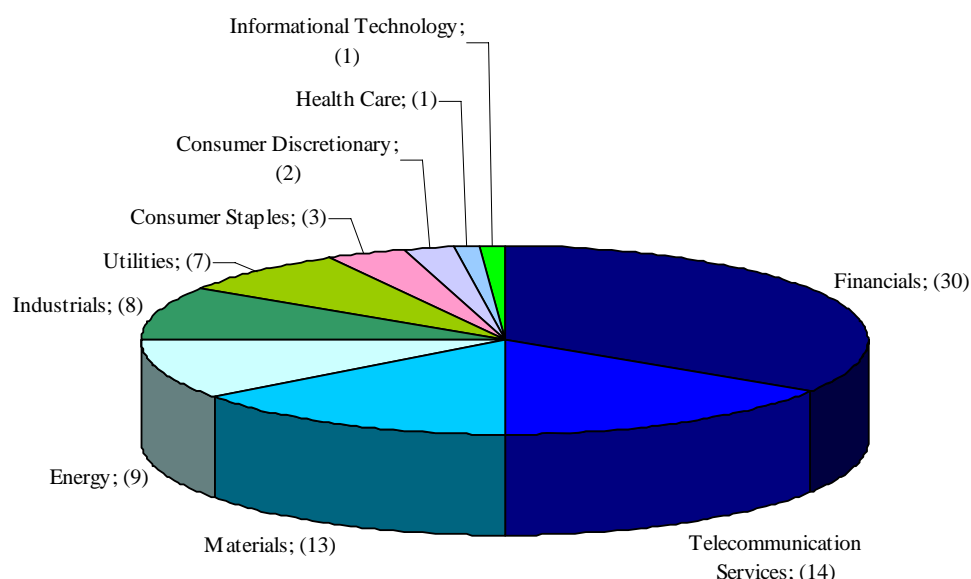
<sup>3</sup> All MSCI EM Index data used in this study is based on the index as of 11 March 2009. Note that Argentina is no longer part of the MSCI EM Index as of May 2009. For up to date information on the MSCI EM Index please see: [www.msibarra.com](http://www.msibarra.com).

enterprises from each country account for between 77 per cent and 100 per cent of their respective country's index weighting. These enterprises were selected due to their economic significance within their home countries, and as samples of leading companies in each country. As a group, the 88 enterprises from emerging markets represent 8.3 per cent of the market capitalization of the entire MSCI EM Index. Additionally, as indicated in figure 1 below, the selected enterprises represent a diversified range of industrial sectors.

**Table 2. Smallest 12 United Nations Member States included in the MSCI EM Index, by index weighting**

Country	Index weighting of country (per cent)	Number of companies from this country in the index	Selected companies as per cent of country weighting	Selected companies as per cent of Index total market capitalization
Chile	1.6	15	85	1.3
Thailand	1.4	24	80	1.1
Turkey	1.2	24	77	1.0
Poland	1.2	21	85	1.0
Czech Republic	0.7	5	100	0.7
Peru	0.6	4	100	0.6
Colombia	0.6	7	89	0.5
Egypt	0.6	12	94	0.5
Philippines	0.5	13	91	0.5
Morocco	0.5	6	100	0.5
Hungary	0.4	4	100	0.4
Argentina	0.1	4	100	0.1
<b>Total</b>	<b>9.5</b>	<b>139</b>		<b>8.3</b>

**Figure 1. Sample of 88 emerging market enterprises by sector<sup>4</sup>**  
(number of companies)



9. The 88 emerging market enterprises described above form the core sample and primary focus of this study. To provide some context and comparison to developed market practices, a secondary sample was created of 10 leading Japanese enterprises. (UNCTAD's 2008 CG Review included comparative data on the disclosure practices of enterprises from the United Kingdom and the United States; with Japan, these three developed countries are the three largest equity markets in the world.) This secondary sample was created by taking ten of the largest enterprises by market capitalization from the Nikkei 225.<sup>5</sup> A complete list of enterprises included in the study is found in annex I.

10. In total, the review considered 5,096 individual data points. This is comprised of the 52 disclosures in the ISAR benchmark multiplied by the 98 enterprises that make up both the primary and secondary samples.

### 3. Research questions

11. The primary research question applied to the sample enterprises was: How many of the items comprising the ISAR benchmark of corporate governance disclosures are reported by each of the enterprises? To answer this question, the study examined a range of publicly available corporate reports including: annual reports, corporate governance reports, corporate responsibility reports, exchange filings, and other information available from financial databases (e.g. Thompson, Reuters, Bloomberg) and company websites.<sup>6</sup> These reports were then compared

<sup>4</sup> Based on Global Industry Classification Standard (GICS) as of 29 August 2008. Source: [www.msicibarra.com](http://www.msicibarra.com).

<sup>5</sup> The 10 selected enterprises from the Nikkei 225 are selected from among the top 11 enterprises in that index to avoid reviewing an enterprise that is a subsidiary of another member of the list.

<sup>6</sup> Wherever possible, the enterprises in the study were contacted to allow them to review the preliminary findings of their reporting; a number of replies were received and their comments and suggestions were incorporated into this study. In total, 86 of the 88 enterprises were contacted, and 31 of these replied. The replies ranged from brief to detailed, involving both written and telephone communication. This engagement with the enterprises provided additional information and in some cases highlighted one or more disclosure items that had not previously been identified. Two of the 88 enterprises were not contacted due to a lack of contact information or unanswered telephone calls. As the study consists of a review of publicly available information, it was not required to speak with each company to carry out the study; however, the effort was made in

with the 52 items in the ISAR benchmark to gauge what, within the benchmark, these enterprises were disclosing. The main findings of this research question are presented in section B below. An analysis of these reporting practices by market is also presented in section C below.

12. An additional research question applied to the sample enterprises was: How do the actual reporting practices of the selected enterprises compare with the reporting requirements of their home countries? To answer this question, the main findings of the review of disclosures were compared with the disclosure requirements that were the subject of a separate UNCTAD 2009 inventory of corporate governance disclosure requirements (TD/B/COM.2/ISAR/CRP.8). The main findings of this research question are presented in section D below, with further details presented in annex II.

## B. Disclosure practices of 88 emerging market enterprises

13. Table 3 below presents the results of the study, giving the number of enterprises disclosing each item from the sample of 88 emerging market enterprises. The information is presented within each of the five broad categories discussed in section A above. This grouping of the disclosure items allows readers to draw their own conclusions based on the importance they assign to a particular category or subject area and, within that category, a particular disclosure item. It also facilitates the analysis that follows on the relative level of disclosure within each category. The categories are presented in order of highest to lowest average rate of disclosure, and within each category, the disclosure items are presented in order from most often disclosed to least often disclosed. It is again noted that the findings below make no indication of the quality of disclosure found among the enterprises, only whether or not some disclosure exists for each of the disclosure items listed below.

