

Transparency and disclosure as key elements for companies and markets

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- ▶ Democratic society has been characterized with synergy of three sectors:
 - ▶ public (state)
 - ▶ private (market)
 - ▶ citizens (civil society).

“The core values of good corporate governance are the same core values of democracy.”

www.democracythatdelivers.org

Why transparency and disclosure matter?

- ▶ Impact to the cost of capital
- ▶ Increase confidence among decision-makers outside and inside the company
- ▶ Help public understanding of a company's activities , policies and performance
- ▶ Deterrent to fraud and corruption

Better transparency and disclosure → better CG

Importance of disclosure

- ▶ For the Market
- ▶ For the Company

For the Market

- ▶ Market-based monitoring of companies
- ▶ Base for shareholders exercise of ownership rights
- ▶ Tool for influencing companies and protect investors
- ▶ Help to attract capital
- ▶ Help to prevent financial crime

Financial and non-financial disclosure

Financial information

What information should be disclosed ? That shows financial and operating result of the company.

Where they should be disclosed? In annual reports and accounting records of the company.

Also important to disclose: major share ownership and voting rights, remuneration policy, related party transactions, risk factors, employees issues

Non-financial information

What information should be disclosed ?

CG Codes, companies policies in the field of social rights, environment, human rights or corruption, disclosure of the board diversity policy in terms of gender, age, nationality, educational and professional background

How it should be disclosed? On “comply or explain” basis – Action Plan (2012) – not sufficient?

Important for CSR.

For the company

- ▶ Reliable and timely information increase confidence among decision makers/importance of the business judgement rule/ within the company (board members, shareholders) and outside the company (investors)
- ▶ Whether and to what extent companies meet legal requirements
- ▶ Public understanding of companies activity
- ▶ With proper auditing deterrent to fraud and corruption

Regulatory framework

- ▶ At the market level:
 - laws
 - CG codes
 - recommendations

- ▶ At the company level:
 - company strategy (its mission and vision)
 - statute
 - CG code
 - management and board of directors/supervisory board decisions.

Importance of transparency

What is transparency?

“Transparency means active disclosure”

- ▶ Information available to **every stakeholder**:
 - ▶ financial situation
 - ▶ performance
 - ▶ ownership
 - ▶ governance of the company
- ▶ Except for the company confidential information

European Commission Action Plan (2012)

- ▶ Most important challenges :
 - engagement of the shareholders (the assumption that shareholders are the monitors of companies' governance)
 - more improvement in the general quality of disclosure (clear articulation by each company of how its governance arrangement support its business model)
 - engagement of all stakeholders

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- ▶ Three main sets of rules concerning CG and company law:
 - I. **BOARD issues:** transparency, disclosure on board policies on diversity and non-financial risk management, quality of explanations and transparency of voting policies

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2. **SHAREHOLDERS ISSUES**: governance issues concerning shareholders' engagement: better oversight of remuneration policy, related party transactions, regulating proxy advisors, the clarification of the concept of "acting in concert" and employee share ownership

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3. **CROSS BORDER ISSUES**: improve transparency and disclosure through improving the framework for cross border operations of companies /FREEDOM OF ESTABLISHMENT/

Conclusion – Implementation in Croatia

- ▶ Incorporated in Laws and regulations
- ▶ Accompanied with soft law rules (CG Code)
- ▶ Need of active, consistent and coherent oversight of regulatory and supervisory agencies
- ▶ Transparent registers
- ▶ **Enforcement is a key to corporate reforms:** lot of work to do in order to attract investments, growth of financial structure and to maximize the contribution of companies
- ▶ **Need to establish national CG Body**

**THANK YOU FOR YOUR
ATTENTION!**