

Guidelines for
Good Corporate Governance Practice



Pacific Economic Cooperation Council

Forward

It is high time that this publication is being launched at the 14th General Meeting of PECC (PECC XIV) in Hong Kong on 28-30 November 2001, the most important biennial event of PECC. The Guidelines for Good Corporate Governance Practice is one of the major deliverables of PECC to the Pacific region this year. APEC Ministers, in their meeting on 17-18 October 2001 in Shanghai, China, endorsed the Guidelines for Good Corporate Governance Practice developed by PECC and encouraged APEC members to implement the Guidelines on a voluntary basis. This endorsement underlines the importance of the Guidelines for the region.

Developments in East Asia since the 1997 financial crisis have underscored the critical importance of structural reforms in the governance of the business enterprise. PECC noted that these reforms are necessary for strengthening the microeconomic base of the economies in the region. Work on the corporate governance initiative is coordinated by the PECC Peer Assistance and Review Network (PARNet) under the leadership of Dr. Jesus R Estanislao, President and CEO, Institute of Corporate Directors of the Philippines. A core group has been formed under PARNet to develop the initiative. The core group proposes that transparency, accountability and fairness should be the guiding principles of corporate governance.

At the 2000 APEC Ministerial Meeting, Ministers agreed that APEC should invite PECC to develop ideas which APEC might consider furthering its work on improving economic and corporate governance in the region. Ministers further stated that future proposals should take into account the ongoing work under the Finance Ministers' process. This marked the starting point of the year-long consultation with APEC Ministers, Senior Officials and Finance Officials on the development of the Guidelines in 2001.

PARNet has held a number of consultation meetings among market players, regulators and academic experts who contributed greatly to the development of the Guidelines. In this connection, I must thank, on behalf of PARNet, the China National Committee for Pacific Economic Cooperation, for hosting the last consultative meeting on 9-11 May 2001 in Beijing, China, which brought together the experts in the region to advise on the formulation of this Guidelines.

I would also like to acknowledge the contribution of the Hong Kong Committee for Pacific Economic Cooperation for its support to the development of the Guidelines, through, among other things, sponsoring the consultative meeting in China and publication of this report.

We hope that these guidelines provide a non-binding and voluntary framework for the implementation of global best practices and contribute to securing sustainable development in the regional financial markets.

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Towards Implementing Corporate Governance Reforms

Guidelines for Good Corporate Governance Practice

Introduction

1. Developments in East Asia since the 1997 financial crisis have underscored the critical importance of structural reforms in the governance of the business enterprise. These reforms are necessary for strengthening the microeconomic base of the economies in the region. They are also important for securing sustainable development in markets that have become increasingly free, open, and interdependent.
2. Reforms, however, take time. Moreover, they are economy-specific. They need to take due account of differences between economies, particularly within East Asia. Nonetheless, these economies have accepted the imperative of convergence in the observance of competition principles and market discipline over time, if they are to remain competitive. They are committed to a process---voluntary, non-binding, flexible, and gradual---of aligning their corporate governance practices with global best practices, consistent with the OECD core principles.
3. In particular, in East Asia there is need for guidelines that encompass broad, general principles that can inspire and guide steps towards eventual convergence of corporate governance reforms. In light of such guidelines, each economy may take appropriate and specific steps, at the time, pace and sequence of its choosing, taking into account its circumstances and its imperative to respond to the challenge of international market competition.
4. APEC Finance Ministers have highlighted corporate governance as a key concern for the financial health of the region. Shortly after the Asian Financial Crisis, APEC Finance Ministers established a Core Group on Corporate Governance, which would identify recommendations to improve corporate governance in the region.
5. The APEC Core Group on Corporate Governance has emphasized three key roles the government can play in improving corporate governance. Firstly, by ensuring that there is an appropriate legal and regulatory regime for activity. Secondly, leading by example and enhancing corporate governance practices with state-owned enterprises. Finally, the government can be proactive in leading education initiatives on corporate governance.
6. APEC Finance Ministers have encouraged economies to undertake "early and comprehensive implementation of the recommendations taking into account their specific circumstances".
7. These guidelines provide a non-binding and voluntary framework for the implementation of global best practices, consistent with the OECD core principles. The focus of these guidelines is on the role of the Board of Directors in ensuring sound corporate governance practices, one of the common issues identified by the APEC Finance Ministers.

