



Review of the major components of
The Nordic Governance Model.
Georgetown University
February 12th 2015

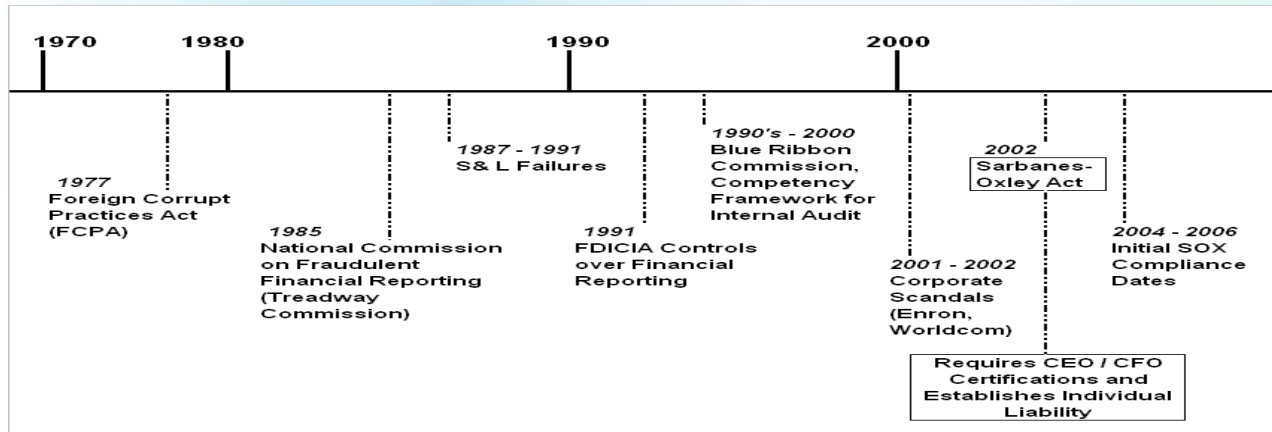
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“The financial crisis can to an important extent be attributed to failures and weaknesses in corporate governance” (OECD 2009)

There are solutions to financial crisis in Europe. US President Barack Obama called on European leaders to take decisive action to deal with the Eurozone's problems. The Telegraph, 6th February 2015

The Evolution of Corporate Governance



The Dodd-Frank Act; has broad and deep regulatory implications that will effects every corner of financial services & multiple other industries.

Compliance overreach of post SOX acts & related Corporate Governance compliance issues; Executive Compensation & Disclosures, FATCA Compliance, Securities industry Self-Regulatory Organizations (SROs), Numerous provisions which affect the governance of issuers, Advisory votes of shareholders about executive compensation and golden parachutes, Enhanced independence requirements for BoD and committees, Legal Governance, Risk Management, and Compliance (GRC) including the complex set of processes, rules, tools and systems used by corporate legal departments to adopt, implement and monitor an integrated approach to business problems including IT GRC and financial GRC. **There is a great deal of GRC overlap, particularly in large corporations that have legal, IT department & financial departments.**

Top Down/Bottom Up Governance Failures

Governance failures. BoD failed to monitor and control management. They accepted excessive financial leverage & did not understand the complexity of risks. In-house experts were unable to report non-compliance to the top management and BoD.

ENRON 2001



Robert Belfer. Chairman, Belco Oil & Gas
Norman Blake Fmr. CEO, US Olympic committee.
Ronnie Chan. Chairman, Hang Lung group.
John Duncan. Fmr. Chairman, Gulf & Western
Wendy Gramm Fmr. Chair, US commodity futures trading comm.
Ken Harrison. Fmr. Chairman and CEO, Portland General Electric.
Robert Jaedicke. Fmr. Professor of accounting emeritus
Jerome Meyer. Chairman, Tektronix.
Paulo Ferraz Pereira Fmr. CEO, State Bank of Rio de Janeiro,
John Wakeham Fmr. UK secretary of state for energy

LEHMAN BROTHERS 2008



Michael L. Ainslie. Former President, Sotheby's Holdings
John F. Akers (74), Retired Chairman, IBM
Roger S. Berlind, (75) Theatrical Producer
Thomas H. Cruikshank (77), Retired CEO of Halliburton
Marsha Johnson Evans Rear Admiral, United States Navy
Sir Christopher Gent . Non-Executive Chairman GSK plc
Jerry A. Grundhofer Retired CEO, U.S. Bancorp
Roland A. Hernandez, Rtd chairman and CEO, Telemundo
Henry Kaufman (81) , Retired, Salomon Bros, Chairman of the Finance and Risk Committee.
John D. Macomber (80), former CEO, Dir. Lehman Bro. (1994)