**Table 3. Information disclosed by 88 emerging market enterprises**  
(% of enterprises disclosing this item)

Disclosure Items by Category	Rate of disclosure (per cent)
<b>Financial Transparency and Information Disclosure</b>	
Financial and operating results	100
Company objectives	98
Critical accounting estimates	94
Nature, type and elements of related-party transactions	93
Impact of alternative accounting decisions	80
Board's responsibilities regarding financial communications	72
Rules and procedure governing extraordinary transactions	59
The decision making process for approving transactions with related parties	50
<b>Board and Management Structure and Process</b>	
Composition of board of directors (executives and non-executives)	99
Risk management objectives, system and activities	95
"Checks and balances" mechanisms	92
Governance structures, such as committees and other mechanisms to prevent conflict of interest	90
Composition and function of governance committee structures	90
Role and functions of the board of directors	90
Determination and composition of directors' remuneration	88
Qualifications and biographical information on board members	84
Duration of director's contracts	84
Types and duties of outside board and management positions	81
Number of outside board and management position directorships held by the directors	81
Independence of the board of directors	75
Existence of procedure(s) for addressing conflicts of interest among board members	70

order to engage enterprises in a dialogue on this subject, and to obtain additional insights where available.

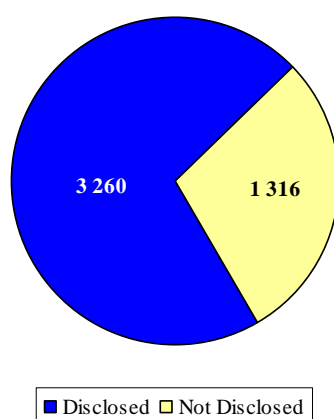
<b>Disclosure Items by Category</b>	<b>Rate of disclosure (per cent)</b>
Material interests of members of the board and management	68
Existence of plan of succession	65
Performance evaluation process	61
Availability and use of advisorship facility during reporting period	57
Professional development and training activities	36
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	11
<b>Ownership Structure and Exercise of Control Rights</b>	
Ownership structure	95
Control structure	94
Availability and accessibility of meeting agenda	89
Control rights	86
Process for holding annual general meetings	83
Control and corresponding equity stake	82
Changes in shareholdings	59
Rules and procedures governing the acquisition of corporate control in capital markets	38
Anti-Takeover measures	27
<b>Auditing</b>	
Process for appointment of external auditors	88
Internal control systems	86
Process for interaction with internal auditors	83
Process for interaction with external auditors	75
Process for appointment of internal auditors / Scope of work and responsibilities	75
Duration of current auditors	73
Auditors' involvement in non-audit work and the fees paid to the auditors	55
Board confidence in independence and integrity of external auditors	30
Rotation of audit partners	30
<b>Corporate Responsibility and Compliance</b>	
Policy and performance in connection with environmental and social responsibility	97
Mechanisms protecting the rights of other stakeholders in business	76
A Code of Ethics for all company employees	64
Impact of environmental and social responsibility policies on the firm's sustainability	59
A Code of Ethics for the Board and waivers to the ethics code	50
Policy on "whistle blower" protection for all employees	36
The role of employees in corporate governance	14

### *General Overview*

14. In total, table 3 above summarizes 4,576 individual data points (52 disclosure items multiplied by 88 emerging market enterprises). As illustrated in figure 2 below, 71 per cent of the of individual disclosure items in the ISAR benchmark were reported by the sample group of 88 emerging market enterprises (i.e. 3,260 out of 4,576 possible disclosures). This suggests that, generally, the enterprises studied are providing a substantial amount of information regarding their corporate governance practices.

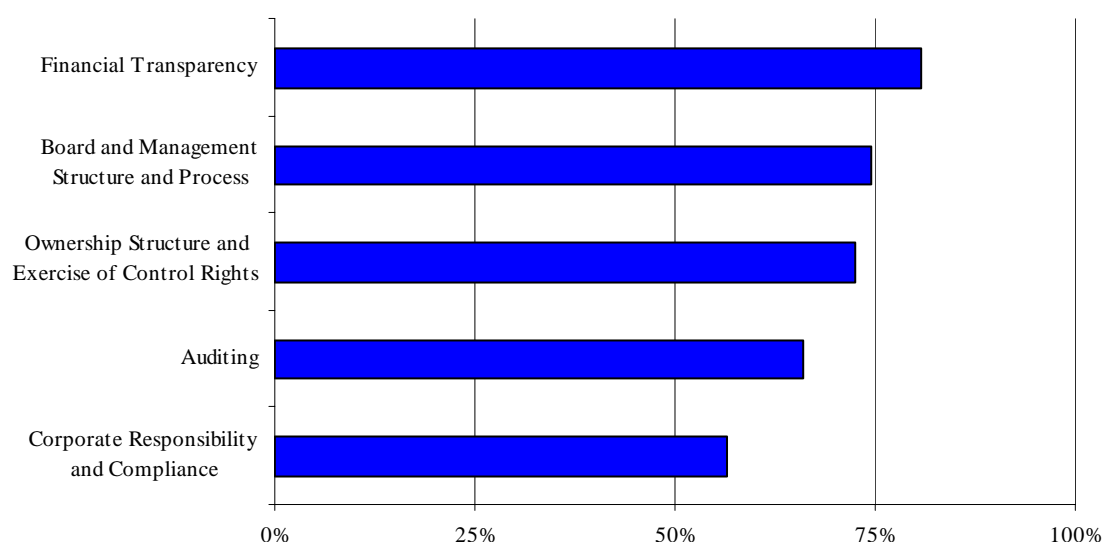


**Figure 2. Disclosure of ISAR benchmark items for 88 emerging market enterprises**  
(Total number of disclosure items = 4 576)



15. Figure 3 below examines disclosure practices by subject category. Consistent with earlier reviews, the financial transparency category is still subject to the highest average level of disclosure, followed by the board and management category and the ownership structure category. One finding that stands out from earlier UNCTAD studies on this subject is the average disclosure rate for items in the auditing category is not the lowest. As figure 3 indicates, the average disclosure rate for the group of items in the auditing category is slightly higher than for the items in the category corporate responsibility, and also higher than the average for auditing items found in the UNCTAD's 2008 CG Review. Nevertheless, auditing disclosure items still, on average, are less prevalent than the items in most other categories of disclosure.

