Core Principles of a Corporate Governance Framework (CGF)

1. **A CGF should aim promote business ethics, fairness, transparency, accountability, responsibility and market efficiency.**

   Markets can be transparent and efficient only if participants are educated to understand and encouraged to implement accountability and ethics. Business ethics, transparency and market efficiency are key pillars of corporate governance.

2. **A CGF should be flexible and enforceable.**

   A CGF should be flexible enough to allow fast adaptation to market changes and sufficiently enforceable to ensure that rules are respected. A CGF should be a mix of primary, secondary legislation and voluntary codes. Secondary legislation and voluntary codes should be modelled on primary provisions. The compliance with the codes should be monitored and the market should receive detailed and reliable information about implementation, and compliance.

3. **A CGF should ensure clear division of tasks, rights and responsibilities between management and shareholders.**

   A clear division of tasks between company's bodies is essential for an effective and transparent management of the company in a competitive market. Rights and responsibilities follow such division of tasks. Shareholders should have the possibility to participate effectively in key corporate governance decisions. The management should be free to run the company within the boundaries of the shareholders' and charter's mandate. Shareholders should have all information to control and assess the management of the company.

4. **Shareholders should have easy access to their rights.**

   It is not only important that rights of shareholders are clearly stated, but also that shareholders – both national and foreign - have easy access to their rights. Essential rights include information, voting and profit sharing. A CGF should allow use of electronic communication and easily accessible and transparent voting in absentia procedures.

5. **Shareholders of the same class should be treated equally.**

   The principle of the equal treatment of shareholders of the same class is a key issue in corporate governance. All shareholders should have the same possibility to take profit from increase of corporate value according to their shareholding. In case of change of control, shareholders should be fully informed and free to decide whether to sell their shares or not. Anti-takeover measures should be approved by shareholders.

6. **Stakeholders[i] should have the opportunity to obtain effective redress for violation of their rights.**

   Stakeholders should have the possibility to obtain redress for violation of their rights when stated by law or agreement. Effective methods should be in place to obtain redress at a reasonable cost and without excessive delay. A correct balance should be found between safe harbours[ii] and the right to seek compensation.

7. **A CGF should ensure timely, accurate and verified information disclosed to all stakeholders.**

One of the essential rights of stakeholders is to receive regular and reliable information for a sound assessment of the company management and profitability. A CGF should ensure that investors, creditors, employees, the market, the regulator and all other stakeholders can rely on the information received by the company and act accordingly. In particular, financial information should be prepared in accordance with high quality standards of accounting. The integrity of the market requires information be reliable, timely disclosed, regularly updated and easily accessible.

8. The shareholding structure of a company should be transparent.

Arrangements, mechanisms and structures aiming to lengthen the control chain (beyond known controlling parties) or to exercise a degree of control not corresponding to the level of risk should be disclosed. Pyramid structures and cross shareholdings are usual but should not be transformed into abusive mechanisms. The market should be promptly warned about the presence of such structures, sufficiently to assess any lack of transparency or accountability/auditing problems.

9. A CGF should put in place a structure able to independently verify and safeguard the integrity of a company's financial reporting.

Internal and external control mechanisms should be tailored taking into consideration the public interest of a transparent market. Sanctions should be appropriate and tailored to discourage any possible abuse. Rating companies and firms providing recommendations to the market should be able to express their overview independently. Control mechanisms should be able to assess and verify all international cross border participations and activities.

10. The management should act at all time in the interests of the company and the shareholders.

Abusive behaviours by the board should be prohibited and discouraged. Board remuneration and compensation schemes should be approved by shareholders. Material interests by executives in transactions or matters affecting the company should be disclosed. The management should include independent directors in charge of specific tasks for the avoidance of conflicts of interest.

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[i] A stakeholder is a person who holds money or other property while its owner is being determined. In the last decades of the 20th century, the word "stakeholder" has evolved into a term of art in the field of business management and the concept has been broadened to include everyone with an interest (or "stake") in what the entity does. That includes, among others, shareholders, creditors, employees, and suppliers.

[ii] There is some risk that a legal system, which enables any investor to challenge corporate activity in the courts, can become prone to excessive litigation. Thus, many legal systems have introduced provisions to protect management and board members against litigation abuse in the form of tests for the sufficiency of shareholder complaints, so-called safe harbours for management and board member actions (such as the business judgement rule) as well as safe harbours for the disclosure of information. In the end, a balance must be struck between allowing investors to seek remedies for infringement of ownership rights and avoiding excessive litigation.