THE CORPORATE GOVERNANCE RATING SYSTEM

Soji APAMPA
January 29, 2014
The Issues

1. Macro-economic instability caused by large and sudden capital inflows
2. Major failures in corporate governance at banks
3. Lack of investor and consumer sophistication
4. Inadequate disclosure and transparency about financial position of banks
5. Critical gaps in regulatory framework and regulations
6. Uneven supervision and enforcement
7. Unstructured governance & management processes at the CBN/weaknesses within the CBN
8. Weaknesses in the business environment

FPI vs Domestic Investment

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FPI Flow ('Billion')</th>
<th>Transactions on the Exchange (N’ Billion)</th>
<th>FPI (%)</th>
<th>Domestic Investors (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>615.63</td>
<td>4,171.63</td>
<td>14.8</td>
<td>85.2</td>
</tr>
<tr>
<td>2008</td>
<td>787.4</td>
<td>4,758.27</td>
<td>16.5</td>
<td>83.5</td>
</tr>
<tr>
<td>2009</td>
<td>424.6</td>
<td>1,371.43</td>
<td>31</td>
<td>69</td>
</tr>
<tr>
<td>2010</td>
<td>577.3</td>
<td>1,598.93</td>
<td>36.1</td>
<td>63.9</td>
</tr>
<tr>
<td>2011</td>
<td>847.9</td>
<td>1,269.83</td>
<td>66.8</td>
<td>33.2</td>
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<tr>
<td>2012</td>
<td>808.4</td>
<td>1,317.00</td>
<td>61.4</td>
<td>38.6</td>
</tr>
<tr>
<td>March, 2013</td>
<td>217.56</td>
<td>510.10</td>
<td>42.7</td>
<td>57.3</td>
</tr>
</tbody>
</table>

N.B. Stock Market Transactions is defined to include Purchases and Sales

Source: NSE

- Domestic investors’ stake which dropped from 85.2% in 2007 to 33.2% in 2011 has continued to increase as they recorded a 38.6% stake in 2012 and 57.3% so far as at March 2013.

- Of Nigeria’s $48bn in reserve, about $18bn is due to foreign investors. Nigeria is happy FPI is increasing but does this give a False sense of security?
Nigeria’s Sovereign Credit Rating

Extraordinary levels of corruption
Weak Institutions
Slow Reforms
Vulnerability to oil Price drops

Lower credit rating
• S & P: BB-
• Fitch: BB-
Nigeria in the “Trash ratio” category
*Less than 10% of portfolios invested

Investor Confidence not High Enough

‘Hot Money’ Speculative/Short Term
Those who can, go abroad to raise capital
Higher rate of Borrowing than could be

Expensive for Nigeria too - some analysts suggest for every $1 that comes into Nigeria, $1.4 leaves with the investor
Locus Of Control

Business, Government and Civil Society; each on its own will be hard pressed to improve quality of Corporate Governance in Nigeria due to the systemic nature of the challenges – such as mutual capture, weak institutions and perverse incentives

SELF-REGULATION
Strong Motivating Force
+ve, -ve Outcomes
Agreed Standards

REGULATION
Standards Monitoring
Effective Controls
Effective Sanctions

COLLECTIVE ACTION
Incentives, Leverage, Fairness
Motivation, Incentives, Standards
Monitoring, Control, Social Capital
Sanctions, Rewards

[Apampa, 2008]
What we need?

A Control Mechanism!

- We need to find an appropriate corporate governance response to what was a systemic failure

- A response which corrects for the failure of self-regulation by corporate bodies; failure of government regulation; and failure of stakeholder activism whilst strengthening the overall system at the same time
The SOLUTION – A Fix for Nigeria

A **robust corporate governance system** for Nigeria that will incorporate a number of other elements to ensure support for the objectives of regulation such as:

- *Standards setting*,
- *Information-gathering and*
- *Behaviour modification*
Recommendation

• A robust Corporate Governance System that would comprise of 4 dimensions:
  • A Corporate Integrity Dimension
  • A Dimension for compliance with NSE Rules & General governance rules (SEC Code, CAMA with industry-specific rules added as relevant)
  • A Dimension reflecting Certification/Accreditation of Directors & Specialist Committees such as Audit, Ethics, Risk and so on and finally
  • A Dimension reflecting the confirmation of expert stakeholders of a company’s integrity
Why the CGRS is necessary