Systemic character of corporate governance reforms

8. As necessary as it is to recognize the differences between economies, it is even more necessary to recognize that corporate governance practices, and the reforms of such practices, can not be taken in isolation. Indeed, they have to be viewed and worked out in the context of the broader environment that helps to shape and condition them. They are closely related to, and heavily influenced by, the legal, institutional, societal and cultural regime in any economy, and not any less by the ownership and decision-making structures that may have been shaped by past economic policies and business practices.
9. Corporate governance reforms, to be effective and to have their positive, sustained impact, need to be undertaken in a systemic and practical manner. Other reforms that reinforce them need to be carried out strategically. Institutional capacities need to be built up or strengthened. New support mechanisms need to be set up or made more effective. Higher standards of professional practice need to be adopted and observed, and arrangements for their enforcement and compliance put in place. In many East Asian economies, these complementary reforms need to be undertaken simultaneously as---if not prior to---the pursuit of corporate governance reforms per se. Indeed, each economy needs to strategize for itself so it keeps an eye on the broader field of comprehensive reforms related to corporate governance, while focusing at any given time on a few smart and effective steps within the narrower field of corporate governance reform itself.
10. A new orientation in the light of accepted fundamental principles should be at the core of reforms. In the case of corporate governance reforms, competition principles in free, open, and increasingly interdependent markets provide the new orientation for business enterprises, seeking to remain competitive. In fact, the natural and essential connection between competition principles and corporate governance principles needs to be underscored in all regions, particularly in the Asia Pacific region, and especially in East Asia. APEC, after endorsement of its competition principles, consideration of guidelines for implementation of corporate governance reforms in line with internationally accepted standards would be a natural next step.

Corporate governance and the autonomy of the corporation

11. Corporate governance principles indicate that business enterprises seeking to remain competitive in free and open markets should ensure that the powers, rights, and resources invested in them as corporations are exercised for the benefit, profit, and sustained competitiveness of the corporate enterprise. Moreover, as corporations, with their autonomous standing and separate personality before the law, they are set apart and distinguished from their owners, directors and managers. There is need for some distance, defined and protected by professional ethics, to be kept between the corporation on one hand, and the owners, directors and managers on the other. The relations between owners, directors and managers and with the corporation should be governed by principles whereby each of these groups, in the proper exercise of their rights and duties, promote the best interests of the corporation as a whole.

12. The corporation, as a separate juridical personality with its own rights and duties recognized and protected by law, is a multi-interest enterprise. It has shareholders who own its shares. And it has different stakeholders, or sectors with vital stakes in its operations and operating results. Its operations do carry weight and have consequences beyond itself, even on the broader community, economy and society. In its governance, therefore, some balance has to be observed between the maximization of shareholder value for its owners and the protection and promotion of other stakeholder interests. These interests include, among others, those of its customers, employees, creditors, suppliers, etc., as well as those of regulators and others responsible for the common good and the wider public interest.

Corporate governance and the role of the board

13. By mandate of law, a collegial body---generally referred to as a board---has the duty and responsibility for governing the corporation. The board owes its loyalty first and foremost to the corporation itself, whose best interest must be the guide for all its decisions. The board has the responsibility for enhancing the economic efficiency and market competitiveness of the corporation as well as orienting its operations towards the common good and the general welfare. The board, therefore, must direct the business of the corporation with fairness and due regard for the shareholders and the value of their shares as well as for the different stakeholders and their proper stakes in the enterprise.