<http://www.gao.gov/fdsys/pkg/CPRT-107SPRT80393/html/CPRT-107SPRT80393.htm>

<http://www.bloomberg.com/research/stocks/private/board.asp?privcapId=1151247>

Nordic Governance In Reports/Surveys

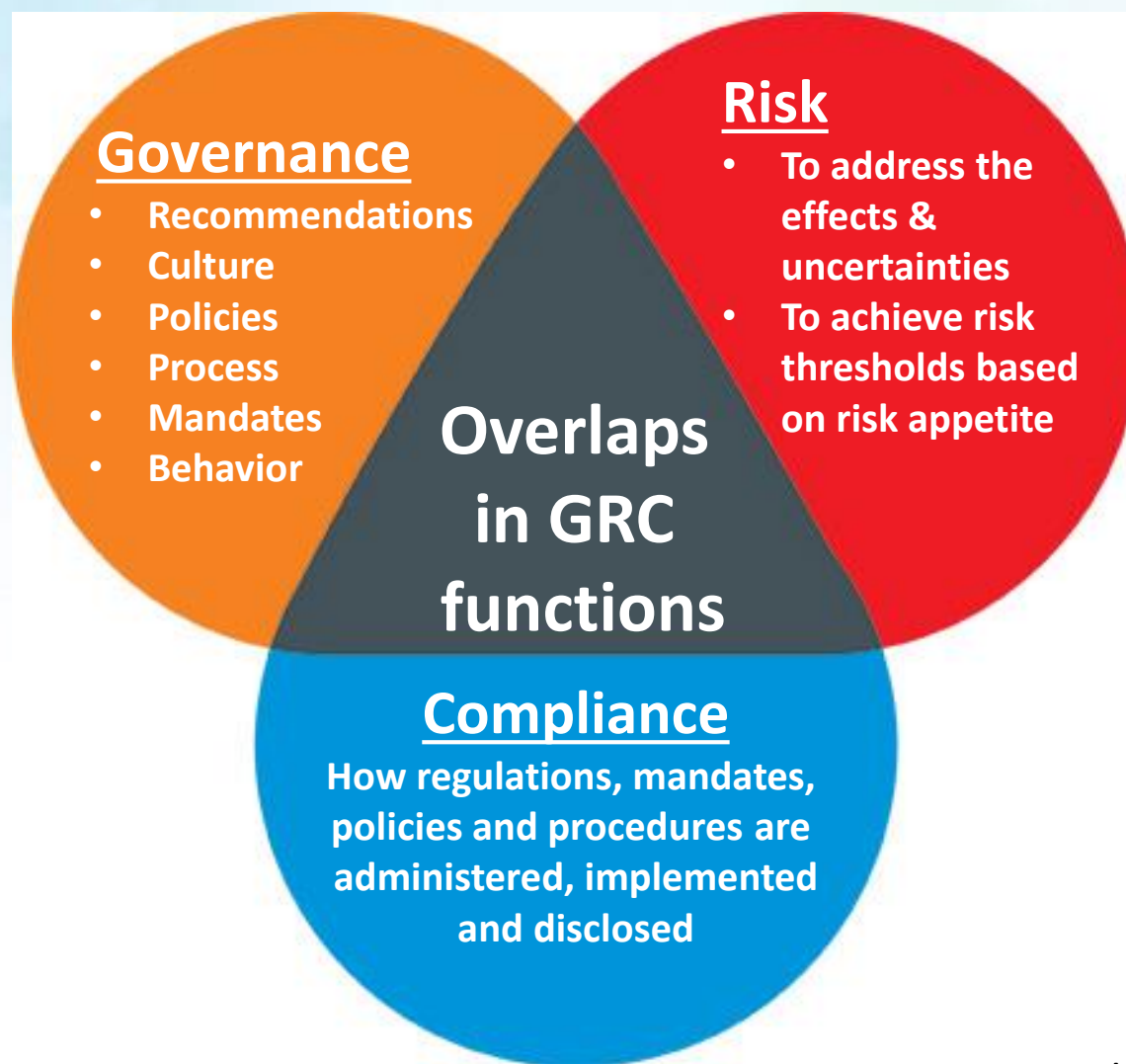
- Global crisis has created *business conduct* disparities
 - How to create the fundamentals of a Global Governance platform & perspectives that create value for the enterprise?
- Sweden's Ombudsman's institution established in 1810
- Success of the political, social and welfare structures
- Nordic Governance is on the top of most lists due to:
 - Political stability, control on bribery and corruption, efficient public sector, transparency, accountability and legal certainty
 - Able to raise governance standards and controls without compromising the individual freedom.
 - Danes are the happiest people in the world
 - Nordic food is fashionable because of its natural simplicity



