8th DFI Corporate Governance Group Meeting

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CAF: Guidelines for a Latin American Corporate Governance Code

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CAF – Latin American Development Bank
CAF: 44 years in Latin America -
From an Andean to a Development Bank of Latin America

1990
- Bolivia
- Colombia
- Ecuador
- Peru
- Venezuela

2000
- Bolivia
- Colombia
- Ecuador
- Peru
- Venezuela
- Argentina
- Brazil
- Panama
- Paraguay
- Uruguay
- Costa Rica
- Chile
- Jamaica
- Mexico
- Dominican Rep.
- Trinidad & Tobago

16 countries

2012
- Argentina
- Bolivia
- Brazil
- Colombia
- Ecuador
- Panama
- Paraguay
- Peru
- Uruguay
- Venezuela
- Costa Rica
- Chile
- Jamaica
- Mexico
- Dominican Rep.
- Trinidad & Tobago

18 countries

Countries:
- Argentina
- Bolivia
- Brazil
- Colombia
- Ecuador
- Panama
- Paraguay
- Peru
- Uruguay
- Venezuela
- Costa Rica
- Chile
- Jamaica
- Mexico
- Dominican Rep.
- Trinidad & Tobago

Spain
Portugal
Current activities include:

**Documents**: CG Guidelines, manuals, white papers and investigation documents

**Tools**: E-Learning Platform to train Credit Officers in CG issues.

**Promotion**: (i) Sponsorship and participation in seminars of CG in the region; (ii) Sponsoring of the Peruvian and the Colombian CG Country Codes.

**Implementation**: Co-financing the implementation of good CG practices in more than 100 enterprises of different types (family owned, listed, SOEs, financial).

**Training**: Organization of workshops for consultants and Credit Officers on principles and methodologies for the implementation of CG practices.
The Review of the Guidelines

Reasons for the Update

- Experience acquired through effective implementation process (2005-2012)
- A regional scope of application
Five key aspects of concern

Consolidate complex business realities
• Economic groups
• Transition process in family owned businesses
• Weak Architecture of Control

Shareholders that do not exercise their rights
• Shareholders General Assemblies that do not work properly

Incomplete or ineffective regulation
• Profiles
• Capabilities
• Dynamics
• Clarity of responsibilities

Ineffective Board of Directors
• Lack of understanding of CG
• Key aspects not regulated

Weak supervision
• Slow transition towards supervision models based on risk.
• Limited resources

Elaboration: IAAG
Create a true CG culture in Latin America.

Offer recommendations based in internationally accepted standards on CG

A tool that can improve competitiveness when implemented in companies

- Takes in consideration the OECD principles of CG
- Recipients are companies of any nature
- Voluntary application by companies
- Supports regulators in the elaboration of standards, searching an equilibrium between self regulation and regulation.
# Methodology of the GLACGC

## 43 Guidelines + 133 Recommendations

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- **Guidelines**: broad CG principles.
- **Recommendations**: concrete application of CG principles that allow an effective implementation in companies.

Elaboration: IAAG
Structure of the GLACGC

43 Guidelines + 133 concrete recommendations in 5 key areas and in 3 Appendix:

1. RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

2. SHAREHOLDERS’ GENERAL ASSEMBLY

3. BOARD OF DIRECTORS

4. Architecture of Control

5. Transparency in financial and non financial information

Creditors

Suppliers and Clients

Employees

Competitors

Government

Annex

Corporate Governance for Company Groups

Responsibility of financial institutions in promoting CG

Corporate Governance for family owned companies
New Topics: Architecture of Control

Objective: Rely on an integral system of control that includes policies and procedures that provide reasonable assurance to achieve company objectives.

1. Environment of control
2. Risk management
3. Internal control system
4. Monitoring of the architecture of control (Internal and external audit).
Objective: Understand that CG for corporate groups (Private and State owned), is an economic reality with a particular dynamic: the search of a common objective as a group and the particular objectives as individual companies.

- A governance model for groups is proposed, based on 7 Guidelines for specific issues:
  - Organizational structure of the group.
  - Board of Directors structure.
  - Unified treatment of the architecture of control of the group.
  - Transparency and disclosure of information.
Objective: Financial institutions can play a key role in promoting CG: (i) within the institutions; (ii) towards their clients.

- **Governance of financial institutions**: Optimum operation of these institutions rests on solid CG structures.

- **Governance on clients on the asset side**: Appraisal and management of governance risks on their clients can reduce their own reputational risk.

- **Methodology to evaluate CG compliance on clients**: Formally include CG appraisal into their credit risk methodologies and procedures.
The e-Learning platform is a training tool developed by CAF in accordance with the DFI Toolkit on CG.

- Allow IOs to familiarize with the basic concepts of CG and the tools developed by CAF, providing a deep knowledge on CG.
- Train IOs in all key aspects related to CG, and its relevance through a credit investment analysis, using a proprietary methodology developed by CAF.
- Incorporate valuation and management of governance risk methodologies on clients to mitigate their own risk exposure.
Incorporation of the GLACGC through the evolution of companies

Stages of organizations and the gradual incorporation of CG principles

- TRANSPARENCY IN FINANCIAL AND NON-FINANCIAL INFORMATION
- BOARD OF DIRECTORS
- RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS
- SHAREHOLDERS' GENERAL ASSEMBLY
- FUNCTIONAL AGE
- DELEGATION AGE
- HOLDING AGE

CONTROL and OWNERSHIP together

Separation of OWNERSHIP and CONTROL
Aplicability of the GLACGC

Self regulation

COMPANIES

FINANCIAL PROVIDERS

INSTITUTIONAL INVESTORS
MULTILATERALS
BANKS
CAPITAL MARKETS

REGULATORS

Of Security Markets
Of Banks
Of Public Services
Of Companies

Legislation
Regulation
Soft law (country codes)

Elaboration: IAAG
Knowledge Sharing: Documents and tools

- Guidelines for a Latin American Code of Corporate Governance
- Guidelines for the Corporate Governance of SOEs
- Corporate Governance: what every businessman should know
- Corporate Governance Manual for Privately Held Companies
- Guidelines of Corporate Governance for SMEs and Family Owned Companies
- Corporate Governance and the Development of Capital Markets in Latin America
- Corporate Governance and Risk Determination in Debt Instruments
- The importance of Corporate Governance in SOEs
- Software for self evaluation
Pending Challenges and Next Steps

• Our challenge is to **incorporate CG principles in non listed companies** (medium sized and family owned)

• **Promote CG and encourage the use of the Guidelines as a tool of practical recommendations.**

• Go beyond regulation making companies understand that CG is a voluntary and gradual process: **understand/accept/implement.**

• **Work with local financial institutions** in making them key supporters of CG among their clients.

• Continue **sharing our experience** among DFIs.
Más oportunidades, un mejor futuro.

www.caf.com/es/gobierno-corporativo