Corporate Governance: Report on Observance of Standards and Codes (CG-ROSC) - World Bank

Objective and features

1. Objective

CG-ROSC aims to assist a country in developing and implementing an action plan to improve its corporate governance framework and to raise awareness of good corporate governance practices among the country's public and private sector stakeholders.

2. Institutional coverage

National corporate sector.

3. Technical coverage

CG-ROSC focuses on the governance of publicly listed companies. Assessment covers the following five principles:

1. Enforcement and institutional framework – legal and regulatory framework, enforcements, the courts, and alternative dispute resolution.
2. Shareholder rights and ownership – basic shareholder rights, shareholder meetings, participation in board appointment and capital increases, related party and other extraordinary transactions, and changes in corporate control.
3. Equitable treatment of shareholders – protection from insider trading and self-dealing, and shareholder redress.
4. Disclosure and transparency – company reporting, non-financial disclosure, audit, and audit oversight.
5. Board responsibilities – composition and selection, duties and responsibilities, control environment, and board professionalism.

4. Application method

Custodian.

Methodology

5. Methodology

Each CG-ROSC assessment benchmarks a country's legal and regulatory framework, practices, and compliance of listed firms, and enforcement capacity vis-à-vis the OECD/G20 Principles of Corporate Governance. WB uses the template developed to gather pertinent information for preparing the CG-ROSC. The template has six sections that are based on the chapters of the G20/OECD Principles. For each OECD principle, the template includes questions about the legal and regulatory rules that apply to the topic, as well as questions about how the specific rules are enforced and how companies are compliant. The tool is based on a consistent methodology for assessing national corporate governance practices.

6. Benchmarking system

Benchmarking with scoring system. The scoring for each question, in relation to the application of the corporate governance principles, are as follows: 95 percent = fully implemented, 75–95 percent = broadly implemented, 35–75 percent = partially implemented, and less than 35 percent = not implemented.

7. Linkage to PEFA framework

There is no linkage with the PEFA framework.

8. Complementarity with PEFA framework

There is no complementarity with the PEFA framework.

Development and use

9. Development and coordination

Twelve standards and codes were identified by the Financial Services Board, following the 1990s Asian financial crisis, which are crucial for financial sector development and financial stability, including data transparency, banking, and insurance supervision. The ROSC initiative is administered by WB and IMF, which have recognized international standards in the 12 policy areas. Of these, WB focuses on three policy areas: accounting and auditing, corporate governance, and insolvency and creditor rights.

CG-ROSC is largely structured on the OECD/G20 Principles of Corporate Governance, first issued in 1999 and updated in 2005 and 2015. The principles focus on countries with a stock exchange. The CG-ROSC methodology was developed to accommodate a wider set of countries from developing countries, and was revised multiple times (in 2001, 2015, and 2017). Motivations for updating included the revision of OECD Principles in 2015, introduction of a modular approach, and simplification of the report to reduce time and cost requirements.

10. Assessment management

Assessment process comprises the following steps:

1. The government requests WB to conduct the assessment and address assessment funding.
2. Data is collected and a questionnaire consisting of 450 questions is completed. Consultants are hired from legal and accounting firms.
3. Due diligence is performed on compliance with rules to determine whether the assumptions are correct and whether expectations from the stakeholders (companies) about compliance and rules are met.
4. The information gathered is discussed with the government for fact checking.
5. The report is prepared.
6. The assessment team works with country counterparts on the report (to gather any comments and changes to be made before publishing the report).
7. Key findings and recommendations are presented.

Country participation in the assessment process and the publication of the final report are voluntary. At the request of the policymakers, WB can also carry out special policy reviews that focus on specific sectors (e.g., for banks and SOEs).

Quality assurance procedures include a peer review process that involves internal and external experts.

11. Uses by the government and members of the PFM community

The main users of the CG-ROSC are the securities regulator who issues corporate regulations for the listed companies, other government entities interested in ROSC (Ministry of Finance), as well as private sector stakeholders involved in corporate governance (stock exchange, accountancy bodies, corporate governance associations, director training organizations). The CG-ROSC reports are referred to by various international investors, rating agencies, central banks, and governments.

The assessments provide a benchmark by which countries can (1) evaluate themselves and gauge progress in corporate governance reforms; (2) strengthen their ownership of the reform by promoting productive interaction among issuers, investors, regulators, and public decision makers; and (3) provide the basis for a policy dialogue that is meant to result in the implementation of policy recommendations.

12. Sequencing with other tools

The findings of the CG-ROSC can complement the findings of the European Bank for Reconstruction and Development (EBRD) corporate governance assessment reports, and OECD's confidential country reports.

13. PFM capacity building

In several instances, IFC has funded technical assistance programs based on the findings of the CG-ROSC assessment.

14. Tracking of changes and frequency of assessments

No specific tracking of changes is done, however, major changes that influence the corporate governance domain are tracked but are not necessarily tied back to previous CG-ROSC assessment. In countries where multiple CG-ROSC assessments were conducted, the implementation of previous recommendations were tracked. Initially, recommended assessment frequency was every three years.

15. Resource requirements

The standard cost of the assessment is US$100,000. The time needed is one to one-and-a-half years from request for the assessment to final report publication. Consultants are hired to complete the questionnaire.

Transparency

16. Access to methodology

Methodology is not publicly available.

17. Access to assessment results

Country assessments are *available*.