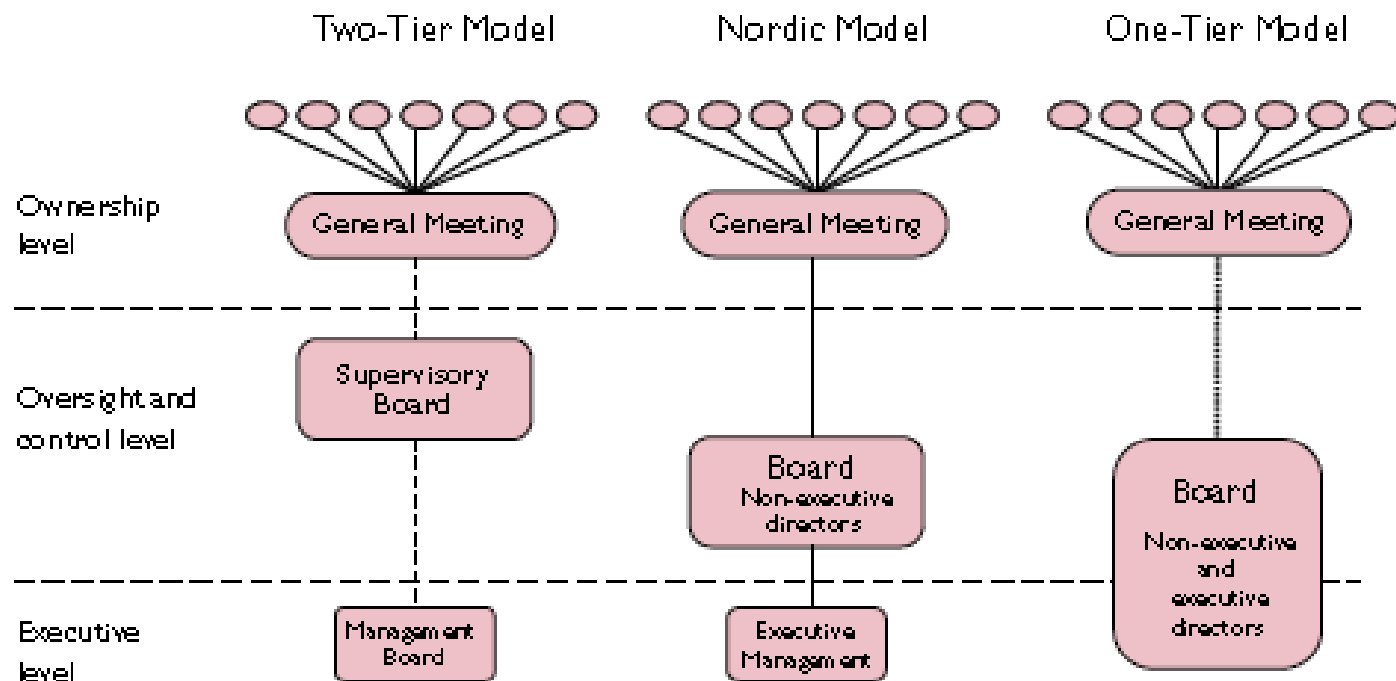
Key Components Of Nordic CG

- Nordic countries are currently upheld as a model for good corporate governance around the world
- The governance arrangements respects traditions, common features and specific country differences
- Key determinants and components for success:
 - Diversity of ownership patterns, controlling shareholdings, independent boards, protection of minority interests
 - *Self-regulation* is defined and enforced by the business
 - Non-codified rules, norms and customary practice
 - Relatively strong homogeneous norms and value system
 - High degree of social control, typical of small communities

Governance Impact On Risk & Compliance



The Nordic & One-and-two-tier Model



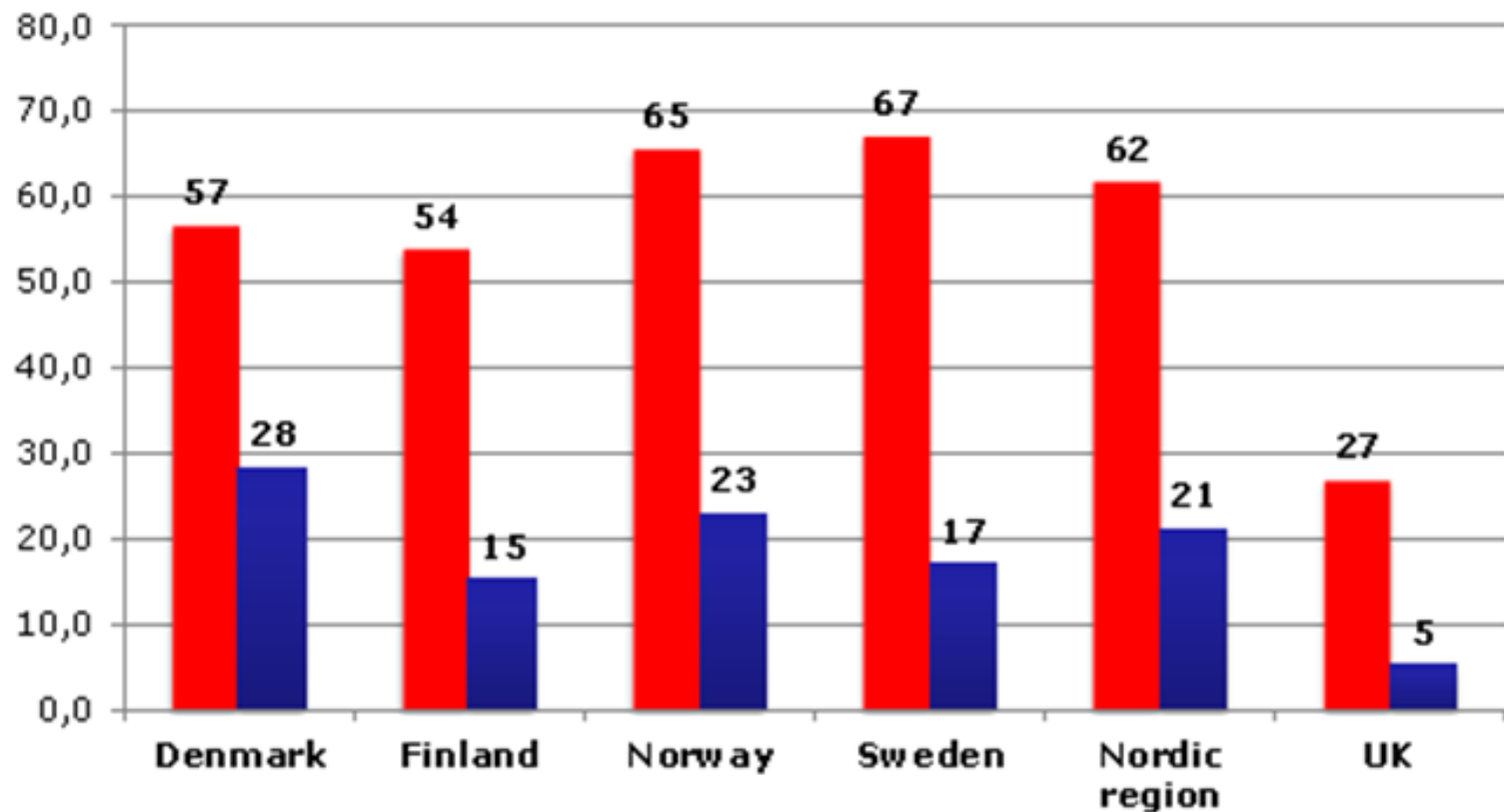
The Nordic vs. the one- and two-tier governance structures.