**Figure 3. Overview of disclosure practices by category**  
(Average rate of disclosure by category)



16. The average disclosure rate for the 88 emerging market enterprises fell below 50 per cent for 8 of the 52 disclosure items, which can be seen in table 4 below. While these eight items were not concentrated in any one category (two items were in the category corporate responsibility and compliance, two in auditing, two in ownership structure and exercise of control rights, and two in board and

management structure and process) five of these eight were also among the 10 least prevalent disclosure items reported by enterprises from the top 10 most heavily weighted United Nations member States found in the MSCI EM in the 2008 CG Review (see table 4, note (b)). The disclosure item with the lowest rate of disclosure in the entire study was “compensation policy for senior executives departing the firm as a result of a merger and acquisition”. This item was disclosed by only ten of the 88 emerging market enterprises studied.

**Table 4. Most prevalent and least prevalent disclosure items**  
(% of enterprises disclosing this item)

<b>Top 10 most prevalent disclosure items reported by 88 emerging market enterprises</b>	<b>Rate of disclosure (per cent)</b>	<b>Bottom 10 least prevalent disclosure items reported by 88 emerging market enterprises</b>	<b>Rate of disclosure (per cent)</b>
Financial and operating results <sup>(a) (c)</sup>	100	The decision making process for approving transactions with related parties <sup>(b)</sup>	50
Composition of board of directors (executives and non-executives) <sup>(a) (c)</sup>	99	A Code of Ethics for the Board and waivers to the ethics code <sup>(b)</sup>	50
Company objectives <sup>(a)</sup>	98	Rules and procedures governing the acquisition of corporate control in capital markets	38
Policy and performance in connection with environmental and social responsibility	97	Policy on "whistle blower" protection for all employees <sup>(b)</sup>	36
Ownership structure <sup>(a) (c)</sup>	95	Professional development and training activities <sup>(b)</sup>	36
Risk management objectives, system and activities <sup>(a)</sup>	95	Board confidence in independence and integrity of external auditors	30
Control structure <sup>(c)</sup>	94	Rotation of audit partners <sup>(b)</sup>	30
Critical accounting estimates <sup>(a)</sup>	94	Anti-Takeover measures <sup>(b)</sup>	27
Nature, type and elements of related-party transactions <sup>(a)</sup>	93	The role of employees in corporate governance	14
“Checks and balances” mechanisms	92	Compensation policy for senior executives departing the firm as a result of a merger or acquisition <sup>(b)</sup>	11

<sup>(a)</sup> Disclosure item also appears among the top 10 most prevalent disclosure items reported by the enterprises studied UNCTAD’s 2008 CG Review.

<sup>(b)</sup> Disclosure item also appears among the bottom 10 least prevalent disclosure items reported by the enterprises studied UNCTAD’s 2008 CG Review.

<sup>(c)</sup> Disclosure item also appears among the top 10 most prevalent disclosure items required among the 25 markets comprising the MSCI EM Index, as indicated in UNCTAD’s 2009 inventory of disclosure requirements.

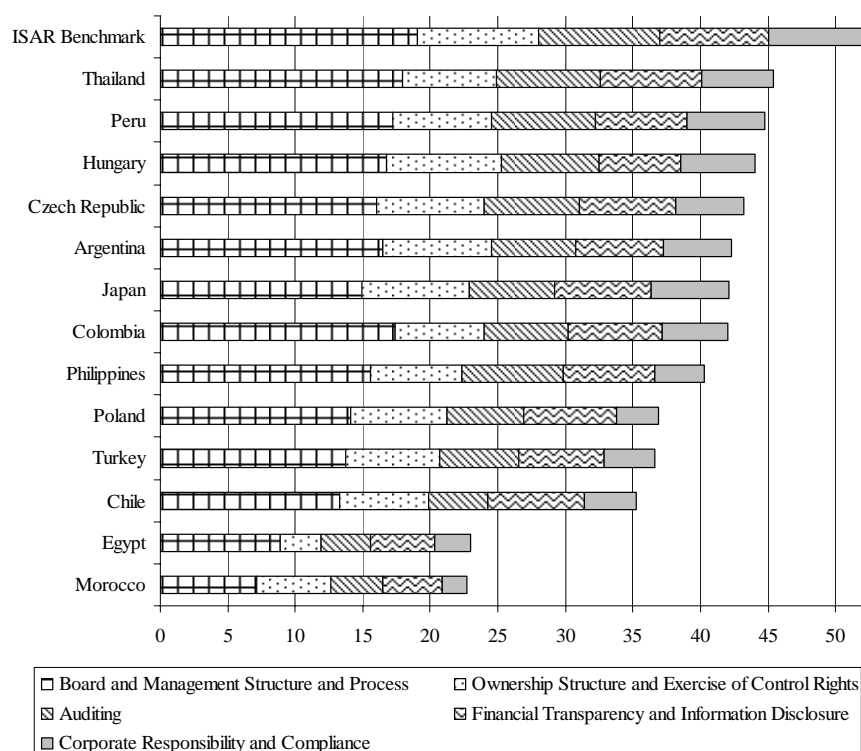
17. Of the 10 most prevalent disclosure items, four are in the category of financial transparency, three are in board and management structure and process, three are in ownership structure and exercise of control rights, and one is in corporate responsibility and compliance. Seven of these top 10 most prevalent disclosure items were also among the top 10 most prevalent items found among the enterprises included in UNCTAD’s 2008 CG Review (see table 4, note (a)). It is also noted that four of the top 10 most commonly disclosed items were also among the most

frequently required disclosure items for MSCI EM Index markets (see table 4, note (c)). Indeed, there is a clear correlation between market requirements and disclosure rates: none of the most required items appear on the list of least disclosed, and none of the least disclosed items are required. One exception to this general pattern is the disclosure item “policy and performance in connection with environmental and social responsibility”. This item is found among the top ten most commonly disclosed items above, but it is also found among the bottom ten least frequently required items among MSCI EM Index markets. This is significant in showing the widespread nature of voluntary disclosures on corporate social responsibility and the role of other factors in driving disclosure, such as the demands for information from shareholders and other stakeholders. The relationship between disclosure requirements and actual disclosure practices is explored in more detail in section D below. Section C provides an overview of disclosure practices for enterprises by market.