14. It is incumbent upon the board to ensure that timely, accurate, and complete reports on all the relevant aspects of the condition of the corporation are issued to all its shareholders and to the general public as well, normally but not exclusively through the regulatory authorities. In this regard, the board has to put in place a system of reporting, with standards of disclosure that are at par and fully consistent with internationally accepted accounting practices. In order to be fair to its shareholders and stakeholders, the corporation must also live up to its duty of transparency and of proper and open disclosure.

15. Transparency and open disclosure are critical for the culture of accountability where market competition thrives. Those with shares and stakes in a corporation must have access to all relevant and material information concerning it. Only thus can they make proper judgments on, give rewards and punishments to - - - and if necessary, take remedies within the ambit of the law against - - - those responsible for the governance and management of the corporation.

16. To make the system of accountability work, it is essential to ensure that relationships are at arms-length distance, in keeping with professional and corporate ethics. Indeed, the professional relationships between owners, directors, managers, regulators and other stakeholders are to be conducted according to well-defined codes of professional practice that are in line with global best practices.

17. Fundamental to the market system is the respect for shareholder rights. This respect demands that all shareholders have to be treated equitably and fairly. Due care must be taken so they can properly exercise their prerogatives, among others, of attendance at general shareholders' meetings, choosing the directors, and approving those matters generally reserved for them. Minority shareholders, in particular, must be assured that the board amply protects their rights and position within the ambit of the law.
18. An essential part of the set of arms-length professional relationships within the corporation is the proper and clear delegation of authority to the management of the corporation. Management prerogatives, once given, should be meticulously respected. The Chief Executive Officer and the management team, once appointed, have the responsibility and corresponding powers for managing the affairs of the corporation on a day-to-day basis. Under a system of discretionary authority that the board gives to each senior officer in the management team, the CEO and other senior officers are empowered to decide on all aspects of the operations of the company.
19. The system of delegating authority within a corporation reserves for the board the responsibility for the governance of the corporation. This responsibility includes, among others, determining the strategic direction of the enterprise, approving the major policies to pursue corporate strategy, and setting up effective mechanisms for oversight and monitoring of performance, starting with that of the CEO and others in the senior management team.
20. Those elected to serve in the governing board of the corporation have the duty to abide by the 'prudent business judgement rule'. They are called upon to make their determination and judgement only from the perspective of what is best for the corporation, taking into careful account the facts and circumstances within the context of law and the public interest. They are also called upon to weigh the risks the corporation must face in its operations and in pursuit of its strategies. They are then expected to institute a mechanism for the prudent management of those risks as well as for the safeguarding and growing of the assets of the corporation.
21. The board must also set up an effective system for promoting a culture of diligent and positive compliance with the rules and regulations from the regulatory and legal regimes in which the corporation operates. It must recognize the special responsibility of regulatory authorities to promote and protect the broader common good. In living up to this responsibility, regulatory authorities expect the board to have an operative mechanism for proper checks and balance. And the board should then set up this mechanism so it works at all levels of the corporation, starting with the board with its duties of governance, and the CEO as well as the team of senior officers, with their duties of management.
22. The board, to be effective in the exercise of its duties of governance, must be structured in a manner that enables it to operate and make decisions autonomously and independently. It needs to be composed of individuals with proven competence and a track record of professionalism and integrity in their fields of endeavor. They need to be committed to the principles of market competition, and responsive to the challenge of economic efficiency in open markets as well as to the demands of the common good in open economies and societies. They should also be deeply conscious of their high duties to the entire corporation, with its many interests, all of which they must serve with freedom and responsibility, independence and fairness, high standards of professional ethics and competence.

