



THE CENTRAL CHAMBER OF COMMERCE OF FINLAND

CORPORATE GOVERNANCE

New codes in Finland & Iceland

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New CG Recommendation for Listed Companies in Finland

- HEX, Central Chamber of Commerce and Confederation of Industry and Employers appointed a working group in February 2003.
 - Working group members represented trade and industry, stock exchange and auditors
- Working group prepared a recommendation
- HEX, CCC and CIE approved
- Recommendation announced December 2, 2003
- Entry into force July 1, 2004
 - exceptions

Background to the new Recommendation

- Increased public interest in CG
- International corporate scandals
- New CG codes
 - Sarbanes Oxley Act
 - Combined Code (2003)
 - Bouton Report
 - German Kodex
- EU interest in CG
 - Winter Report and Commission's Action Plan
- Previous Finnish code from 1997

Self-regulation or law

- Different approaches
 - Europe: recommendations, self-regulation
 - USA: Sarbanes Oxley Act
- Why self-regulation
 - legislation process not suitable for detailed CG codes
 - participation of business community
 - expertise
 - helps to win acceptance among companies
 - flexibility, possibility to review codes regularly

Self-regulation – problems?

- how to enforce codes
- Finnish solution
 - Recommendation given by major organizations and stock exchange
 - Stock exchange has included the Recommendation in its rules – binding for listed companies
 - Comply or Explain -principle
- credibility – is the code on high level?

Combination of self-regulation and legislation

- different approaches have their advantages and disadvantages
- CG Recommendation, company law and stock exchange rules form the CG system together
 - comparison of different national systems requires knowledge of all these fields

Comparison of Finnish and Icelandic CG systems

- Finland and Iceland have detailed company laws unlike many other countries
 - EU action plan for modernising company law in Europe – many points are already covered in Finnish and Icelandic company law
- ICEX rules cover some issues that HEX rules don't
 - director compensation in ICEX rules
 - Finland: compensation in CG Recommendation
 - form differs but contents don't

Comparison of Finnish and Icelandic CG systems

- great similarities
- both CG systems are on high international level
- e.g. director independence – similar recommendations
- neither CG code has included Corporate Social Responsibility issues

Differences between Finnish and Icelandic CG systems

- Finnish Recommendation is for listed companies
 - a separate recommendation for unlisted companies is under discussion
- Icelandic Guidelines given for listed and unlisted companies, and companies owned by State and municipalities

Differences between Finnish and Icelandic CG systems

- Nomination committee in Finland
 - to prepare board members nomination and compensation
- Corporate Governance Statement in Finland
 - website on Internet

Key issues of the Finnish Recommendation

- Transparency
- Independence of directors
- Committee work



Transparency

- Investors require information
 - to make decisions concerning investments
 - international trend
- It is not enough that a company operates in an appropriate manner if investors don't know this
- Investors need to receive information on the policies and actions of the company

Transparency in Finland

- Advance information before AGM
 - nomination of directors
 - nomination of auditors
- Information on directors to be disclosed
 - biographical details
 - independence
 - holdings in the company
 - compensation
 - similar in Iceland

Transparency

- Information on managing director to be disclosed
 - also retirement age and pension details
 - period of notice, compensation based on termination of contract
 - Finnish Recommendation, ICEX rules
- Compensation system
 - Finnish Recommendation, ICEX rules

Website on Internet

- Importance of electronic investor information
- EU emphasis
- Finnish Recommendation: all listed companies shall have a website on Internet
 - well structured pages good PR for company
- Corporate Governance Statement
 - Internet – use of links possible
 - information to be reported to investors

The Future of CG

- great interest in EU
 - EU recommendations to be given?
- Commission's consultation on director remuneration
 - until April 12th, 2004
 - open consultation
 - Finnish and Icelandic systems fulfil these demands in most issues
- EU continues its company law and CG projects