Nordic Governance Model

- Historically characterised by long-term controlling shareholders, typically willing to invest the time, money & governance for own benefit as well as of the minority shareholders
- The model generally provides a regulatory environment to build and maintain their governance rights
 - Is neutral towards the actual ownership structures of the individual companies.

Encourages Controlling Structures

Listed companies with at least one shareholder controlling votes > 20% (red bars)
controlling votes > 50% (blue bars)



Nordic Governance Structure

The model does not discourage dispersed shareholder structures.

- > 85 % of the total market capitalisation of the SE Nasdaq market is controlled by institutional investors
- > 35 % of the registered shares are held by institutional investors. Foreign investors have increased their shareholdings from 42 % to 51 %. (CPH Nasdaq)
- > 35 % of market value of listed companies market is owned by foreign investors (Helsinki Nasdaq)
- The Norwegian state is the largest investor
 - Dominant shareholder in 8 largest NO companies or
 - 1/3 of the Oslo stock exchange market cap.

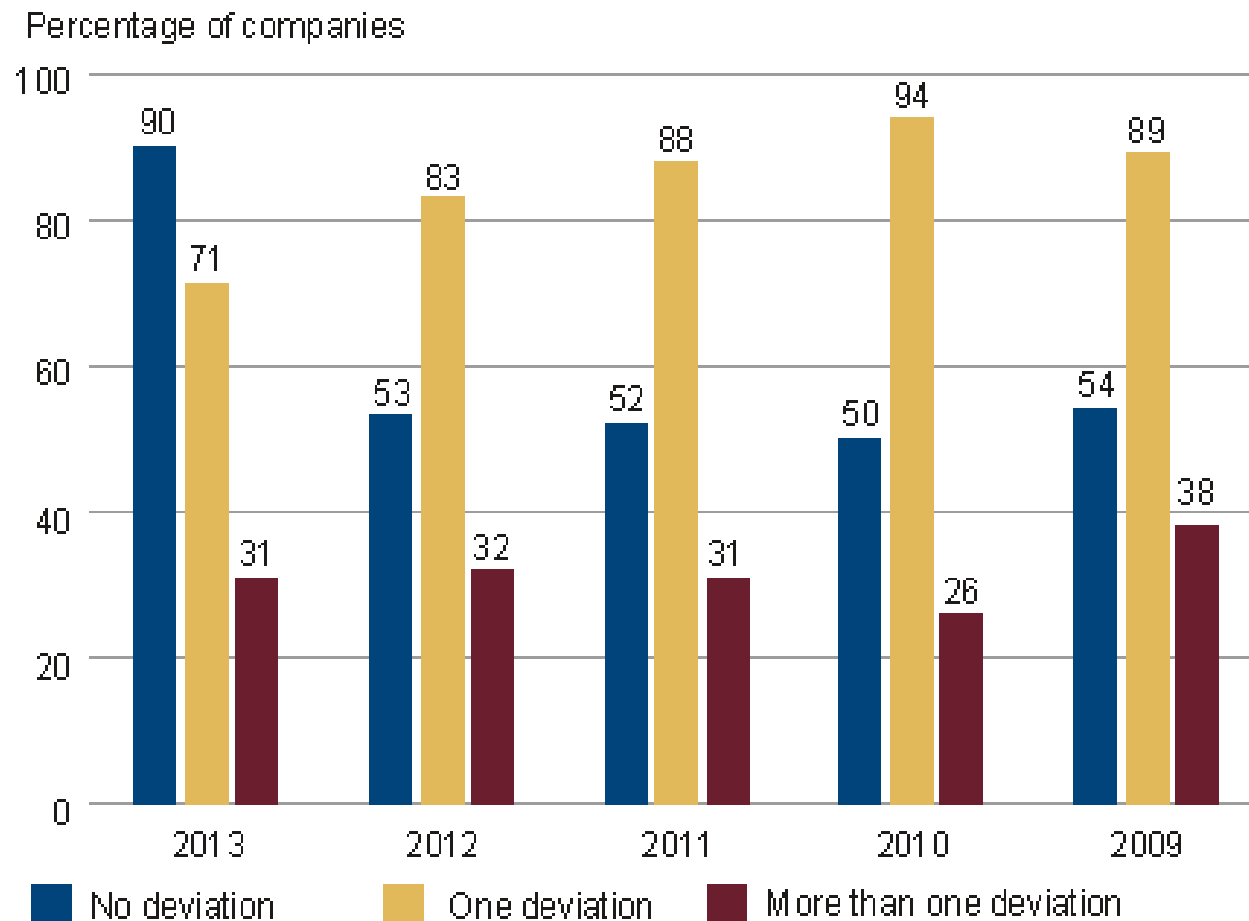


Non-compliance. 3 Lines Of Defence

- No obligation to comply with individual provisions
 - All non-compliance must be reported & explained
 - Flexibility: it may be as good – or sometimes better –
 - Governance can choose a different code as a solution
- The national CG committee has the duty to **administer** the code and the authority to decide on its content
- The stock exchanges **supervises** the code application & has the duty to take action on significant deviations
- The market, stakeholders & analysts **judge** the behavior from a sustainability & investor viewpoint



Instances Of Non-compliance



2013: 251 companies

2012: 247 companies

2011: 248 companies

2010: 238 companies

2009: 252 companies

Source: Swedish Corporate Governance Annual Report 2014

Nordic Governance Structure



- Based on a clear and simple tiered structure;
 - The supremacy of the shareholders AGM
 - BoD are nominated and appointed by the shareholders
 - Majority of directors appointed by the controlling shareholder
 - Executive management function appointed by the BoD
 - The board is made up of non-executive directors (except CEO)
- Stipulation of the Companies Act
 - 3 decision-making bodies in a strict hierarchical relationship
 - The general meeting, the board of directors and the CEO.
 - There must also be a controlling body, the statutory auditor is appointed by the general meeting.