### C. Company disclosure practices by market

18. Figure 4 displays the average number of disclosure items reported by each of the selected enterprises with a breakdown by home market and category of disclosure. Despite the low per-country sample size of enterprises, the position of these enterprises among the largest and most economically significant for each economy makes the analysis nevertheless useful for comparing relative practices between markets. Figure 4 can be seen as an indication of what leading large enterprises in different markets are disclosing about their corporate governance practices. For comparison purposes, figure 4 also includes data on the disclosure practices for 10 of the largest enterprises in Japan.<sup>7</sup>

**Figure 4. Average number of disclosure items by market and category**



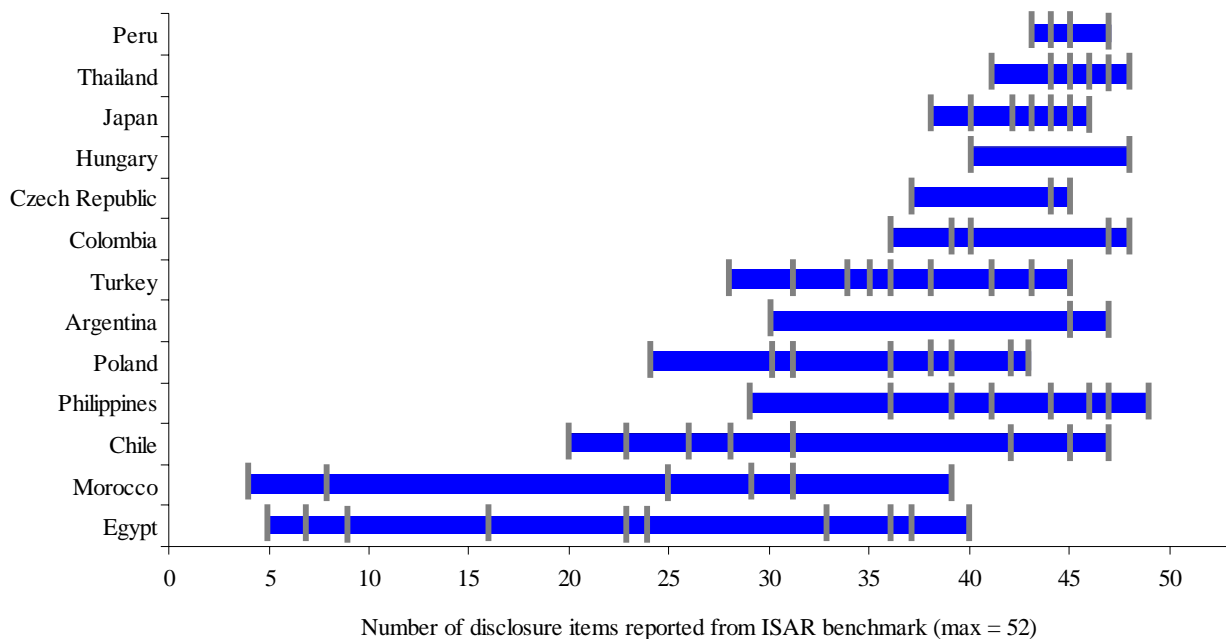
<sup>7</sup> This study provides data on enterprises from Japan to supplement comparison data collected on enterprises from the United Kingdom and the United States which is presented in the 2008 CG Review. These three markets are the largest equity markets in the world and are thus useful sources of examples of practices in developed countries.

19. This overview of disclosure items suggests that there are relatively good disclosure practices among leading firms in the emerging markets studied. Indeed, in 10 of the 12 emerging markets examined, selected enterprises disclosed, on average, more than half the items in the ISAR benchmark. This analysis also provides a view of differences between reporting for particular subject categories. For example, the Turkish and Polish enterprises in this study display almost the same total level of reporting (an average of 36 items per company in both countries), yet show differences in per category reporting: the Turkish enterprises tend to report more in the area of corporate responsibility and compliance, while the Polish enterprises tend to report more in the area of financial transparency.

20. The averages displayed in figure 4 above, however, mask inconsistencies in reporting practices between the different selected enterprises. Figure 5 below provides an overview of the range of total disclosure items in the ISAR benchmark that were reported by the selected enterprises within each market. This analysis suggests a significant degree of difference between the consistency of reports among selected enterprises in different markets. For instance, the selected enterprises from Peru display a high degree of consistency in reporting practices: 43 items were reported by the company with the least number of disclosed items from the ISAR benchmark, and 47 items were reported by the company with the most. Likewise, the reports of Thai, Hungarian and Czech Republic enterprises are relatively consistent in the amount of information presented. In contrast, enterprises from Chile, Morocco and Egypt demonstrate a relatively high degree of inconsistency between companies in their reporting practices. It is noteworthy, however, that none of the markets in the study show consistently low levels of disclosure; for all markets in the study, at least some enterprises have relatively high rates of disclosure. Higher consistency in reporting practices tends to coincide with higher levels of compliance with national codes and regulations. This issue of compliance is examined in more detail in section D, below.

**Figure 5. Consistency in reporting practices: spreading range analysis of disclosure practices by market**

(The length of bar indicates difference between enterprise with the lowest number of disclosure items, and the enterprise with highest number of disclosure items. The vertical line corresponds to the absolute number of disclosure items per enterprise; note that the number of vertical lines is lower than the number of enterprises studied as some enterprises have the same absolute number of disclosure items)

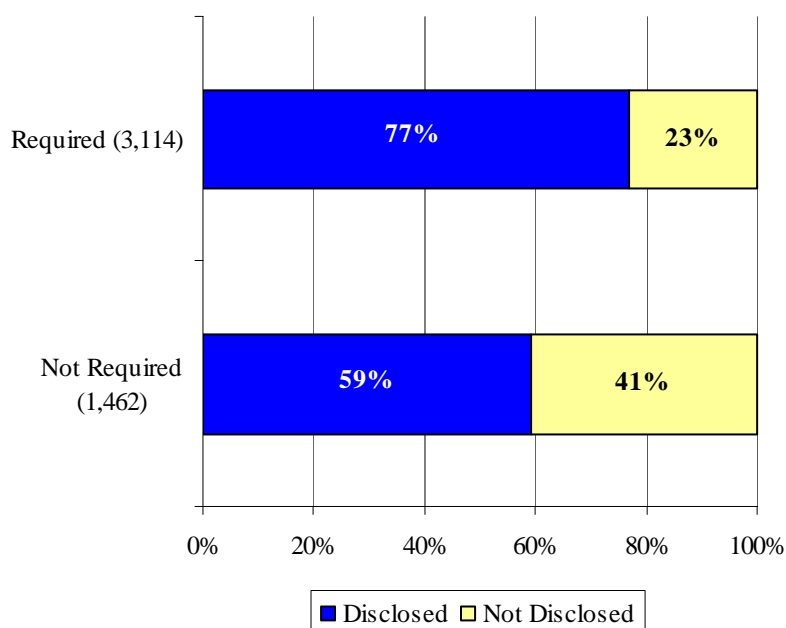


## D. Compliance with disclosure requirements

21. This section deals with the issue of compliance with national codes and regulations on corporate governance disclosure by comparing actual reporting practices with the disclosure requirements found in national regulations and listing requirements. The data on national regulations and requirements is taken from the 2009 inventory of disclosure requirements (TD/B/COM.2/ISAR/CRP.8).<sup>8</sup> The main findings of the examination of compliance are presented below, with additional details presented in annex II.