The challenge of corporate governance reforms in East Asia

23. In East Asia, the relative distance between actual corporate governance practices and global best practices presents several challenges. Ownership of shares in many economies is still largely concentrated in families, related interests, or the government. External finance is heavily dependent on banks and other financial institutions. Capital markets are still at different stages of transition towards full development. Disclosure standards need to be put at par with those already observed in more developed economies. Support services from reputational agents that help financial and capital markets function efficiently and effectively need to be significantly upgraded. The concept of independent, non-executive directors has yet to take root and increasingly introduced into corporate boards. Director orientation and training has to spread. Due and proper recognition, therefore, must be given to the enormous and systemic task of undertaking corporate governance and its related reforms in many East Asian economies.
24. Since the task is systemic, the government and the public regulatory authorities play a significant and decisive role in promoting these reforms. Government can make a broad policy commitment to corporate governance reforms. It may also introduce the appropriate changes for its legal and judicial regime to evolve and gradually become more conducive to modern corporate governance practices. It can arrange for the boards of government-owned and controlled corporations (or state enterprises) to set an example of proper corporate governance practice. It may have to ensure that in the process of diversifying the ownership of government corporations or state enterprises--- including those in the broad area of corporate governance---are undertaken with a view towards their full institutionalization. It also needs to strengthen the regulatory capacity of its agencies for the formulation and implementation of rules promoting the practice of modern corporate governance. These regulatory authorities may then issue specific regulations that facilitate and encourage--- clearly setting the direction towards --- the OECD core principles.
25. Bank regulators, in particular, have an important role in leading the banks and other financial institutions towards the practice of modern corporate governance reforms. They can remind the boards of banks and financial institutions of their role, and specifically of their rights and duties. They may encourage the election of independent, non-executive directors, who should be counted upon to ensure that advice and counsel are given to management, and that a system of checks and balance, internal controls, risk management, proper disclosure, performance evaluation, accountability, among others, is put in place and made operative. They may also have to work towards relating the risk management system banks are required to install, to the internationally accepted rules concerning capital adequacy ratios. In the process, banks themselves can systematically promote proper corporate governance practices among, at least, their more significant borrowers.

26. The securities regulators also have a vital role in giving impetus towards capital market development. The securities regulators can prime the stock exchanges it regulates to adopt practices that are consistent with best practices in more advanced jurisdictions. Through its monitoring functions, it helps safeguard the rules governing these practices so they are strictly complied with. It must set high standards of disclosure, and ensure that these standards are met in actual practice. Sanctions to enforce compliance should be imposed for failures to observe them. It must work with various professional groups, particularly with accountants and auditors as well as with other reputational agents, who work for the efficiency and effectiveness of capital markets, so codes of professional conduct are formulated and substantiated by diligent adherence to them.
27. Encouragement and support should be given to regional networking arrangements designed for cooperation and mutual support in East Asia to promote corporate governance reforms. Through these arrangements, there can be an exchange of experience in addressing the systemic challenge of corporate governance reforms. There can also be sharing of training resources, including the use of distance learning so as to broaden and extend the reach of expertise. There can be joint initiatives in areas of common interest, such as in developing corporate governance scorecards, following a common framework, and recognizing that financial markets are already treating East Asia as an increasingly integrated region.
28. The interest and support of the business sector is essential to corporate governance reforms. Reform-minded CEOs in the business sector who grasp the imperative of such reforms for their corporations to attract resources from financial markets, particularly from international capital markets, may be invited to serve in a reform advocacy group, such as a Business Sector Advisory Group on corporate governance. This group can help in the formulation of a comprehensive reform agenda for corporate governance in its own economy. It should also assist in monitoring the progress of reforms. It should then support initiatives aimed at speeding the pace of reforms. It may reach out to its counterpart groups in other East Asian economies so as to broaden and deepen cooperation for these reforms within the region.
29. In the final analysis, corporate directors are the ones called upon to initiate corporate governance reforms by bringing and observing best practices into their corporate boardrooms. To be able to do this, many directors---particularly in East Asia---need orientation and training. They have to be given an opportunity to consider in depth the role and responsibility that the law and the principles of corporate governance have assigned to them. They have to be exposed to best practices in corporate governance already observed elsewhere. They have to be given cases that highlight successes and failures relative to corporate governance standards, and the consequences on the corporations arising from them. In this regard, the work of institutes of directors that have been set up in different economies in East Asia deserves to be advanced and accorded a high priority.
30. Corporate directors need encouragement in formulating a code of corporate governance for the corporation they serve. As more and more corporate boards adopt a code of corporate governance, they may need to refer to guidelines of best practices on various aspects of the board and of its work. Following these guidelines, they may continue to refine their own practices so as to gradually align them with international best practices. It is in the spirit of assisting corporate directors, committed to making their board work more effectively in line with the OECD core principles, that these guidelines for good corporate governance practice is being presented as a companion document.

