CORPORATE GOVERNANCE INSTITUTE

EU environmental regulations – Risk or Opportunity for the Finance Sector?

Corporate Social Responsibility or How listed companies may use the capital market to face their environment challenges

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October 2007

Corporate Governance Concept

OECD Corporate Governance Principles

- 1999 - Organization for Economic Co-operation and Development has adopted the *Corporate Governance Principles* as a set of corporate governance standards and guidelines.
- The OECD CG Principles have formed the basis for corporate governance initiatives in both OECD and non-OECD countries alike.
- 2004 - the 1999 OECD Principles should be revised to take into account new developments and concerns.

Corporate Governance Concept

Corporate Governance Concept:

- Corporate governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders.
- Corporate governance provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.
- Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence.
- Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.
- The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy.
- The result: the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth.

Corporate Governance Principles

2004 OECD Corporate Governance Principles

- ***I. Ensuring the Basis for an Effective Corporate Governance Framework***

  "The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities."

Corporate Governance Principles

- ***II. The Rights of Shareholders and Key Ownership Functions***

  "The corporate governance framework should protect and facilitate the exercise of shareholders' rights."

Corporate Governance Principles

- ***III. The Equitable Treatment of Shareholders***

  "The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights."

Corporate Governance Principles

- ***IV. The Role of Stakeholders in Corporate Governance***

  "The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises."

Corporate Governance Principles

- *V. Disclosure and Transparency*

  "The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company."

Corporate Governance Principles

- ***VI. The Responsibilities of the Board:***

"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."

Corporate Social Responsibility

- **Corporate social responsibility (CSR)** is commonly described as aligning a company's activities with the social, economic and environmental expectations of its "stakeholders."
- Goes beyond legal requirements, being done on voluntarily basis.
- Even on short term is quantified on non financial performance, on long term it can be transposed in financial profit.

WHAT WE PROMOTE among COMPANIES/ISSUERS

- Take a long term focus
- Address overall impacts and effects
- Engage with full range of stakeholders
- Seek economic growth, ecological balance and social progress
- Well governed companies have mitigated risks

WHY LISTING AT THE STOCK EXCHANGE?

- The purpose of listing is very often, but not always to raise capital.
- Management involved in a buy-out of a company may examine the possibility of listing the company to fund part of the equity.
- Companies that are growing rapidly and feel constrained by inadequate funding can issue shares to outsiders to improve gearing and provide funds for expansion.
- Companies that wish to provide employees with a stock in ownership may wish to list.
- Shareholders of companies who wish to realise some of their investments in the company.
- Takeovers and mergers can be facilitated by a listing due to the transparency of a listed company's accounts as well as the continuous value placed on the shares by the market.
- Parastatals or government controlled corporations may make use of the stock exchange to broaden their shareholder base.

LISTING ADVANTAGES

FINANCING:

- The main reason for listing is usually to increase the equity base of a company, thus allowing for future expansions and growth without the interest burden associated with borrowed funds. Also, the availability of future funds is enhanced, as a rights issue may be used to secure further equity if the need arises. A listing can thus facilitate and lower the cost of raising fresh capital.
- A listing creates the possibility of using the company's shares to finance acquisitions, as sellers are more likely to accept marketable listed shares in exchange for their investments.
- A listing may make it easier to obtain other forms as finance, such as bank loans, as the company has shown that it is capable of meeting listing requirements.
- A listing provides a basis for the valuation of a company's shares, which is important for acquisitions, by the issue of shares.

LISTING ADVANTAGES

ORIGINAL SHAREHOLDERS

- All shareholders will benefit from the establishment of a market for their shares, leading to a potentially higher demand and higher prices than would have been the case in a limited market.
- A listing enables original shareholders to realize part or all their holdings.
- Original shareholders may benefit from the increased liquidity of their investment brought about by a listing.
- It provides liquidity for shareholders
- Can provide a cost effective way of transferring ownership to successive generations of owners.

LISTING ADVANTAGES

EMPLOYEES

- The implementation of share incentive schemes may result in a significant improvement of the motivation of both staff and management. A listing would make such a scheme more attractive to employees, and facilitate its operation.

- The public attention focused on the company by the media may boost the morale of employees, as they share in the enhanced status of the company.

LISTING ADVANTAGES

PUBLIC IMAGE

- Public ownership results in making the company better known and can enhance public image and business opportunities

- The enhanced status brought about by a listing may favourably affect relations with banks, suppliers, customers and the Government.