GOVERNANCE ARRANGEMENTS IN ZONE OF OPERATIONS

STRENGTH OF HOME COUNTRY COMPLIANCE REQUIREMENTS

Strong

Weak

Strong

COMPLIANCE EXPECTATION
Participate Where there Could be Competitive Disadvantage

REPUTATION RISK EXPECTATION
Participate to Defend Brand & Evade Sanctions at Home

MARKET RISK EXPECTATION
Participate to Evade Market Sanctions & Position Brand

IMPUNITY RISK EXPECTATION
Participate Where there could be Competitive Advantage

Weak
Other Expected Impacts

**Competitive Advantage**
- Improved investor confidence
- Higher Valuation of the firm

**Access to cheaper funds**
- Longer term investments

**Enhanced liquidity and tradability**
- Better operational performance
- Improved financial performance
Governor of the Bank of Thailand

- Reacting to the crash of the Asian Tigers:

  “Even strong economies, lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investors confidence collapse”

  M.R. Chatu Mongol Sonakul (1999)
Do Right, Do Well!!

• ‘The investment regime and the environment for business ranked second in order of importance among factors determining foreign investment location’. IMF-Capital Markets Consultative Group

• A study by Korean and US researchers finds that a well-governed firm in Korea traded at a premium of 160 percent to poorly governed firms

• An ABN/AMRO study demonstrates that Brazil-based firms with the best corporate governance ratings garnered 2004 P/E ratios that were 20% higher than firms with the worst governance ratings

• A study of Russian firms shows that a worst-to-best improvement in corporate governance predicted a huge 700-fold (70,000%) increase in firm value

• A Harvard/Wharton study shows that if an investor bought shares in US firms with the strongest shareholder rights, and sold shares in the ones with the weakest shareholder rights, that investor would have earned abnormal returns of 8.5 percent per year
An Example: The Novo Mercado Story

1999

- Investment drought
- Low Liquidity levels
- Less than 80,000 individual investors

Dec 2000

- Bovespa (Brazil’s stock Exchange) Launches Novo Mercado

2000 - 2007

- Growth Phase

2007 - Date

- 100 companies (37% of listed companies which make up 65% of market capitalization)
- Over 81 IPOs
- Over 500,000 individual Investors (Novo Mercado)

**BOVESPA decided to establish the Novo Mercado Index that was available to companies that commit to adopting higher standards of corporate governance with the hope that reducing investor perceptions of risk would have a positive effect on share values and liquidity.**
The Novo Mercado Story

- **The results were phenomenal!**
  
  *Foreign investors were attracted, and companies issued more secondary offerings.*

- Stopped Brazilian companies from relocating to more shareholder friendly jurisdictions and global regulatory competition which saved the economy.

- The Novo Mercado companies currently outperform those on the BOVESPA index.

- In October 2007, the stock exchange went public; its market capitalization became the largest among all emerging market countries.

Evidence shows that Novo Mercado is one of the drivers for increased demand in Brazilian equity.
Brazil Weathered the financial crisis of 2008-2009

‘Investors needed a safe harbor – and that’s precisely what Brazil and Novo Mercado offered them,’

Ricardo Florence, President of IBRI (Brazilian Investor Relations Institute)

‘If it weren’t for our higher governance standards, it would have been much more difficult to convince investors and financial institutions that the company was on the right path to get out of the crisis stronger than it entered. In hard times, credibility is crucial’.

Adriana FernandesLana, IR manager at Magnesit
Brazil: Current Picture

- Brazil is currently ranked 4th in terms of FDI Inflows
- Rated BBB on both S&P and Fitch

Source: UNCTAD FDI Prospects
The NSE and CBi have partnered to develop the CGRS

Established in 1997 to empower people, their transactions, systems & Institutions against corruption.

It is hoped that in time it will reposition the idea that Nigerian businesses are fraudulent and instead foster international relationships that can lead to meaningful exchange.

Corporate Governance Rating System

Independent International Observers

Research Interest in what Sanctions & Incentives to Apply to improve Business anti-corruption Compliance

Vision to become the gateway to African Markets
The CGRS is also integral to the Premium Board & CGRS Index

Rating → Ranking → Tradable Index

One of three requirements for listing on the Premium Board (to be launched by the NSE this year)

PREMIUM BOARD

2014

2015
THE CGRS RATIONALE & METHODOLOGY
Our Working Definition of Corporate Governance

The OECD Principles of Corporate Governance states:

"Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."
The Starting Point

- We asked questions regarding what **constitutes acceptable knowledge pursuits in Corporate Governance** in Nigeria & agreed a Corporate Governance Index would be worthwhile.