Say On Pay



- Bigger shareholder say over executive pay in EU
 - EU listed companies must get shareholder approval on pay for their top executives
 - Answerable to their stakeholders
 - Addressing public fury over huge pay rises for executives
- The Nordic variable share is significantly lower
 - 45 % compared to slightly over 70 % in EU
 - Average 2012 remuneration of Swedish CEO is 57 % of that of their European counterparts
 - Share of fixed remuneration is 63 % vs. 33 % in EU

Source: (Swedish CEO remuneration in a European perspective 2011–2012).
Ersättningsakademien www.ersattningsakademien.se

BoD/CEO Remuneration



- The BoD remuneration determined by AGM
 - The Public Companies Act does not contain rules or guidelines on the size of the remuneration to the BoD
 - *»...should reflect the board's responsibility, expertise, time commitment and the complexity of activities«*
 - *should not be linked to the company's performance«*
- CEO remuneration is determined by the BoD
 - Produces guidelines, subject to approval from AGM
 - Guidelines are not binding unless in the company's articles
 - Shares, subscription rights, options, etc. connected to the company or company group's shares or share price, must be approved by the AGM and are then binding to BoD



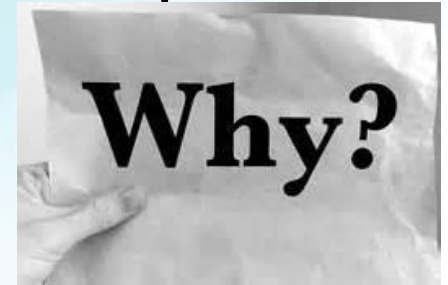
Board Evaluation

- Annual evaluation of operations & working methods.
 - Internal self-evaluation or by an external evaluator.
- Companies do not disclose the evaluation results
 - Many companies share some information on the evaluation processes, rather than actual conclusions or results.
- Shared commitment to the scope, purpose, methodology and subjects included in the process. Areas of evaluation, including board agendas, information flow, effectiveness of board meetings, performance of individual committees, roles and relationship issues, board's approach to strategy, board's approach to governance.
- A post-evaluation review should identify issues or threats, should embrace opportunities and adopt required reforms.



Comply Or Explain I of II

- Principle is based on governance processes & reporting on the financial statement compliance.
- Non compliance or discrepancies should be explained
- Suitable for the European business culture
 - Takes into consideration a particular situation,
 - The differences in legal and regulatory frameworks
- Relates to the best operational practice
 - and their relations with shareholders.



- Source: <http://www.europeanissuers.eu/newsletter/145.htm>
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2004:0725:FIN:EN:PDF>

Comply Or Explain II of II

"It is not only
what WE do,
but also
what WE
do not do
for which
WE are
accountable."

~John Baptiste Molire

- Requires a high degree of transparency, roles, practices to provide stakeholders with facts
 - To reflect a true and fair view of the company
 - Hold the boards accountable
 - Oversight authorities must ensure that disclosures are in compliance and respond to misrepresentation of facts
 - The international shareholder and investor wants uniformity
 - Variety of different interpretations on what the company is in compliance to or what is being explained
 - Increasing companies' transparency as regards their board diversity and risk management policies

Toward International Best Practice

Same global themes: Independence, Say on Pay, Active Ownership, Transparency, Accountability

- Accounting rules/procedure for annual report
- Audit rotation, Cool off periods, Audit and Advice
- Senior Independent Director /Executive Sessions
- Independence *in character and judgment*
- Dependence 9-12 years , Independence
- CEO's outside directorship/chairman



Global To-do List



- Some global themes: Overregulation, Share ownership for BoD/executives, Quarterly reports, Diversity/age limits, Number of board positions, Board education/evaluation, Personal training plan & Qualified secretarial aid to BoD, Financial skills, Stewardships code for institutional investors, Segregation of Risk & Audit committee, Chief Risk Officer reports to the BoD, Risk committee issues a separate opinion in the annual report & consulted on risk adjustment of executive pay.