- Stock exchange bulletins and reports in the financial press result in the greater publicity for the company and its product.

WHAT WE PROMOTE among ISSUERS' MANAGEMENT

- Corporate Governance Code
- Code of Ethics
- Environmental and Social Responsibility Policy
  - CSR Principles
  - Set of environmental principles
- Community/Stakeholders Involvement (responsible partner)

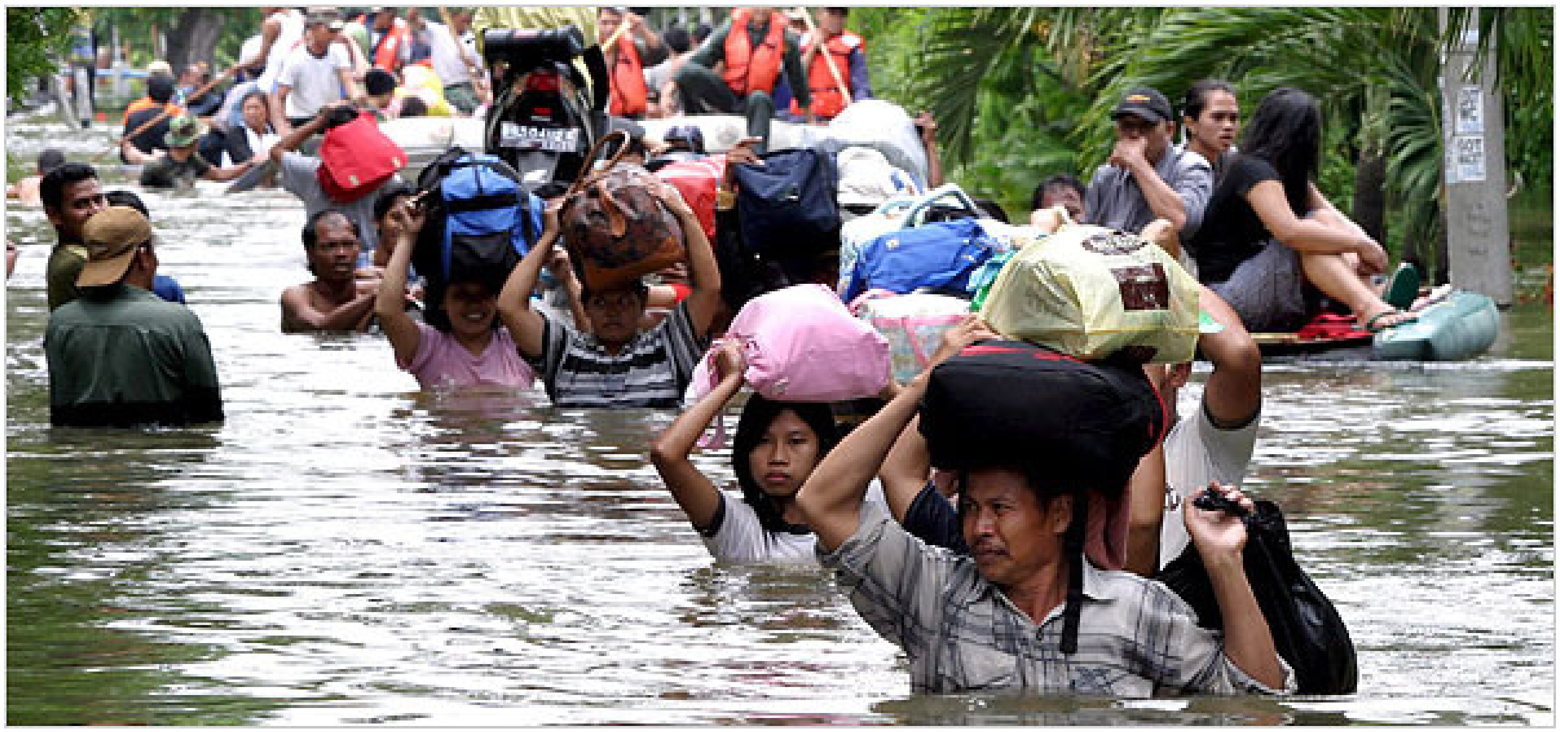
WHY DO WE PROMOTE CSR?

Starting with

"Pecunia non olet"

WHY DO WE PROMOTE CSR?

Arriving at



WHY DO WE PROMOTE CSR?