- We addressed questions regarding the **nature of challenges of corporate governance** in Nigeria. For example:
  - How does the world we are trying to describe operate?
  - What should constitute acceptable data?

- Finally we examined **our values and value judgments** to ensure we are fully aware of their potential impact on the study – for instance the need for the issue of corruption to be adequately covered.
Four perspectives

<table>
<thead>
<tr>
<th>Subjectivist</th>
<th>Radical Change</th>
<th>Objectivist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radical Humanist (Emancipation)</td>
<td>Radical Structuralist (Power &amp; Hierarchy)</td>
<td></td>
</tr>
<tr>
<td>Interpretive (Absurdities)</td>
<td>Functionalist (Cause &amp; Effect)</td>
<td></td>
</tr>
</tbody>
</table>

**Assessment of who is a “good” company and who is not “good” to name & shame**

**Assessment of relationship between mgt, board shareholders and other stakeholders**

**Interpretation of the realities of the governance of listed companies**

**Assessment of facts about and reasons for Company performance on governance**

Burrell and Morgan (1979:22), Saunders et. al. (2007:112)
The CGRS is based on a combination of approaches.

1. Assessment of facts about and reasons for company performance on governance.
2. Interpretation of the realities of the context for governance of listed companies.
3. Assessment of what is a “good” company and what is not “good” to name & shame.
4. A combination of the first 3 was adopted.
CGRS Components

- NSE Rules & Listings Regulations
- SEC Code of Corporate Governance
- Ethics & Compliance Anti-Corruption Programme
- Track Record
- Company Reputation

Corporate Integrity (40%)

- Percentage of directors certified as possessing minimum understanding of their fiduciary responsibilities
- Certified as possessing minimum understanding of roles & responsibilities on specialist committees

Fiduciary Awareness (10%)

Corporate Compliance (50%)

- NSE Rules & Listings Regulations
- SEC Code of Corporate Governance
- Ethics & Compliance Anti-Corruption Programme
- Bonafides Established
- Track Record
Overall Scoring System

Corporate Governance Rating

50% CORPORATE COMPLIANCE Score
- Corporate Compliance Self-Assessment Tool
  - Shareholder and Stakeholder Rights: 20
  - Structure and Responsibilities of Board of Directors: 15
  - Transparency & Disclosure: 25
  - Internal & External Audit and Control: 10
  - Business Ethics and Anti-Corruption: 30

10% FIDUCIARY AWARENESS Score
- Fiduciary Awareness Training Tool
  - Fiduciary Awareness Test: 100

40% CORPORATE INTEGRITY Score
- Expert Multi-Stakeholder Group (EMSG)
  - EMSG Assessment: 20
- Structured Stakeholder Engagements
  - Stakeholder Assessment: 20
The Self-Assessment Tool is based on:

- The **total score for ‘Corporate Compliance’** (max. 50%) will be based on:
  - **Input:** Self-assessments
  - **Provider:** Companies
  - **Hierarchy level:** Indicator

*Companies need to score 35% or more of total score to move on to the next level.*
The Self Assessment Tool

Companies will be responsible for completion of the Self Assessment because they are in the best positions to report on their policies and procedures

▪ One major risk
  ○ Companies may self-assess better than they are in reality

▪ Risk mitigation strategies
  ○ Self-assessment of companies is made public as a **Dashboard** on the CGRS website ([www.cgrsng.com](http://www.cgrsng.com)) from where users can drill down into forms and documents

  ○ Random reviews of companies by Cbi

  ○ Relevant sanctions in case of overstatements (e.g. impact on Corporate Integrity score)
Activities to reduce the burden of companies to provide data through self-assessments

- The Self Assessment Tool
  - IT-based solution for provision of data
  - Provision of indicators (and descriptors) and a clear and comprehensive Scoring Manual to companies
  - Bulk of the effort is done once, at the start and thereafter only updates required
## The Self Assessment Tool - DASHBOARD