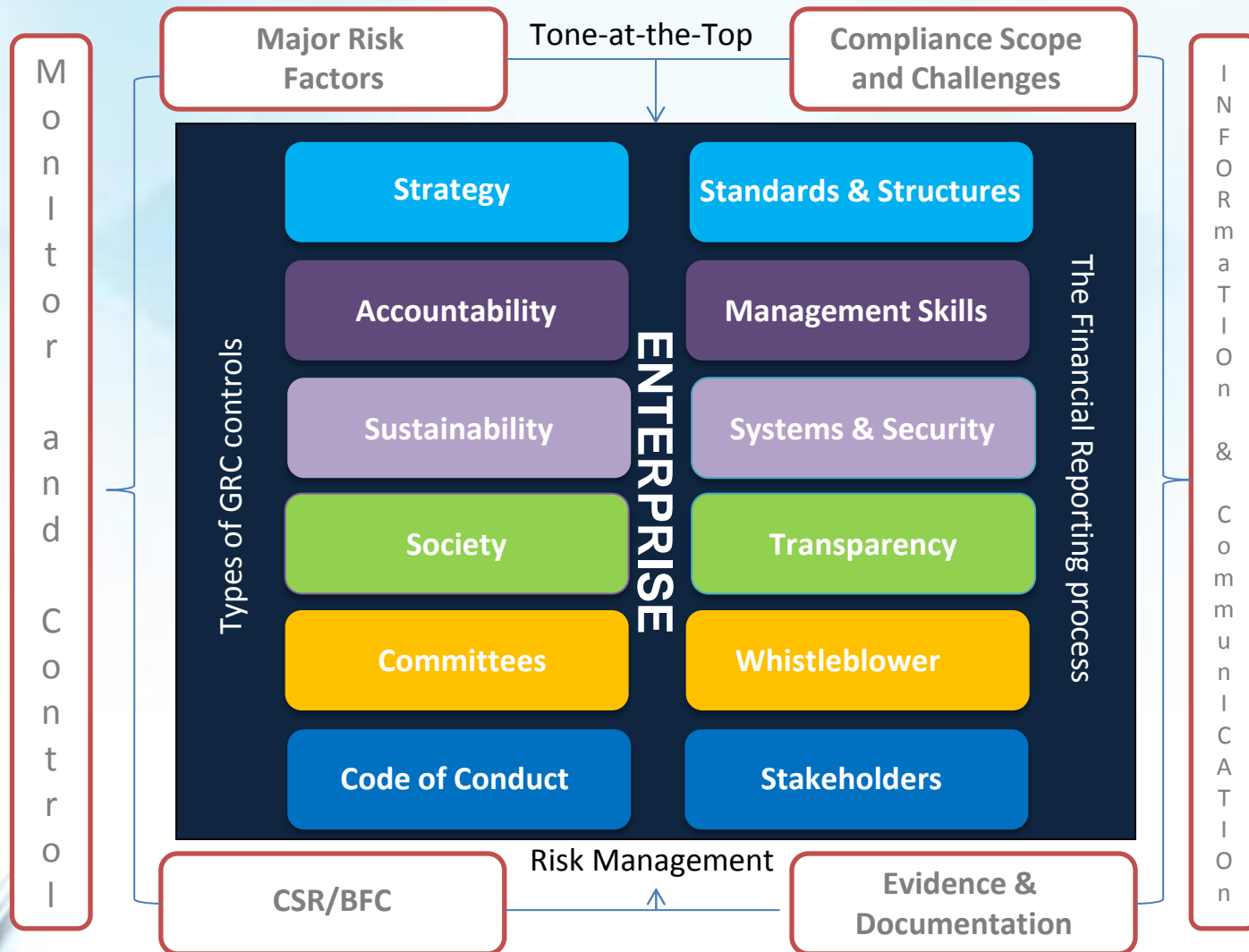
Appendix: Road maps and Frameworks.
Narratives are available for each framework with
a supporting assessment tool.