22. The analysis begins by comparing the disclosure of the required items versus the non-required disclosure items in the ISAR benchmark. Figure 6 below provides an overview of how disclosure practices differ between the required items and the non-required items. Of the 4,576 disclosure items examined (52 items in the ISAR benchmark multiplied by 88 emerging market enterprises) 3,114 are required by local regulators or stock exchange officials. Figure 6 indicates that required items are subject to a significantly higher rate of disclosure compared to non-required items. This finding is consistent with earlier UNCTAD studies on this subject and supports the generally accepted view that regulations and listing requirements play an important role in ensuring corporate transparency. The relatively high rate of disclosure among non-required items, at nearly 60 per cent, suggests that other influencing factors, including investors and voluntary codes, also play an important role in promoting corporate governance disclosure.

**Figure 6. Disclosure compliance for 88 emerging market enterprises: per cent**

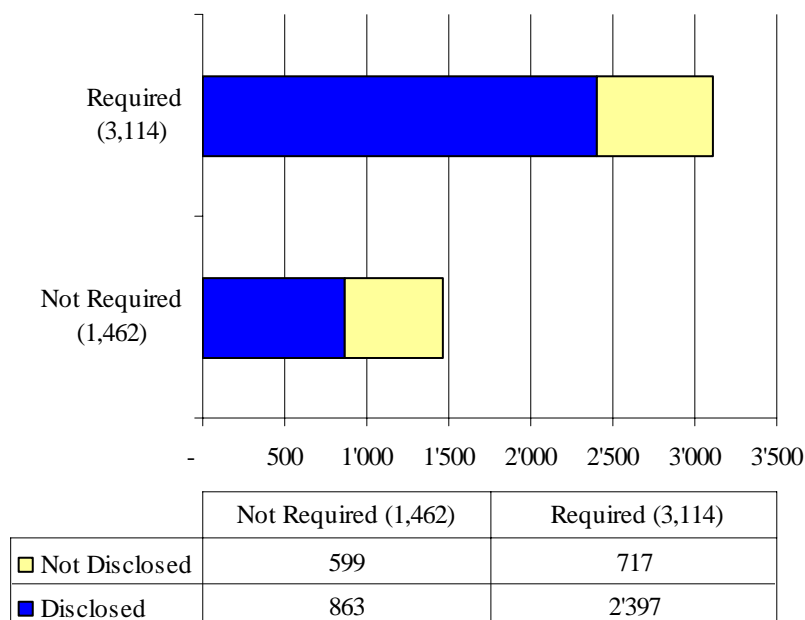


23. Figure 7 below shows the actual numbers, rather than per cent figures, for the data presented in figure 6 above. The actual figures provide an important sense of the relative number of disclosure items that are required by emerging markets: 68 per cent (or 3,114 of the 4,576 total disclosure items reviewed for the emerging market companies in this study) were the subject of local requirements. Together, the data presented in these two figures supports the conclusion that most corporate

<sup>8</sup> Note that the 2009 data on disclosure requirements are updates of UNCTAD's 2007 inventory of requirements.

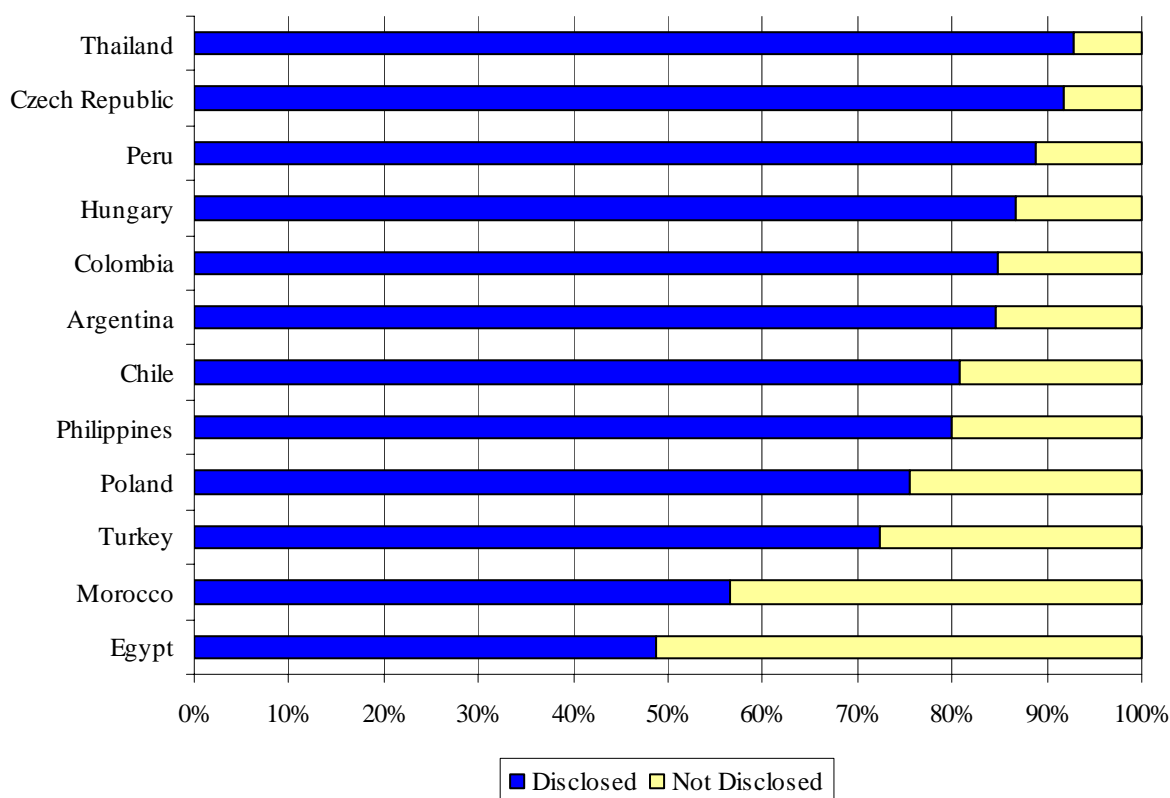
governance disclosure in emerging markets is the subject of local regulation, and that required disclosure items tend to be disclosed at a higher rate than non-required items. This conclusion implies that robust national policies on corporate disclosure can lead to improved corporate transparency.