### Completion Date:

**Company Name:**

<table>
<thead>
<tr>
<th>Overall Dashboard</th>
<th>Ave. Score</th>
<th>% Score</th>
<th>Weighting</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Ethics &amp; Anti-Corruption</td>
<td>6.1</td>
<td>61.1</td>
<td>30.0%</td>
<td>18.3</td>
</tr>
<tr>
<td>Internal &amp; External Audit and Control</td>
<td>7.2</td>
<td>71.8</td>
<td>10.0%</td>
<td>7.2</td>
</tr>
<tr>
<td>Shareholder &amp; Stakeholder Rights</td>
<td>6.9</td>
<td>68.9</td>
<td>20.0%</td>
<td>13.8</td>
</tr>
<tr>
<td>Board Structure &amp; Responsibilities</td>
<td>7.5</td>
<td>74.6</td>
<td>15.0%</td>
<td>11.2</td>
</tr>
<tr>
<td>Transparency &amp; Disclosure</td>
<td>6.7</td>
<td>67.0</td>
<td>25.0%</td>
<td>16.8</td>
</tr>
</tbody>
</table>

_EIGHTHED TOTAL OF CORPORATE COMPLIANCE SCORE_ 57.2

<table>
<thead>
<tr>
<th>CI Indicative Key &amp; Scoring Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
</tr>
<tr>
<td>Moderate</td>
</tr>
<tr>
<td>Adequate</td>
</tr>
<tr>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

### CI Indicators & Scoring Ranges

<table>
<thead>
<tr>
<th>Total Indicators</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

### Business Ethics & Anti-Corruption

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Max. Score Available Points</th>
<th>Total Score (Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insider Dealing (CI 2)</td>
<td>10</td>
<td>6.0</td>
</tr>
<tr>
<td>Anti-Corruption Commitment and Policies (CI 6)</td>
<td>10</td>
<td>1.2</td>
</tr>
<tr>
<td>Anti-Corruption Management Procedures (CI 7)</td>
<td>10</td>
<td>7.2</td>
</tr>
<tr>
<td>Anti-corruption Monitoring and Evaluation Mechanisms (CI 8)</td>
<td>10</td>
<td>7.1</td>
</tr>
<tr>
<td>Disclosure of Anti-Corruption Efforts (CI 9)</td>
<td>10</td>
<td>6.4</td>
</tr>
<tr>
<td>Conflicts of Interests (CI 17)</td>
<td>10</td>
<td>7.5</td>
</tr>
<tr>
<td>Good Governance Commitment (CI 34)</td>
<td>10</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>VERALL</strong></td>
<td>10</td>
<td>6.1</td>
</tr>
</tbody>
</table>
The Certification is based on the following modules:

1. Background and Rationale of the Fiduciary Duty
2. Business Ethics & Anti-Corruption
3. Internal & External Audit & Control
4. Shareholder & Stakeholder Rights
5. Board Structure & Responsibilities
6. Transparency & Disclosure

An E-Learning based Fiduciary Awareness Course has been developed in partnership with Phillips Consulting.
The Fiduciary Awareness Certification

The Companies will send a current list of their Directors that will be compared against list of those that have been Certified on Fiduciary Awareness to the Secretariat.

All Directors should have this certification for maximum score otherwise score will be pro rata the number of certified directors.
Corporate Integrity Assessment

*Only companies that score 40 and above will be put though for the Corporate Integrity Assessment*
Stakeholder Structured Interviews

15-20
Staff/Employees
Middle & Senior Managers

10-20
Suppliers/Business Partners

5-7
Analysts/Investors

3-5
Regulators

This process will be coordinated by an Assessment Consultant who will be selected using a rigorous process.

- Secretariat Administered, Automated Questionnaires
- The Objective is Theme Saturation. Aspects of anonymity traded-off for reliability of results.
EMSG Panel Discussions

• The Expert Multi-Stakeholder Group (EMSG)’s role is to provide views, advice, recommendations and informed opinions to the Ratings Committee on the CG Practices of Listed Companies.

