

Chile Day 2012



SUPERINTENDENCIA  
VALORES Y SEGUROS

# **Corporate Governance**

## **An SVS View**

**Fernando Coloma**  
**Chairman of the SVS**  
**Chile**

**September 12th, 2012**



1. Corporate Governance Standards
2. The Chilean Context
3. Future for Corporate Governance in Chile
4. Final Remarks



1. Corporate Governance Standards
2. The Chilean Context
3. Future for Corporate Governance in Chile
4. Final Remarks



# Corporate Governance Standards

## Increasing importance

- Growing interests for high standards of Corporate Governance by investors, and a tendency to understand them as a presentation letter by directors
  - Learning process after emblematic cases
  - Greater financial integration
- Rise in the exposure of Corporate Governance to stakeholders
  - Development of information technologies has led to a growing scrutiny by market players
  - Regulation development aiming at increasing transparency and, as a consequence, the Board's decisions should be better justified



# Corporate Governance Standards





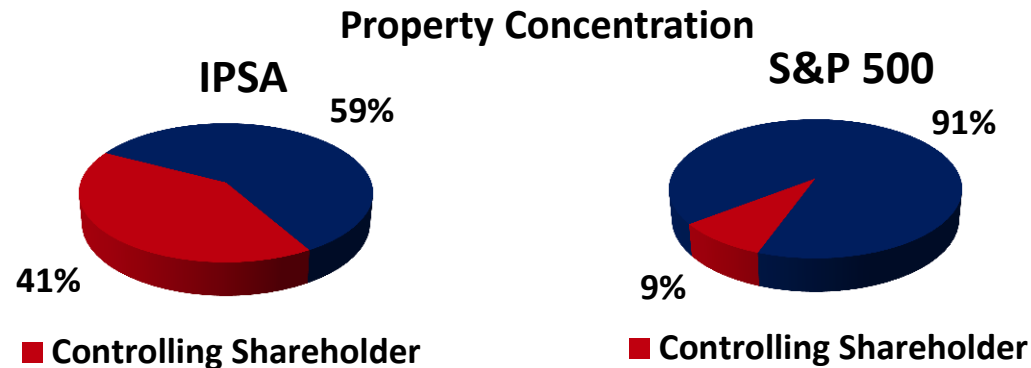
1. Corporate Governance Standards
2. The Chilean Context
3. Future for Corporate Governance in Chile
4. Final Remarks



# CG context in Chile

## Some characteristics of the Chilean Stock Market

- Most companies have clear controllers



Note: Average of the percentage owned by each kind of shareholder in 2010. Source: Bloomberg

- That's the reason why, in the last decade, regulation has given a special focus in dealing with the agency problem between the controller and minority shareholders (independent directors, directors' committees, etc)
- Additionally, institutional investors play a very important role



# CG context in Chile in the last years

## Recent developments in the legislative and regulatory body of CG

- Corporate Governance Law (2009)
  - Related parties transactions
  - Voting conditions
  - Justified proposals of external auditing firms by Board (Feb 2012)
- Internal control and risk management for funds administrators (2008), intermediaries (2011) and insurance companies (2011)
- Corporate governance rule for insurance companies (2011). This rule is embedded in a law project that is under discussion in the congress, which will reinforce the risk-based supervision model for the insurance companies
- Self-evaluation of corporate governance rule (under discussion, 2012)





# CG context in Chile in the last years

## Regarding to sanctions to boards and directors

- FASA (2009). Duty of care and duty of information
- Pehuenche (2011). Duty of care when evaluating transactions with related parties
- La Polar (2012). Duty of care and duty of information

The SVS has highlighted an obligation of means, not results



1. Corporate Governance Standards
2. The Chilean Context
3. Future for Corporate Governance in Chile
4. Final Remarks



Next steps...

Self-Regulation?

How to move forward?

Regulation?



# Why self-regulation?

- Beyond eventual regulatory enhancements, there is considerable room to advance in self-regulation in Chile
- Self-regulation complements regulation, and it has the virtue of being more flexible, reason for which international recommendations have pointed to advance in this direction. It also allow cultures to be permeated with good practices in all spheres
- It is clear that there is margin to move towards self-regulation initiatives from other participants, such as stock exchanges, investment advisors and associations
- The SVS feels an urgent need to push self-regulation initiatives from financial players.



# SVS and self-regulation

## Rule for public listed companies

- Rule that establishes principles of good corporate governance, for which Boards of all companies will have to self-evaluate, under a “comply or explain” format
- These principles are neither required by law or regulation to boards, but are additional practices that were raised in the academic discussion, recommendation from international organizations such as the OECD (1999, 2004), the revision of international codes of good practices, and local seminars with directors, corporate governance centers and several other market participants
- The main objective of this rule is to promote the adoption of good practices in corporate governance and to provide more information to the market



# SVS and self-regulation

## **Rule for public listed companies**

- It is considered that the information about these practices is relevant for the market. An improvement to this translates in a higher level of confidence among market participants, which results in a deeper financial market, with all the benefits this brings
- The self-evaluation will have to be sent to the SVS, stock-exchanges, and to be published in the company website. Companies will have to self-evaluate once a year



# SVS and self-regulation

## Rule for public listed companies

### BOARD PROFESSIONALIZATION

Principles regarding...

- the appropriate exercise of the role of directors (11)
- the relation between the company and its stakeholders (6)
- policies aimed to key executives, such as compensation and retention policies (2)
- risk management and internal control processes (7)



# Comments received on the rule

- There was a consultation period between July 4<sup>th</sup> and August 4<sup>th</sup>, and the comments received are currently under revision
- As the SVS have stated, the consultation period was not a cosmetic process but an important one, in order to incorporate valuable comments into the rule and enhance the reach and relevance of it
- Leaving aside the final form of the rule, what matters is the fact that this rule will provide more information to the market in this issue, in a context of a lack of information about CG





1. Corporate Governance Standards
2. The Chilean Context
3. Future for Corporate Governance in Chile
4. Final Remarks



# Final Remarks

- In order to understand past regulatory changes in Chile, it is important to consider the particularities in the property structure in terms of the agency problems that arise from this interaction
- Beyond potential legislative advances in CG, there is an urgency to incorporate self-regulation initiatives
- Given the lack of private self-regulation initiatives in good practices of corporate governance, the SVS has taken a proactive role in this matter, contributing to facilitate a proper functioning of the financial market

Chile Day 2012



SUPERINTENDENCIA  
VALORES Y SEGUROS

# **Corporate Governance**

## **An SVS View**

**Fernando Coloma**  
**Chairman of the SVS**  
**Chile**

**September 12th, 2012**