**Figure 7. Disclosure compliance for 88 emerging market enterprises: actual**



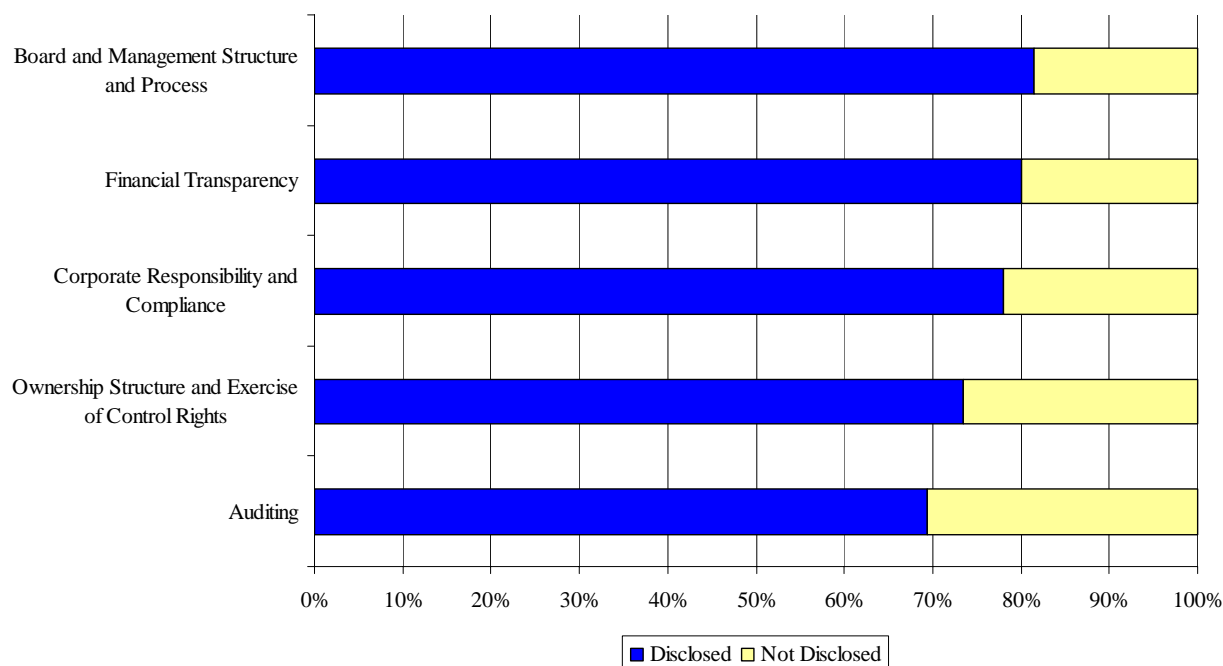
24. While the data has so far supported the conclusion that regulations are widely used and tend to promote more comprehensive reporting, there are nevertheless lingering questions about compliance. Figure 8 below presents an examination of disclosure compliance for selected enterprises in each of the emerging markets studied. The markets are ordered by the size of the compliance gap, i.e. the percentage of required disclosure items that were not found among the public reports of the sample companies. A noticeable correlation exists between the compliance gaps in figure 8 below, and the consistency analysis presented in figure 5 above. The markets with the largest compliance gaps tend to have the highest levels of inconsistency between the reporting practices of selected enterprises. Overall improvements in company compliance with disclosure requirements can help produce more consistent and higher quality corporate governance disclosure.

**Figure 8. Disclosure compliance for selected enterprises by market: per cent**  
(Required disclosure items)



25. An analysis of disclosure compliance by subject is provided in figure 9 below. This figure shows the number of required items that are disclosed or not disclosed for each subject area. The correlation between figure 9 and figure 3 in section B above is weaker in this year's study than in UNCTAD's 2008 CG Review, but it is not absent. Issues of compliance continue to play an influential role in the types of information being reported. For example, the category of auditing is subject to the second lowest level of reporting among the 88 emerging markets enterprises in this study (figure 3), while at the same time the auditing category suffers from the largest disclosure gap in this study: more than 30 per cent of the required disclosure items related to auditing issues were not found among the public reports of the enterprises studied (figure 9). For investors, policymakers and other stakeholders that consider auditing disclosures critical to the overall credibility of corporate reports, this lack of compliance with auditing requirements may be a call to relevant bodies to consider stronger measures to promote the observance of corporate disclosure regulations.

**Figure 9. Disclosure compliance for 88 emerging market enterprises, by subject**  
(Required disclosure items)



## II. Conclusions

26. This report focuses on the disclosure practices of 88 leading emerging market enterprises. The study makes no judgment on the quality of the disclosure of these enterprises, rather it simply tests whether or not selected disclosure items have been reported by the companies in the study. The sample of 88 enterprises is comprised of the largest enterprises from the smallest 12 markets, by index weighting, found within the MSCI Emerging Markets Index. These enterprises were chosen as the sample for the study due to the economic significance of these enterprises within their home economy and the influential role the MSCI EM Index plays in facilitating foreign portfolio investment towards developing economies and economies in transition.

27. The main findings of this study show that, on average, enterprises from the smallest 12 markets of the MSCI EM Index are reporting the same amount of information regarding their corporate governance practices as the top 10 emerging markets studied in UNCTAD's 2008 CG Review. Indeed, enterprises of both samples disclosed around 70 per cent of the ISAR benchmark items. It is also noted that many emerging market enterprises are disclosing more information than some enterprises in developed markets. In this study one developed market was included as a comparator and six of the emerging markets had enterprises disclosing an equal or greater number of items from the ISAR benchmark.

28. One finding that stands out from earlier UNCTAD studies on this subject is the average disclosure rate for items in the categories of auditing and corporate responsibility. In this study, it was found that the average disclosure rate for the group of items in the auditing category were slightly higher than for the items in the category corporate responsibility. This finding differs from the findings of UNCTAD's earlier studies on corporate governance disclosure: those studies consistently found items in the category of auditing were the least reported, on average, among enterprises from emerging markets. That said, auditing disclosure items are still, on average, less prevalent than the items in most other categories of



disclosure. Given the critically important role of auditing in an enterprise, this remains an area where further efforts to improve transparency are required.

29. This study also examined the compliance of enterprises with disclosure rules in their home markets. The findings indicate that while enterprises are, on average, more likely to disclose information if it is required by regulators, significant gaps in compliance exist. For some countries these gaps are relatively small, but in other countries these gaps are large. This situation highlights the continuing need to align the actual corporate reporting practices of enterprises with regulatory requirements.

30. A number of measures can be found among existing country practices to address these compliance gaps. Such measures include penalties for non-compliance as well as recognition (e.g. awards) for companies that display best practices. Practical actions also include capacity building programmes to raise awareness and provide training on how to produce good quality corporate governance disclosures: in many cases, the root cause of poor disclosure may be a lack of awareness about what is required, and a lack of technical knowledge of exactly how to prepare corporate governance disclosures. An additional measure concerns the confusion a few companies exhibit in regard to reporting to regulatory officials and reporting to shareholders. In the course of this study, it was found that some companies considered that they had publicly disclosed corporate governance information because they had submitted disclosures to regulators; upon examination, however, none of these disclosures were found among readily accessible records. Further steps, therefore, might usefully be taken by both companies and regulators to ease investor access to the corporate governance information found in the publicly available regulatory filings of companies (e.g. making this accessible via the internet). For their part, companies may wish to improve disclosure by including in their direct communication to shareholders the corporate governance information that has already been prepared for regulatory filings.