GUIDELINES FOR GOOD CORPORATE GOVERNANCE PRACTICE

Elements	Guidelines
<p>1. The Board</p> <p>a) Accountability</p> <p>b) Mission and Responsibility</p>	<ul style="list-style-type: none"> - The Board is accountable to shareholders. In building long-term shareholder value, the Board should also give due consideration to corporate social responsibility and the interests of other stakeholders. - Board responsibilities include: <ul style="list-style-type: none"> • Setting corporate philosophy and mission. • Selecting, monitoring, evaluating, compensating, and – if necessary – replacing the CEO and other senior executives as well as ensuring management succession. • Setting and Reviewing management’s strategic and business plans. • Setting and Reviewing the corporation’s financial objectives, plans, and actions. • Reviewing and approving material transactions not in the ordinary course of business. • Monitoring corporate performance against the strategic and business plans. • Ensuring ethical behavior and compliance with laws and regulations, accounting and auditing principles, and the corporation’s own by-laws and articles of incorporation. • Assessing its own effectiveness in fulfilling its responsibilities. • Performing other functions prescribed by law or assigned to the Board in the corporation’s by-laws and articles of incorporation.

Elements	Guidelines
c) Election	<ul style="list-style-type: none"> - In sum, fostering the long-term success of the corporation and securing its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it exercises in the best interests of the corporation and its shareholders. - It is the shareholders who elect the board directors. - It is the board's responsibility to nominate directors (or to consider the nomination from shareholders). The board nominates a slate, which includes individuals who have diverse talents, backgrounds and perspectives, and who can work effectively as a team, with each able and willing to add value and contribute meaningfully to board decisions. - Each director should represent the interests of the company as a whole and should be in a position to participate independently and objectively. - Practices that foster factionalism and partisanship within the Board are not recommended, and should eventually be amended.
d) Composition	<ul style="list-style-type: none"> - The board should be composed of qualified individuals with a diversity of experiences, backgrounds, and perspectives. - The mix of executive directors and independent, non-executive directors will vary from company to company. - In the case of companies listed on the Stock Exchange and other companies with diverse and widely spread shareholdings, there should be a good representation of independent non- executive directors on the board. - The caliber and number of independent, non-executive directors should be such that their views carry significant weight in the decisions of the board.

Elements	Guidelines
<p>e) Board Size</p> <p>f) Multiple Board Seats</p>	<ul style="list-style-type: none"> - The Board should determine the appropriate board size and periodically assess over-all composition to ensure the most appropriate and effective mix of board membership. - While the law may specify an upper limit to the number of board members, in many instances for cohesiveness and effectiveness corporate boards should be smaller. - The Board should consider guidelines on the number of directorships for its members. Such guidelines should be subject to exceptions in a few cases. The optimum number is related to the capacity of the director to perform his duties diligently. In general, however, the CEO and other executive directors should submit themselves to a low indicative limit on membership in other corporate boards. The same low limit should apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence should not be compromised.
<p>2. The Chairman</p> <p>a) Election</p> <p>b) Leadership Structure</p> <p>c) Chairman and CEO</p>	<ul style="list-style-type: none"> - The board should elect its chairman at the first board meeting following the general meeting. - Each corporation should be free to determine the leadership structure that suits it best. - In specific instances, as a way of observing this principle in the board, a company may consider separating the roles of the chairman and chief executive officer, and assigning these to different persons at any given time. - It is increasingly common to have one person serve as Chairman of the Board to take responsibility for governance, and another person serve as CEO to take responsibility for management. - Where both positions of Chairman and CEO are unified, there is clearly one leader to provide a single vision.