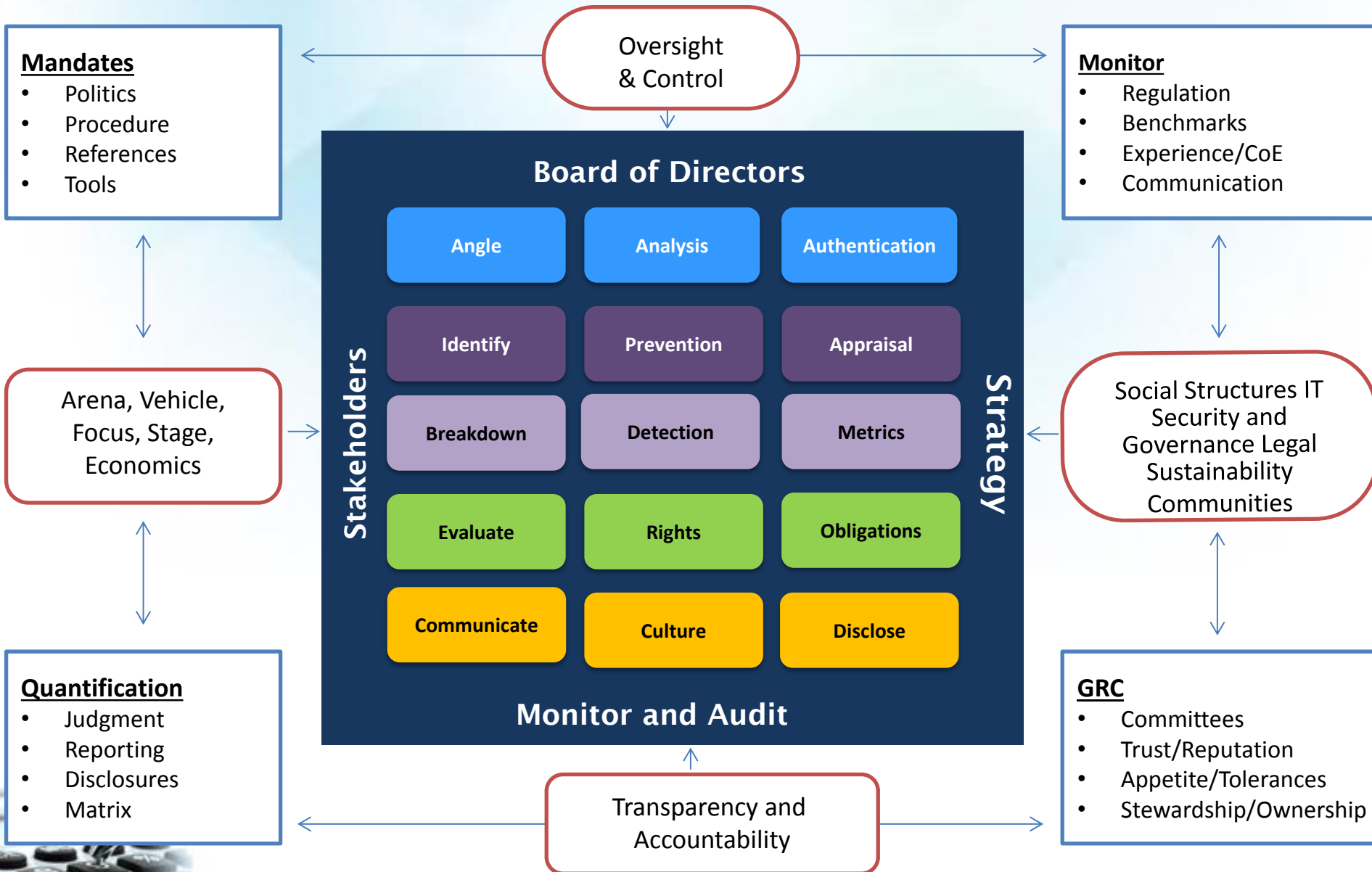
Roadmap & Framework

- Transparency & accountability plays an active role in evaluating the effectiveness of internal controls.
 - The combined GRC components provide increased awareness by using a uniform approach to Governance structures and process that reveal the disrupting elements and required actions for sustainable gains.
 - Take an impartial, comparable, unhindered, clear and open monitoring of transactions and processes.
 - Technical features e.g. board independence & evaluation, compliance, anti-corruption, political risks, and fraud promotes Governance effectiveness.