## Annex I. List of enterprises included in the study, by market

### Argentina

- BANCO MACRO B
- PETROBRAS ENERGIA PART B
- SIDERAR A
- TELECOM ARGENTINA B

### Chile

- BCO SANTANDER CHILE
- CENCOSUD
- CMPC (EMPRESAS)
- COLBUN
- EMPRESAS COPEC
- ENDESA (CHILE)
- ENERSIS
- ENTEL
- LAN AIRLINES
- SOQUIMICH B

### Colombia

- BANCOLOMBIA
- CEMENTOS ARGOS
- ECOPETROL
- INTERCONEXION ELEC
- SURAMERICANA INVERSIONES

### Czech Republic

- CENTRAL EUROPEAN MEDIA A
- CEZ CESKE ENERG. ZAVODY
- KOMERCNI BANKA
- TELEFONICA O2 CZECH REP.
- UNIPETROL

### Egypt

- COMMERCIAL INT'L BANK
- EFG-HERMES HOLDING
- EGYPT KUWAIT HOLDING
- EGYPTIAN MOBILE SERVICES
- EL EZZ STEEL REBARS
- EL SEWEDY CABLES HLDG CO
- ORASCOM CONSTRUCTION IND
- ORASCOM TELECOM HOLDING
- SIDI KERIR PETROCHEMICAL
- TELECOM EGYPT

### Hungary

- MAGYAR TELEKOM
- MOL MAGYAR OLAJ GAZIPARI
- OTP BANK
- RICHTER GEDEON

### Japan

- CANON INC.
- HONDA MOTOR CO., LTD.
- MITSUBISHI CORPORATION
- MITSUBISHI UFJ FINANCIAL GROUP
- NIPPON TELEGRAPH & TELEPHONE
- PANASONIC CORPORATION
- SUMITOMO MITSUI FINANCIAL GROUP INC.
- TAKEDA PHARMACEUTICAL COMPANY LIMITED
- THE TOKYO ELECTRIC POWER CO INC
- TOYOTA MOTOR CORPORATION

### Morocco

- ATTIJARIWAFI BANK
- BMCE
- CGI
- DOUJA PROM GROUPE ADDOHA
- MAROC TELECOM
- ONA OMNIUM NORD AFRICAIN

### Peru

- BUENAVENTURA (MINAS)
- CIA MINERA MILPO
- CREDICORP (USD)
- SOUTHERN COPPER C

### Philippines

- AYALA COR
- AYALA LAND
- BANK OF PHIL ISLANDS
- ENERGY DEVELOPMENT CORP
- GLOBE TELECOM
- JOLLIBEE FOODS CORP
- MANILA ELECTRIC CO
- PHIL LONG DISTANCE TEL
- SM INVESTMENTS
- SM PRIME HOLDINGS

### Poland

- ASSECO POLAND
- BANK PEKAO
- BANK ZACHODNI WBK
- GLOBE TRADE CENTRE
- KGHM POLSKA MIEDZ
- PBG
- PKO BANK POLSKI
- POLISH OIL & GAS
- POLSKI KONCERN NAF ORLEN
- TPSA TELEKOM POLSKA

**Thailand**

- ADVANCED INFO SERVICE
- BANGKOK BANK FGN
- BANK OF AYUDHYA
- BANPU
- CP ALL PCL
- KASIKORNBANK FGN
- PTT
- PTT EXPLORATION & PROD
- SIAM CEMENT FGN
- SIAM COMMERCIAL BANK

**Turkey**

- AKBANK
- ANADOLU EFES BIRACILIK
- ENKA INSAAT VE SANAYI
- EREGLI DEMIR CELIK FAB.
- TUPRAS TURKIYE PETROL
- TURK TELEKOMUNIKASYON
- TURKCELL ILETISIM HIZMET
- TURKIYE GARANTI BANKASI
- TURKIYE IS BANKASI C
- YAPI VE KREDI BANKAS

## Annex II. Disclosure practices of leading enterprises in each of 12 emerging markets\*

Disclosure Item	Argentina	Chile	Colombia	Czech Republic	Egypt	Hungary	Morocco	Peru	Philippines	Poland	Thailand	Turkey
<b>Number of enterprises disclosing this item / number of enterprises studied in the related country</b> Shaded square indicates that the item is required in the company's home market*												
Ownership structure	4/4	10/10	5/5	5/5	6/10	4/4	6/6	4/4	10/10	10/10	10/10	10/10
Process for holding annual general meetings	4/4	5/10	5/5	5/5	5/10	4/4	4/6	4/4	7/10	10/10	10/10	10/10
Changes in shareholdings	3/4	9/10	3/5	3/5	1/10	3/4	2/6	2/4	7/10	8/10	3/10	8/10
Control structure	4/4	10/10	5/5	5/5	5/10	4/4	6/6	4/4	10/10	10/10	10/10	10/10
Control and corresponding equity stake	4/4	7/10	3/5	5/5	3/10	4/4	4/6	4/4	9/10	9/10	10/10	10/10
Availability and accessibility of meeting agenda	4/4	8/10	4/5	5/5	5/10	4/4	5/6	4/4	10/10	10/10	10/10	9/10
Control rights	4/4	8/10	5/5	5/5	3/10	4/4	4/6	4/4	10/10	9/10	10/10	10/10
Rules and procedures governing the acquisition of corporate control in capital markets.	2/4	6/10	2/5	3/5	1/10	4/4	1/6	2/4	2/10	4/10	4/10	2/10
Anti-Takeover measures	3/4	3/10	1/5	4/5	1/10	3/4	1/6	1/4	2/10	1/10	3/10	1/10
<b>Financial Transparency and Information Disclosure</b>												
Financial and operating results	4/4	10/10	5/5	5/5	10/10	4/4	6/6	4/4	10/10	10/10	10/10	10/10
Critical accounting estimates	4/4	10/10	5/5	5/5	7/10	4/4	4/6	4/4	10/10	10/10	10/10	10/10
Nature, type and elements of related-party transactions	3/4	10/10	5/5	5/5	8/10	3/4	4/6	4/4	10/10	10/10	10/10	10/10
Company objectives	4/4	10/10	5/5	5/5	10/10	4/4	5/6	4/4	10/10	9/10	10/10	10/10
Impact of alternative accounting decisions	3/4	8/10	3/5	5/5	4/10	4/4	4/6	3/4	10/10	9/10	10/10	7/10
The decision making process for approving transactions with related parties	2/4	9/10	2/5	2/5	1/10	1/4	0/6	4/4	7/10	6/10	9/10	1/10