Elements	Guidelines
<p>d) Responsibility</p> <p>3. The Members of the Board</p> <p>a) Major Duties</p> <ul style="list-style-type: none"> - Practice honesty and good faith - Carry out fiduciary duties 	<ul style="list-style-type: none"> - In these instances where the positions of Chairman and CEO are unified, the principle of checks and balance suggests that among the independent, non-executive directors a board leader, who can help ensure that independent, outside views, perspectives, and judgments are given proper hearing in the board, may be designated. - The chairman is responsible for the efficient functioning of the board. He sets the agenda for board meetings, usually in conjunction with the chief executive officer and the person normally exercising the functions of a company secretary. The chairman should ensure that all directors are enabled and encouraged to play their full part in the affairs of the board and have adequate opportunities to express their views. - Directors must act with honesty and in good faith, with loyalty and in the best interests of the company and of its stockholders. All shareholders should be treated fairly according to their different rights, such as voting rights. - Directors must act in accordance with their fiduciary duties. They should comply with the spirit as well as the letter of the law mindful that, in addition to purely legal requirements, the proper discharge of the duties of a director requires high ethical and moral standards of behavior.

Elements	Guidelines
<ul style="list-style-type: none"> - Respect the law - Avoid conflicts of interest - Practice diligence - Observe confidentiality 	<ul style="list-style-type: none"> - Directors must carry out their duties in a lawful manner. They must make sure that the company conducts its business in accordance with the law and its charter, and with a high standard of commercial morality. Directors should always act with loyalty to the corporation, ensuring that its goals, strategies, policies and practices are moral, proper, and legal. They should be prepared to dissociate themselves from the corporation if, despite their efforts, ethical and legal standards are being seriously compromised. They should refer to statements of global best practice as part of their decision-making process. - Where a potential conflict arises, directors must adhere to the procedures provided by law and by the charter of the company for dealing with such problems. A director who has a continuing conflict of interest of a material nature, should consider resigning. - Directors should be diligent. They should attend and actively participate in board meetings, and devote time to make themselves familiar with the company's business and the environments, including the political, legal and social context, in which the company operates. Directors should be aware of all statutory and regulatory requirements affecting their company and see that such requirements are observed. These requirements include the content of the company's articles of incorporation and its by-laws, and where applicable, the requirements of bodies such as the Stock Exchange, and the Securities and Exchange Commission. - Directors must observe the confidentiality of non-public information acquired by them as directors and not disclose it to any other person without the authority of the board. A director who has a special allegiance to a particular shareholder may not disclose confidential information to that particular shareholder without the authority of the board.

Elements	Guidelines
<ul style="list-style-type: none"> - Disclose transactions b) Orientation and Training c) Access to information d) Disclosure of Directors' biographical information 	<ul style="list-style-type: none"> - Publicly listed companies should have a procedure for the buying and selling of shares or securities by directors or their relatives or associates. Directors should not engage in short-term trading in the company's shares or securities. Directors should notify the board in advance of any intended transaction by them or their relatives or associates involving shares or securities in the company. - The corporation should provide for an adequate orientation process for new directors. - The board should assess the adequacy of director development and education for individual directors and for the board as a team. - Board members should have access to senior management and to information about the corporation's operations. - The Board must be given sufficient information to exercise fully its governance functions. - Sufficient biographical data should accompany the names of directors. This allows shareholders to properly assess the qualification of the directors for the purposes of director election.