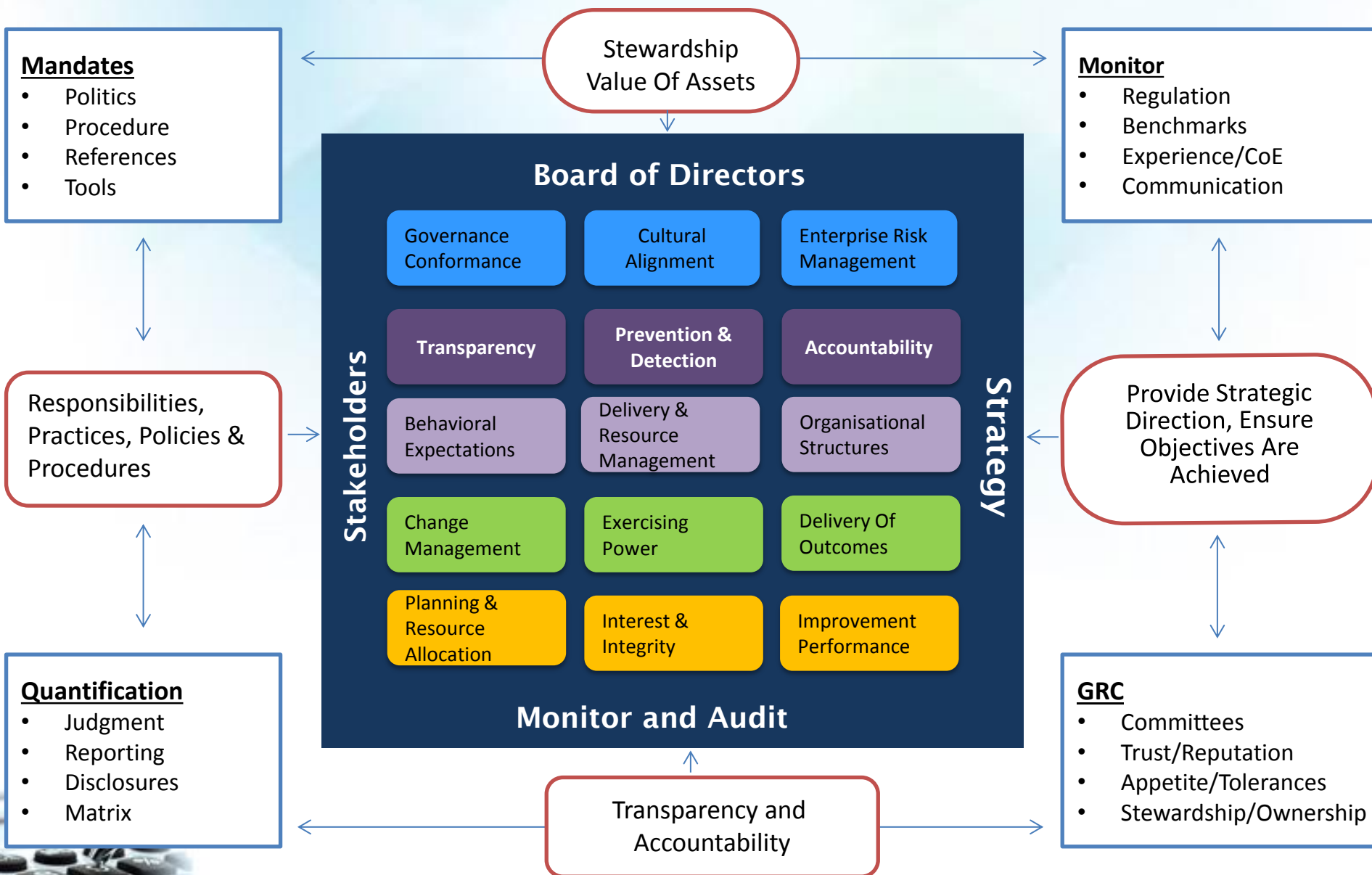
The Governance Roadmap



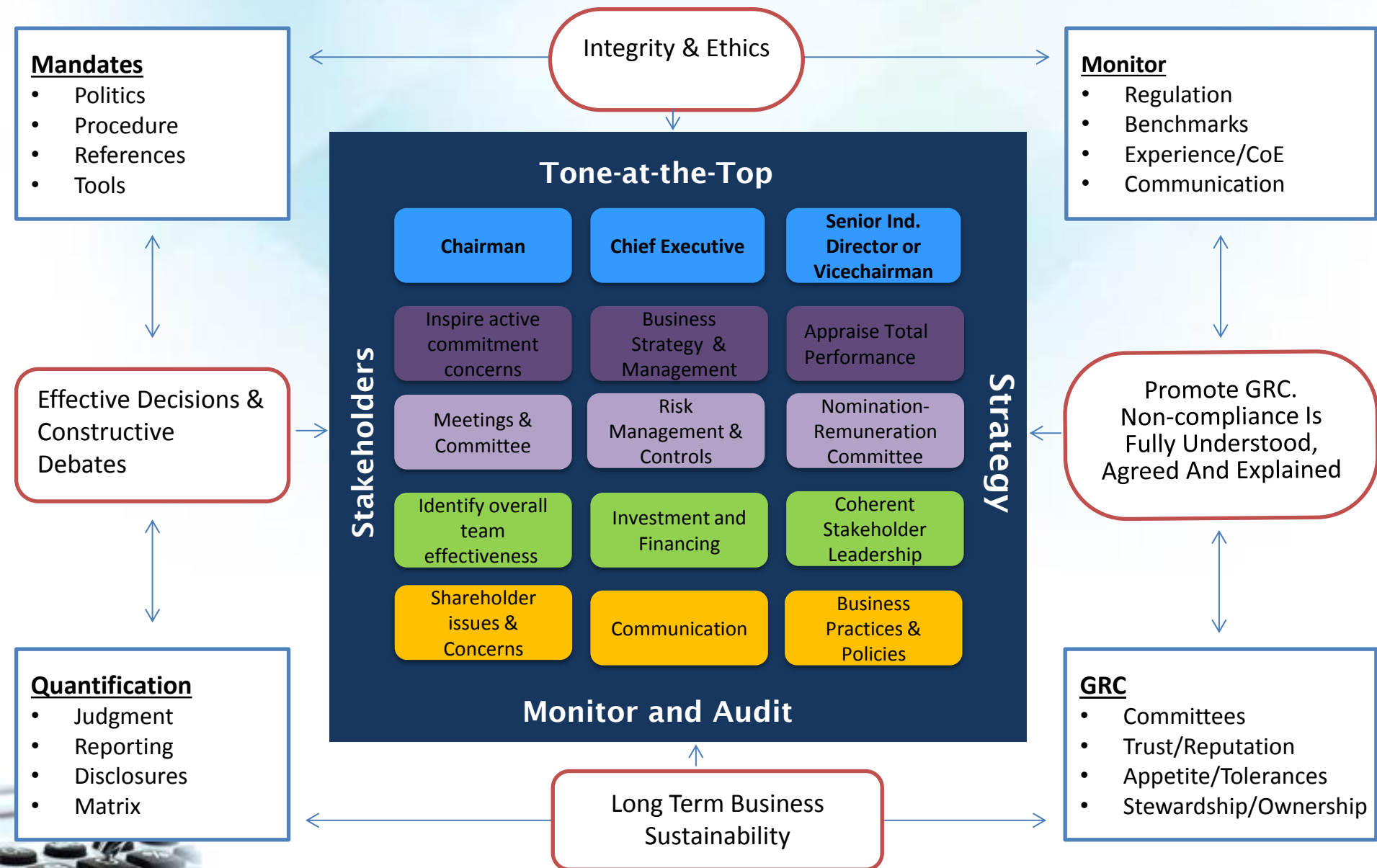
Framework to address Governance exposure



Framework to monitor Governance



Formalised & Segregating Roles & Responsibilities



Addressing the Roadmap & Framework Components

- Assessment/audit of compliance mandate
- GRC codex and committee and individual charters
- Certification, independent endorsement
- Communication plan, controls, test
- Design and implementation of GRC processes. business and IT
- Embed the GRC activities overview, monitor, reporting/disclosures
- Facilitation, advice and assistance on Design of GRC Implementation
- Document the GRC framework & methodologies for evidence
- IT Framework (COSO, ITIL, Cobit, ISO)
- GAP analysis of existing and necessary GRC processes and development
- Integrating GRC in existing processes and design of new processes
- IT at transaction level and automation
- Maturity assessment of GRC mandates & effectiveness and profile
- Measuring and reporting GRC effectiveness to Board/AC.
- Methodology, documentation, test, approvals
- Minimizing organizational burden and costs
- Monitoring and improvement plan
- Training, education and awareness efforts
- Overall financial and operation risk assertions from framework:
 - Analysis, Assessment, Matrix, Rights
- Root cause analysis, controls metrics, test, scoping and Planning the areas of e.g. fraud or corruption, CSR
- Self-assessment methodologies
- Sustainable working practices
- The GRC responsibility/function & project
- Tools, business & IT processes in scope related to master data



Kersi F. Porbunderwalla is the Secretary General of Copenhagen Compliance®. The team develops and implements accounting, finance and GRC applications, frameworks and roadmaps to implement sustainable processes. Kersi is an accountant, consultant, lecturer, instructor, researcher, analyst & practitioner with a network of qualified associates/consultants on 4 continents

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