Disclosure Item	Argentina	Chile	Colombia	Czech Republic	Egypt	Hungary	Morocco	Peru	Philippines	Poland	Thailand	Turkey
<b>Number of enterprises disclosing this item / number of enterprises studied in the related country</b>												
<b>Shaded square indicates that the item is required in the company's home market*</b>												
Rules and procedure governing extraordinary transactions	2/4	5/10	5/5	5/5	4/10	2/4	2/6	1/4	1/10	9/10	6/10	10/10
Board's responsibilities regarding financial communications	4/4	9/10	5/5	4/5	3/10	2/4	1/6	3/4	10/10	6/10	10/10	6/10
<b>Auditing</b>												
Process for interaction with internal auditors	3/4	6/10	5/5	5/5	7/10	4/4	4/6	4/4	9/10	6/10	10/10	10/10
Process for interaction with external auditors	3/4	6/10	3/5	5/5	6/10	4/4	3/6	4/4	9/10	5/10	10/10	8/10
Process for appointment of external auditors	3/4	9/10	4/5	5/5	5/10	4/4	4/6	4/4	10/10	10/10	10/10	9/10
Process for appointment of internal auditors / Scope of work and responsibilities	4/4	5/10	5/5	5/5	6/10	3/4	2/6	4/4	8/10	6/10	10/10	8/10
Board confidence in independence and integrity of external auditors	1/4	0/10	0/5	0/5	1/10	1/4	0/6	0/4	4/10	8/10	7/10	4/10
Internal control systems	4/4	7/10	5/5	5/5	6/10	4/4	4/6	4/4	10/10	7/10	10/10	10/10
Duration of current auditors	3/4	4/10	4/5	3/5	4/10	4/4	4/6	4/4	10/10	7/10	10/10	7/10
Rotation of audit partners	1/4	2/10	3/5	2/5	2/10	1/4	0/6	3/4	7/10	2/10	3/10	0/10
Auditors` involvement in non-audit work and the fees paid to the auditors	3/4	5/10	2/5	5/5	0/10	4/4	2/6	4/4	8/10	6/10	7/10	2/10
<b>Corporate Responsibility and Compliance</b>												
Policy and performance in connection with environmental and social responsibility	4/4	10/10	5/5	5/5	9/10	4/4	5/6	4/4	10/10	9/10	10/10	10/10
Impact of environmental and social responsibility policies on the firm's sustainability	2/4	5/10	4/5	4/5	3/10	4/4	2/6	3/4	5/10	7/10	7/10	6/10
A Code of Ethics for the Board and waivers to the ethics code	4/4	5/10	3/5	2/5	2/10	2/4	1/6	4/4	6/10	2/10	10/10	3/10

Disclosure Item	Argentina	Chile	Colombia	Czech Republic	Egypt	Hungary	Morocco	Peru	Philippines	Poland	Thailand	Turkey
<b>Number of enterprises disclosing this item / number of enterprises studied in the related country</b>												
<b>Shaded square indicates that the item is required in the company's home market*</b>												
A Code of Ethics for all company employees	3/4	6/10	5/5	4/5	3/10	3/4	1/6	4/4	6/10	4/10	10 /10	7/10
Policy on "whistle blower" protection for all employees	3/4	4/10	2/5	2/5	3/10	2/4	0/6	4/4	2/10	2/10	6/10	2/10
Mechanisms protecting the rights of other stakeholders in business	4/4	8/10	5/5	4/5	6/10	3/4	2/6	4/4	8/10	4/10	10/10	9/10
The role of employees in corporate governance	0/4	0/10	0/5	4/5	1/10	4/4	0/6	0/4	0/10	3/10	0/10	0/10
<b>Board and Management Structure and Process</b>												
Governance structures, such as committees and other mechanisms to prevent conflict of interest	4/4	9/10	5/5	5/5	6/10	4/4	4/6	4/4	9/10	9/10	10/10	10/10
"Checks and balances" mechanisms	4/4	10/10	5/5	5/5	6/10	4/4	4/6	4/4	9/10	10/10	10/10	10/10
Composition of board of directors (executives and non-executives)	4/4	10/10	5/5	5/5	9/10	4/4	6/6	4/4	10/10	10/10	10/10	10/10
Composition and function of governance committee structures	4/4	9/10	5/5	5/5	6/10	4/4	4/6	4/4	9/10	9/10	10/10	10/10
Role and functions of the board of directors	4/4	10/10	5/5	5/5	5/10	4/4	3/6	4/4	9/10	10/10	10/10	10/10
Risk management objectives, system and activities	4/4	10/10	5/5	5/5	8/10	4/4	4/6	4/4	10/10	10/10	10/10	10/10
Qualifications and biographical information on board members	3/4	5/10	5/5	5/5	8/10	4/4	2/6	4/4	10/10	10/10	10/10	8/10
Types and duties of outside board and management positions	3/4	5/10	5/5	4/5	8/10	4/4	1/6	4/4	10/10	9/10	10/10	8/10
Material interests of members of the board and management	4/4	8/10	5/5	4/5	0/10	4/4	3/6	4/4	6/10	7/10	10/10	5/10
Existence of plan of succession	4/4	5/10	5/5	4/5	4/10	2/4	2/6	4/4	6/10	2/10	10/10	9/10
Duration of director's contracts	4/4	8/10	5/5	5/5	3/10	4/4	2/6	4/4	9/10	10/10	10/10	10/10

Disclosure Item	Argentina	Chile	Colombia	Czech Republic	Egypt	Hungary	Morocco	Peru	Philippines	Poland	Thailand	Turkey
<b>Number of enterprises disclosing this item / number of enterprises studied in the related country</b>												
<b>Shaded square indicates that the item is required in the company's home market*</b>												
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	1/4	0/10	0/5	5/5	0/10	0/4	0/6	1/4	3/10	0/10	0/10	0/10
Determination and composition of directors' remuneration	4/4	10/10	5/5	5/5	4/10	4/4	4/6	4/4	10/10	10/10	10/10	7/10
Independence of the board of directors	4/4	8/10	5/5	2/5	5/10	4/4	1/6	4/4	10/10	7/10	10/10	6/10
Number of outside board and management position directorships held by the directors	3/4	5/10	5/5	4/5	8/10	4/4	1/6	4/4	10/10	9/10	10/10	8/10
Existence of procedure(s) for addressing conflicts of interest among board members	3/4	8/10	5/5	4/5	2/10	4/4	2/6	4/4	6/10	8/10	10/10	6/10
Professional development and training activities	2/4	1/10	2/5	1/5	1/10	2/4	0/6	1/4	8/10	2/10	9/10	3/10
Availability and use of advisorship facility during reporting period	4/4	5/10	5/5	3/5	3/10	3/4	0/6	4/4	5/10	3/10	10/10	5/10
Performance evaluation process	3/4	7/10	5/5	4/5	3/10	4/4	0/6	3/4	7/10	6/10	10/10	2/10

\* Disclosure requirement information based on UNCTAD 2009 Review of the implementation status of corporate governance disclosure: an inventory of corporate governance disclosure requirements.