Arriving at

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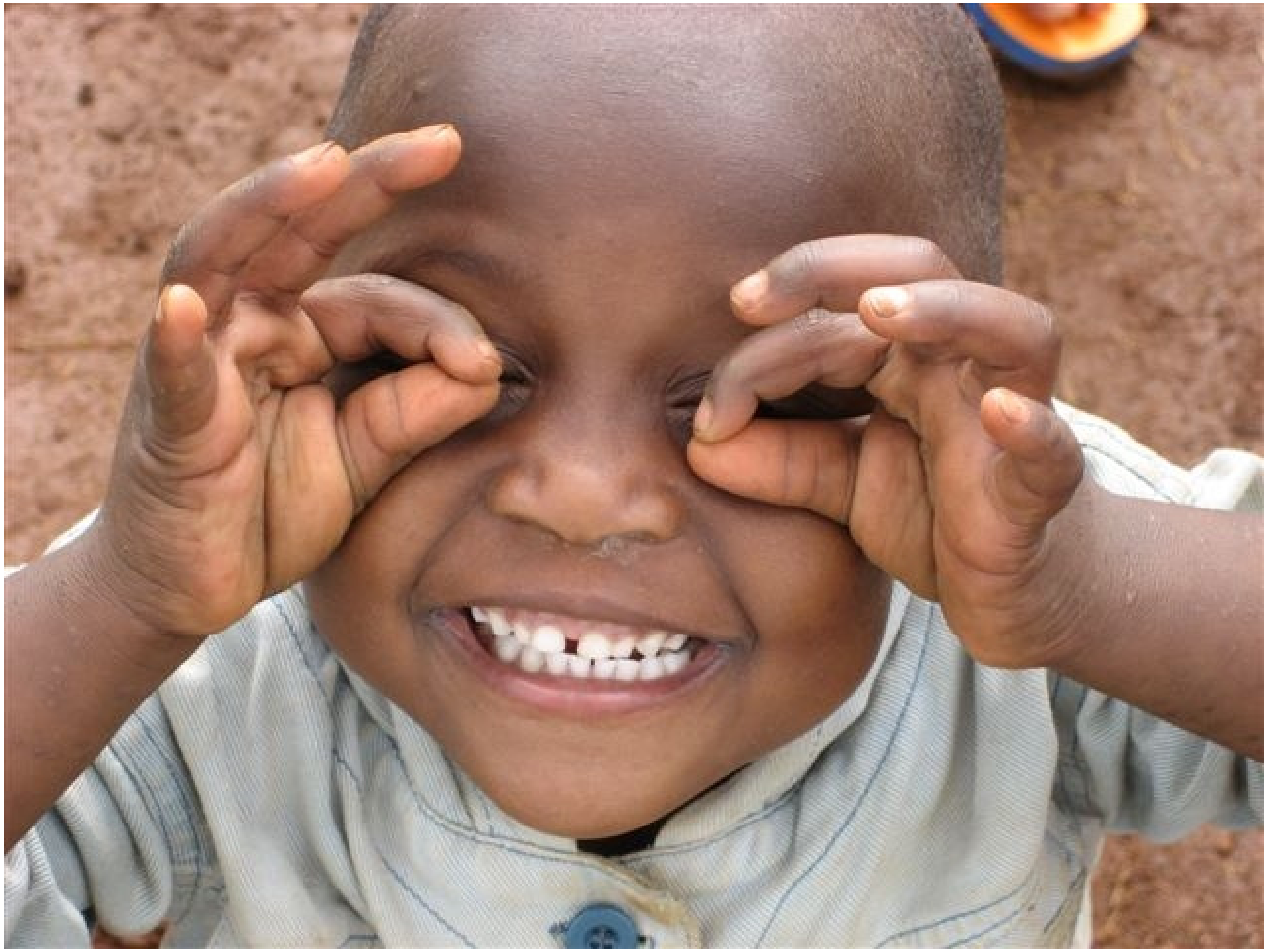
WHAT WE HAVE TO DO?



HOW CAN ENVIRONMENTAL RESPONSIBILITY CAN BE QUANTIFIED?

- Policy
- Management
- Performance
- Reporting

DIRECT RESULTS OF IMPLEMETING ENVIRONMENTAL POLICY

- Increased environmental awareness
- Increase involvement of employees
- Improved resource efficiency
- Improved pro-activity
- Enhanced stakeholders credibility
- Enhanced monitoring and transparent reporting
- Generated cost savings
- Improve company image

THANK YOU FOR YOUR ATTENTION!