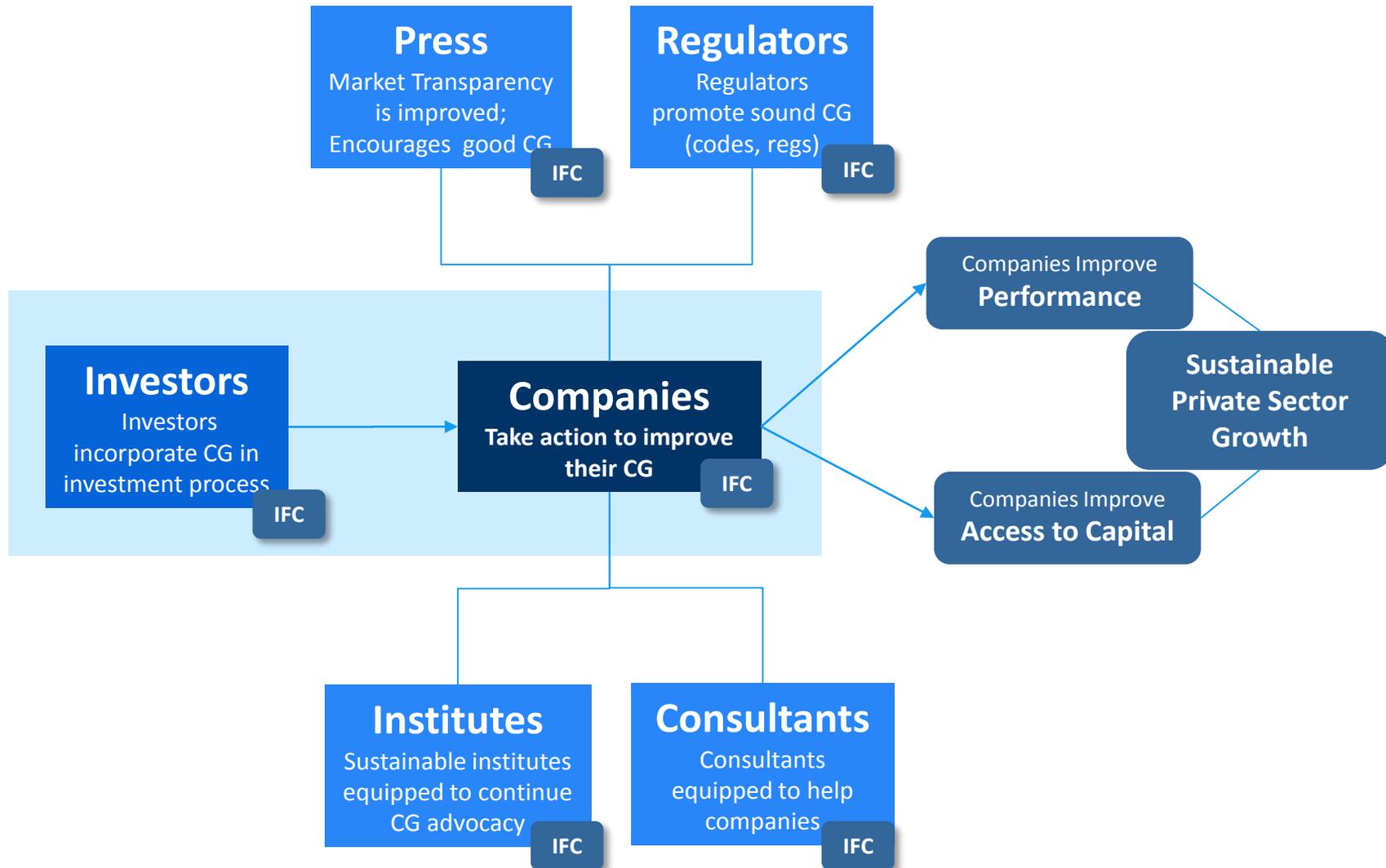


OVERVIEW OF 'COMPLY OR EXPLAIN' AS AN ENFORCEMENT MECHANISM FOR CORPORATE GOVERNANCE CODES

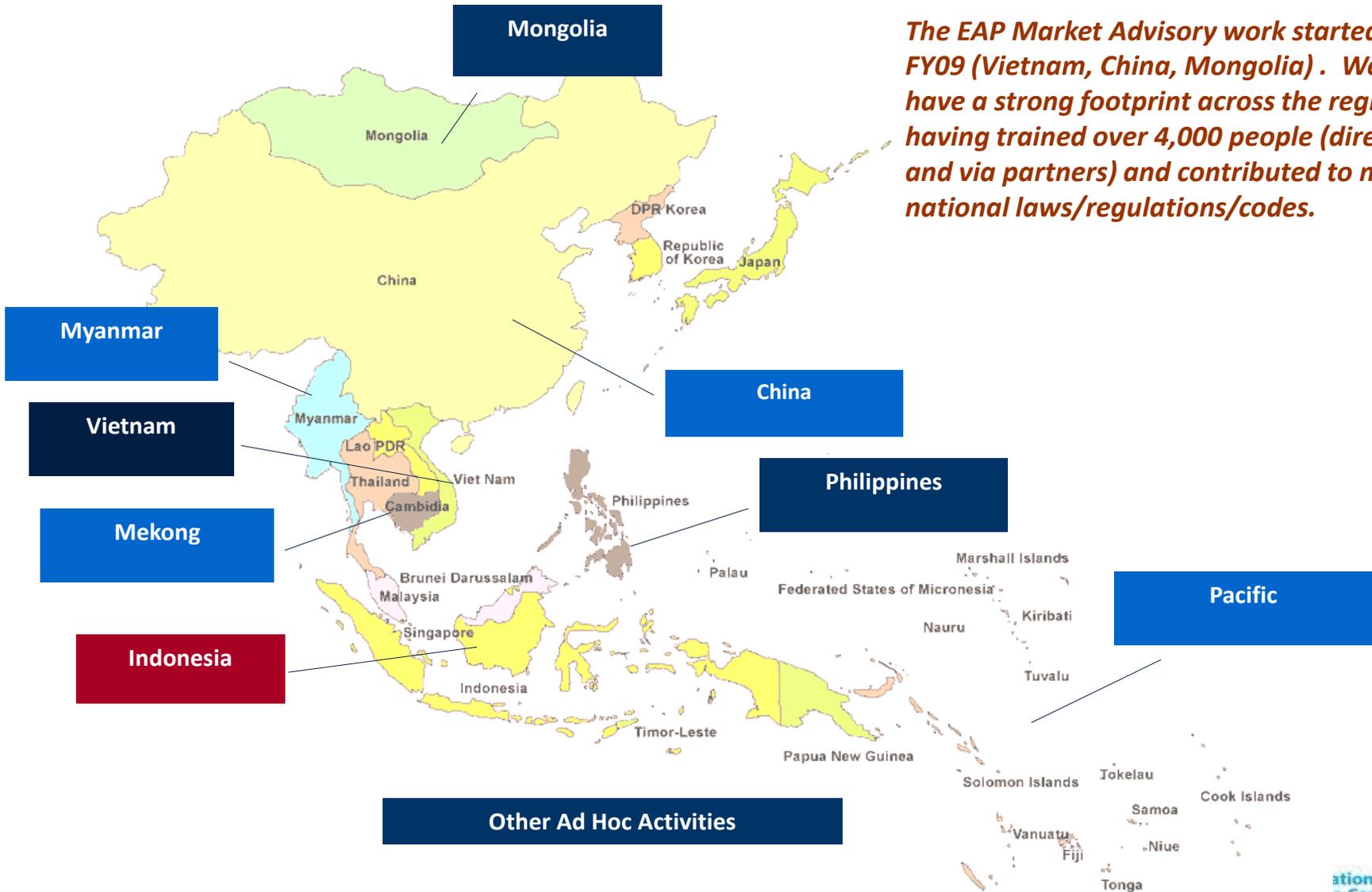


Anar Aliyev
Corporate Governance Officer
IFC EAP Corporate Governance Program

IFC Corporate Governance Program



IFC Programs Around The Region



The EAP Market Advisory work started in FY09 (Vietnam, China, Mongolia) . We now have a strong footprint across the region, having trained over 4,000 people (directly and via partners) and contributed to many national laws/regulations/codes.

IMPLEMENTING AND MONITORING THE CODE

- ✓ Launching and disseminating the code
- ✓ Adopting and implementing the code
- ✓ Measuring the impact of the code
- ✓ Updating the code

IMPLEMENTING THE CODE

Factors influencing the effective implementation of corporate governance codes:

Substance - Is the code supported by all major stakeholders? In other words, is it generally recognized that the code presents commonly accepted best standards?

Common sense - Do companies recognize that these best practice recommendations will improve their access to capital and enhance their performance?

Market pressure - Are shareholders, institutional investors, banks, and other providers of capital encouraging companies to follow the code's best practice recommendations?

Legal backing - Are recommendations of the code being incorporated in regulations or listing requirements?

Enforcement - Are recommendations of the code being monitored or enforced by market regulators?

KEYS TO ENSURE COMPANY ADOPTION / IMPLEMENTATION

- Requirement (Mandatory, Comply or Explain, Voluntary)
- Dissemination / Attention
- Endorsement
- Business Case
- Enforcement

BENEFITS OF COMPLY OR EXPLAIN MECHANISM

- Flexibility
- Market Sensibility
- Efficiency
- Self regulation

AND, THE CHALLENGES!

- “Comply or Explain” assumes strong functioning institutions
- Domestic investors insufficiently engaged
- Conflicts and vested interests among key players
- Lack of follow through and guidance
- Lack of appreciation of “market incentives”

LESSONS LEARNED

- Commitment
- Dedicated champion (CG Officer, Corp. Secretary, other)
- Resources
- Qualified advisor
- Monitoring
- Continuous improvement
- Time / patience

Thank You!

**aaliyev@ifc.org
[IFC.org/CorporateGovernance](https://www.ifc.org/CorporateGovernance)**