Elements	Guidelines
<p>4. Independent, Non-Executive Directors</p>	<ul style="list-style-type: none"> - Independent, non-executive directors should: <ul style="list-style-type: none"> • Be able to provide independent judgment and outside experience and objectivity, not subordinated to operational considerations, on all issues which come before the board. • Acquire and maintain a sufficiently detailed knowledge of the company’s business activities and current performance to enable them to make informed decisions on the issues before the board. • Recognize the division between the board and management and ordinarily not become involved in management issues or in managing the implementation of board policy. • Be independent of management. • Not be officers or employees of the corporation. • Not provide any services, and receive any significant income for other professional services to the corporation. • Not related to an officer in a senior management position of the corporation. - The board should disclose any relationship that could compromise a director’s independence.
<p>5. Executive Directors</p>	<ul style="list-style-type: none"> - Executive directors have a dual role as officers of the company and as directors. - As directors they have responsibilities additional to, and must retain a degree of independence from their executive position to enable them to carry out those responsibilities effectively. - Except for the chief executive officer or President, executive directors should be appointed as individuals, and not because of any position they hold or relationship they have.

Elements	Guidelines
	<ul style="list-style-type: none"> - They must always be alert to potential for conflicts between their interests and the fiduciary duties of a director.
<p>6. Board Meeting</p>	<ul style="list-style-type: none"> - The board must always act as a collegial body, and no director should arrogate to himself or herself alone the power to perform a “corporate act”. - The board should ensure that independent views on the board are given full consideration. - It must ensure that appropriate reporting systems are in place and maintained to provide accurate and timely information to the board, and that adequate systems of control are in place. - The Board should have a formal schedule of matters and authorities reserved to it for decision. The Board is responsible for approving and monitoring the implementation of company’s strategic plan. - Boards must meet as frequently as needed for directors to discharge their responsibilities properly. - There should be an opportunity for the board to meet, at least annually, without the CEO and other executive directors present. - Directors have the duty of rigorously preparing for board meetings, giving undivided attention and actively participating in meetings. - The board should develop a mechanism for evaluating its performance and that of individual directors such as establishing a performance evaluation committee. The board should conduct an annual review of performance, measuring results against targets and other appropriate criteria defined by the board.
<p>7. Board Committees</p>	<ul style="list-style-type: none"> - Any independent, non-executive director should be entitled to attend meetings of any board committee provided the director is not specifically excluded for reasons of conflicts of interests, even if the director is not an appointed member of the committee.

Elements	Guidelines
<p>a) Audit Committee</p>	<ul style="list-style-type: none"> - An Audit Committee should be made up mainly of independent, non-executive directors who should be free to hire advisers when necessary. Its main responsibilities are: <ul style="list-style-type: none"> • to recommend the appointment of external auditors, whose reports they review; • to monitor the system of internal controls and corporate compliance with laws, regulations and code of ethics; and • to serve as direct channel of communication to the Board for the internal auditors, compliance officers, and the general counsel. - It should have written terms of reference agreed to by the board, including the review of all financial statements to be released by the company and the regular review of compliance with internal systems and controls and with statutory and regulatory requirements. - The Audit Committee has the special duty of ensuring that the internal audit function is carried out effectively in accord with international standards and global best practices. - The audit committee should normally meet at least three times a year. A statement to this effect should be recorded in the annual report. - There should be clear lines of communication between the audit committee and the external auditors. The audit committee should meet with the external auditors at least once a year. For at least part of that meeting, no executive directors or other officers of the company should be present.