• This shall include, but not be limited to:
  • A Panel Review the CG Practices of listed companies as they understand it
  • Provide advice and views on existing and emerging issues affecting individual listed companies which may adversely affect its rating and position in the CGRS
  • Highlight new issues for consideration that may affect the integrity of the CGRS and overview strategies to mitigate those issues
THE RATINGS PROCESS
Overview of the Ratings Process

This process consists of 3 main stages that are related to the CGRS approach

1. Corporate Compliance Assessment
   - CGRS Corporate Compliance Self-Assessment Tool

2. Verification of BOD Fiduciary Awareness Certification
   - Online Certification of the basics

3. Corporate Integrity Assessment
   - Online Structured Stakeholder Questionnaire
   - EMSG Panel Focus Group Discussions
The Corporate Compliance Assessment Process

- Secretariat sends Self Assessments to the Company Secretaries/Compliance Officers for completion
- CS Completes Self Assessment
- MD/CEO signs attestation
- Completed Assessments + Attestation are sent back to the CGRS Secretariat
- Scores are automatically generated and stored in a database
- Results are compiled by consultant and submitted to the Ratings Committee

The whole process should take about 6 weeks

At least once in 3yrs, all company submissions will be audited to verify their integrity.
The Fiduciary Awareness Certification Process

The course is available on demand and registration can be made online and offline version can be ordered.

Registered Directors are sent offline training materials (Dongle) with replication to server when online.

Examinations are available on demand but time of invigilation must be booked in advance (every Friday for example).

The Fiduciary Awareness Test can be booked anytime as it is online, offline Computer Based Training.
Corporate Governance Rating Process Funnel

Filter 1: Compliance (35% Total Score or Greater)

Filter 2: Fiduciary Awareness (Cumulative 40% Total Score or Greater)

Filter 3: Corporate Integrity (70% Cumulative Score or Greater)
After assessment, the results are compiled and analyzed

1. Corporate Compliance Assessment Tool
2. Results of Fiduciary Awareness Training
3. Stakeholder Interviews
4. EMSG Reviews

Compilation of Results by Ratings Committee (Review) → Verification of Self-Assessment for those scoring >=70% → Submission of final results to the Steering Board → Publication of CGRS
RISKS
Overview of risks

Risks of Corporate Governance Rating System (CGRS)

I. Methodology
   1) Likelihood of occurrence decreases over time

II. Governance
   2) Likelihood of occurrence remains equal over time

III. Results
## I. Methodology Risks

<table>
<thead>
<tr>
<th>Category</th>
<th>Risks</th>
<th>Mitigation activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Methodology</strong></td>
<td>Methodology is not accepted by other stakeholders</td>
<td>▪ Incorporate Nigerian standards and international good practices in CGRS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Review methodology by International Observer and other stakeholders (e.g. Independent International Experts)</td>
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<tr>
<td></td>
<td></td>
<td>▪ Communicate rationales and methodology to relevant stakeholders in a customized manner</td>
</tr>
<tr>
<td></td>
<td>Methodology involves practical challenges</td>
<td>▪ Conduct pilot with limited number of companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Evaluate pilot and forecast overall time and effort</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Evaluate pilot and estimate probability of success</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Start with annual ratings</td>
</tr>
<tr>
<td></td>
<td>Self-assessment is unreliable</td>
<td>▪ Publish self-assessments of companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Conduct an audit by independent third party</td>
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<tr>
<td></td>
<td></td>
<td>▪ Establish sanctions in case of overstatements</td>
</tr>
<tr>
<td></td>
<td>Perception-based assessment of Expert Multi-Stakeholder Group is biased</td>
<td>▪ Choose senior industry experts for assessment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Limit weight for overall ‘Corporate Integrity’ score</td>
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<tr>
<td></td>
<td></td>
<td>▪ Separate perception-based from fact-based input</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Establish process for potential conflict of interests</td>
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<tr>
<td></td>
<td></td>
<td>▪ Publish Name of EMSG Chair</td>
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</tbody>
</table>
## II. Governance Risks

<table>
<thead>
<tr>
<th>Category</th>
<th>Risks</th>
<th>Mitigation activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>(Perceived) conflict of interests of NSE</td>
<td>• Communicate role of NSE in overall process</td>
</tr>
<tr>
<td></td>
<td>(Perceived) conflict of interests of CBi</td>
<td>• Communicate role of CBi in overall process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Engage international observer</td>
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<tr>
<td></td>
<td></td>
<td>• Define clear process for selection of Expert Multi-Stakeholder Group (EMSG) and prohibit CBi to participate</td>
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<tr>
<td></td>
<td></td>
<td>• Assign external consultants randomly</td>
</tr>
<tr>
<td></td>
<td>(Perceived) conflict of interests for Expert Multi-Stakeholder Group</td>
<td>• Communicate role of EMSG</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limit duration of members in EMSG to 2 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limit perception input for overall ‘Corporate Integrity’ score</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(e.g. to max. 40% and EMSG only half of that)</td>
</tr>
<tr>
<td></td>
<td>(Perceived) conflict of interests for external consultant</td>
<td>• Communicate role of external consultant in overall process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Select external consultants with outstanding track record and experiences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Prohibit external consultant to accept undue advantage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bar external consultant for period of time from business at reviewed company</td>
</tr>
</tbody>
</table>
### III. Results Risks

