CORPORATE GOVERNANCE RATING SYSTEM LAUNCH

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The collapse of Enron, WorldCom and other major corporations in the early 2000s brought corporate governance (CG) considerations to the forefront.

Good economic and corporate governance practices, including transparency in financial management, are now essential pre-requisites for: (i) promoting economic growth and reducing poverty; (ii) promoting market efficiency; (iii) controlling wasteful spending; (iv) consolidating democracy; and (v) encouraging private financial flow.

1) Empirically, high levels of transparency, as measured by indices of opacity, are found to be associated with lower country risk premiums and costs of capital, as well as higher trading volumes or liquidity.

2) Companies with less demanding corporate governance standards have been shown to experience higher capital costs and to pay greater risk premiums on their bonds.

3) Governance deficiencies have been shown to be associated with an increased probability that takeovers will not be successful, and with a greater fall in the share price of the acquiring firm.
History of CG in Nigeria

Companies & Allied Matters Act, 1990
- Only covering specific activities, such as insider dealing, fiduciary duties of directors, etc.

Code of CG for banks in Nigeria
- Issued by the CBN following the bank consolidation exercise of 2005

Code of CG for insurance companies
- Issued by NAICOM

Code of CG for public companies (2011)
- Update of 2003 code following the global financial crisis

In January 2013, the federal government inaugurated a steering committee to develop a new Code of CG for the nation

CG requirements for banks and OFIs in Nigeria
- Issued by the Bankers’ Committee
- Triggered by the financial crisis of the early 1990s

Code of CG for public companies
- Originally issued by the SEC

Code of CG for pension operators
- Issued by PENCOM following the reform of the pension sector in 2008

The Nigerian Stock Exchange
Status of CG in Nigeria

BUSINESS OPERATORS

All registered companies should have and be accountable for their CG practices, however:

- CG practices in companies are currently at varied stages of implementation
- The banking sector is leading the charge

REGULATORS

Regulators in Nigeria primarily struggle with:

- Scope of regulation
- Capacity and ability to effectively monitor levels of compliance
- Enforcement mechanisms

STAKEHOLDERS

Stakeholders’ limited understanding of CG prevents:

- Increased investments
- Higher valuations and competitiveness
- Adequate risk management and investor protection mechanisms

How can business operators be convinced of the benefits of CG?

What level of impact will a unified CG code have in Nigeria?

How can stakeholders track non-compliance of CG for greater benefits?
Role of CG in the Capital Market

- Market Efficiency
- Market Discipline
- Transparency
Principles of a Solid CG Framework

OECD Principles of Corporate Governance

1. Ensuring the Basis for an Effective 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

2. The Rights of Shareholders and Key Ownership Functions - should protect and facilitate the exercise of shareholders’ rights

3. The Equitable Treatment of Shareholders – 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

4. The Role of Stakeholders in Corporate Governance – should recognize the rights of stakeholders established by law or through mutual agreements, and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises

5. Disclosure and Transparency – 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
For the NSE, corporate governance plays a vital role in the sustainability of the Nigerian capital market:

- Solid governance structure at the Exchange
- Zero-tolerance policy enforced
- Continuous investor education and staunch investor protection programs
- Subscribe to the *United Nations (UN)* *Sustainable Stock Exchanges* (SSE) initiative and the *UN Global Compact* (UNGC) Anti-Corruption and Global Development Agenda
- *Introduction of a Corporate Governance Rating System (CGRS) in partnership with the Convention on Business Integrity (CBI)*
The CGRS Standard

- Sarbanes-Oxley Act 2002
- International Corporate Governance Network (ICGN)
- OECD Principles of Corporate Governance 2004
- European Corporate Governance Network (ECGN)
- Basel Committee
- King III
- UN Guidance & Good Practices in Corporate Governance Disclosure

THE Nigerian STOCK EXCHANGE

03-Nov-2014 The Nigerian Stock Exchange
Corporate Governance Rating System

- Participation is mandatory and free to ensure credibility
- Companies cannot influence their rating
- Exchanges in India, Korea, South Africa and China have introduced CG rating programs for listed companies

Listed companies primed

Framework developed by NSE and independents, e.g., Humboldt-Viadrina School of Governance (HVSG), Berlin

Governance structure implemented; Pilot complete

Companies rated

LAUNCH
Companies assess themselves on CG compliance, while independent bodies verify the self-assessment.

Company directors are tested on their knowledge of fiduciary responsibility principles and practices.

Interview of randomly selected members of staff and suppliers around corporate integrity.

Audit of the company’s processes and scoring patterns.

RATED

36 consolidated indicators covering 5 categories:
A. Business Ethics & Anti-Corruption
B. Internal & External Audit and Control
C. Shareholder & Stakeholder Rights
D. Board Structure & Responsibilities
E. Transparency & Disclosure

40 questions in 6 modules mirroring the 5 categories of the corporate compliance self-assessment, adding a module on the background & rationale of fiduciary duty.

15 questions for staff members and 17 questions for suppliers; plus an expert multi-stakeholder group (EMSG) evaluation mirroring the 5 categories of the corporate compliance self-assessment.
Corporate Governance Rating System

VISION

Promote integrity and transparency in listed companies as a natural and integral part of their internal and external policies and programs, by providing a framework for rating the best compliant companies on more than the observance of the codes, rules and post-listing requirements of the Exchange, but also on:

- Sound business ethics
- Principles
- Practices

BENEFITS

- Provide valuable information for conducting research in various fields of governance
- Increase credibility in and attractiveness of companies that meet the rating threshold
- Provide a tool to enable regulators judge the progress of corporate governance reforms
- Pre-empt and prevent adverse business situations by reducing company reputational risk (especially in other markets)
- Key element in the development of a tradable CG Index
- Forms the basis for listing on the NSE’s Premium Board along with other criteria

*In partnership with the Convention on Business Integrity (CBi)*
Enabling the Future of CG in Nigeria

The Future of Nigeria’s Corporate Governance will focus on adherence to global best practices

**Areas where the NSE is making a difference.**

- **Quality financial reporting***
  - Better financial discipline and higher level of internal controls

- **SME governance***
  - Enhance corporate governance of SMEs

- **National code of CG***
  - Streamlined framework and guidelines for all business operators

- **Capacity building***
  - Increased institutional corporate governance capacity

- **Judicial remedy***
  - Currently limited; must be strengthened and made more efficient

- **Technical competence of Boards and management***
  - Greater attention to fiduciary responsibilities

- **Enforcement tools***
  - Better coordination, coverage and supervision/monitoring

- **Improved stakeholder engagement***
  - Acceptance of best practices
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