Elements	Guidelines
<p>b) Other Committees</p>	<ul style="list-style-type: none"> - Other committees may also be established as needed and should be composed mainly of independent, non-executive directors. For example: nomination committee (to review possible candidates for board membership); the compensation committee (to ensure that a system of compensation that provides performance-oriented incentives to management is in place); and the monitoring and performance evaluation committee (to perform board evaluation). Where the board may decide to have few committees, a corporate governance committee may be considered to carry out those functions that help raise the effectiveness of the board.
<p>8. Board Issues</p> <p>a) Performance Evaluation</p> <p>b) Board Remuneration</p> <ul style="list-style-type: none"> - Level of remuneration - Composition of remuneration 	<ul style="list-style-type: none"> - Evaluation of the CEO is a critical board responsibility. The board should establish an annual review process by which it evaluates CEO performance in executive sessions. A subsequent dialogue with the CEO is encouraged. - The board should regularly review its performance evaluation process and disclose it to the public. - A board and/or its Compensation Committee should set compensation levels adequate to attract and retain qualified directors. - Compensation for directors should be competitive and take into account the duties and other commitments imposed upon them. - Boards may decide that a significant percentage of the compensation package for directors be in the form of stock ownership. - Boards should pay directors solely in the form of equity and cash. - Increasingly, the equity portion of the board compensation is becoming more significant in modern corporations.

Elements	Guidelines
<ul style="list-style-type: none"> - Disclosure - Shareholder involvement in determining director compensation c) Reporting, Transparency and Audit - Reporting - Transparency - Internal control 	<ul style="list-style-type: none"> - Stock options and restricted stock awards, when available may be integrated with other elements of compensation to ensure that the package for directors is competitive and appropriate in light of financial rewards to senior management, employees and shareholders. - Corporations should disclose in their annual statement the philosophy and process used in determining director compensation and the total value of all its elements. - All stock plans should be submitted to shareholders for approval. - The board should ensure timely and accurate disclosure on all material matters, including the financial situation, performance, ownership and governance of the corporation. - Fair, timely, and cost-efficient access to relevant information should be provided for all parties with a legitimate interest in the corporation. - Disclosure should include material information on the financial and operating results of the corporation. - The board must ensure that an effective system of controls is in place for safeguarding the corporation's assets. - The board should manage the major risks faced by the corporation. - The board must ensure that reports accurately reflect the financial condition of the corporation and the results of corporate operations. - The board should regularly review the system for securing adherence to key internal policies as well as to significant laws and regulations that apply to it.

Elements	Guidelines
<ul style="list-style-type: none"> - Accounting standards - Auditor independence - Special Duties to shareholders 	<ul style="list-style-type: none"> - One of the most important missions of the board is to protect shareholder value through adequate financial controls. The board should foster and encourage a corporate environment of strong internal controls, fiscal accountability, high ethical standards, and compliance with the law and code of conduct. - Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit. - A corporation should consider adhering to internationally recognized accounting and auditing standards, which have been adopted for use in international financial markets. - The board should engage an external auditor, who undertakes an independent audit and provides an objective assurance on the way in which financial statements have been prepared and presented. - The board should present to shareholders a balanced and understandable assessment of the company's performance and position. Often this involves providing information beyond the minimum required by law. In case of doubt, substance and content should prevail over form. For reports and accounts to be understood readily by shareholders, a coherent narrative, together with figures, is necessary.
<p>9. Stakeholders</p> <ul style="list-style-type: none"> a) Definition b) Communication 	<ul style="list-style-type: none"> - Defined as employees, customers, suppliers, creditors, and the local community, and the economy as well as society as a whole. - The board must take into account the interests of the corporation's stakeholders as it carries out its primary responsibility of maximizing shareholder value.

Elements	Guidelines
	<ul style="list-style-type: none"> - The board should formulate policies to open channels of communication to stakeholders so they can freely express their concerns and other views to the corporation. - The board should recognize the rights of stakeholders as established by law and encourage active cooperation with them in promoting the sustainability of financially sound as well as socially responsible enterprises.
<p>10. Ethics</p>	<ul style="list-style-type: none"> - The board should formulate a Code of Ethics for the corporation. - The board should regularly review its Code of Corporate Governance, update it when and as necessary, and communicate it to all the officers and employees of the corporation. - The board should ensure that compliance with the Code of Ethics is included in the corporate performance evaluation system.