<table>
<thead>
<tr>
<th>Category</th>
<th>Risks</th>
<th>Mitigation activities</th>
</tr>
</thead>
</table>
| **Results**                           | **Discrepancies between rating and company conduct based on rumors** | - Add to disclaimer  
- Request clarification (*private request*)  
- Assess allegations through CGRS Sanctions Board (comprising NSE, CBI and representatives of the companies on the rating)  
- Determine next steps on a case-by-case basis |
| **Discrepancies between rating and company conduct based on public allegations (e.g. media)** | | - Add to disclaimer  
- Request clarification (*first: private request, if not appropriate response by company: public request*)  
- Assess allegations through CGRS Sanctions Board:  
  - In case allegations are regarded as severe, company will be removed from rating  
  - Otherwise, company will remain on rating  
  - In both cases, an appropriate communication will be issued |
| **Discrepancies between rating and company conduct based on official charges** | | - Add to disclaimer  
- Request clarification (*public request*)  
- Disqualify company from participating in rating until final verdict and in case of conviction remove company from the rating (*public communication*) |
THE CGRS GOVERNANCE STRUCTURE
The CGRS Governance Structure

- CGRS Steering Board
- Secretariat (for Administration) CBi
- Selection Committee
- Ratings Committee
- Interventions Committee
The Steering Board (SB)

The SB serves as the governing body responsible for defining the system’s scope and structure, guiding development and will be responsible for approving the companies on the CGRS prior to its official release and launch.

**Membership:** The Board shall be composed of 7 individuals (including the Chair) from the following:
- 2 representatives from CBI
- 1 representative from NSE
- 1 representative e.g. from the SEC or FRC
- 1 organized Civil Society Expert – e.g. a Media/PR Expert
- 1 Corporate Governance Expert
- 1 Local Representative of an International Private Sector Development/Ratings Agency etc.
The Selection Committee (SC)

The SC serves is responsible for coordinating the selection of EMSG members (Long list and Sector) and Consultants for the stakeholder assessments & verification of self-assessments done by companies.

**Membership:** The Committee shall be composed of 5 individuals (including the Chair) from the following:
- 1 representative from CBi/NSE
- 1 from Professional/Business Associations
- 1 independent Analyst/Academic
- 1 independent with Investigative/Due Diligence Skills
- 1 organized civil society (of high repute and standing in society)
The Ratings Committee (RC)

The RC serves is responsible for coordinating the entire ratings process and will also have the specific task of auditing the process and ensuring quality control mechanism are in place and implemented.

Membership: The Board shall be composed of 5 individuals (including the Chair) from the following:

- 1 representative of the CBi
- 1 representative of a ratings organisation
- 1 independent Analyst/Academic
- 1 independent Corporate Governance Expert
- 1 independent from organized civil society (of high repute and standing in society)
The Interventions Committee (IC)

The IC serves to clarify the procedures for interventions including coordinating investigations on ranked companies that have a Prima facie Indications of a breach of the corporate governance standards of the CGRS and recommendations of the appropriate actions for the implicated rated companies.

Membership: The Board shall be composed of 5 individuals (including the Chair) from the following:

- 1 representative of the CBI
- 1 legal expert from NSE
- 1 organized civil society expert (a legal expert)
- 1 representative of rated companies (plus 3 alternates from different sectors representing small, mid and large cap companies)*
- 1 independent Media/PR Expert

*Listed companies will select the representatives to serve on this committee.
The CGRS Secretariat

The Secretariat is responsible for coordinating the daily administrative tasks for the CGRS.

The secretariat ensures continuity between one board regime and the next.
CGRS Timelines

- Testing of Tool with participating companies: March – April 2014
- Announcement of 1st set of CGRS rated companies and Launch of CGRS: May 2014

Being monitored by HVSG and reviewed by international experts.
Q&A

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THANK YOU