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# THE CRITICAL THINKING OF SOME WESTERN EUROPEAN CORPORATE GOVERNANCE STANDARDS AFTER FINANCIAL CRISIS, CORPORATE SCANDALS AND MANIPULATION

Case study

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## Keywords

Corporate governance standards  
Board structure  
Code of best practice  
Financial crisis  
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Market manipulation  
Internal audit

## JEL Classification

G30

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## Abstract

*After the recent global crisis, corporate scandals and bankruptcy in US and Europe, there is some certain evidence on weak auditing, risk management, accounting and audit system. This paper chooses a different analytical approach and among its aims is to give some systematic opinions on corporate governance criteria as a benchmark for stock markets.*

*Firstly, it classifies limited Western European representative corporate governance (CG) standards into two (2) groups: The Netherlands and Belgium latest CG principles covered in group 1 and, group 2, including corporate governance principles from Italy and Austria, so-called relative good CG group, while it uses OECD and ICGN principles as reference. Secondly, it identifies through analysis the differences and advantages between the above set of standards which are and have been used as reference principles for many relevant organizations.*

*Third, it establishes a selected comparative set of standards for Western European representative corporate governance system in accordance to international standards. Last but not least, this paper covers some ideas and policy suggestions.*

## 1. Introduction

After corporate scandals happening during and after global monetary and financial crises, it is necessary to re-evaluate the code of corporate governance. In reality, many nations re-issue their principles of corporate governance as guidelines for their market and companies. This paper selects an easy-reading writing style, and it finds out that there are still some academic words that need to be explained in further. The organization of paper contents is organized as following. As our previous series of paper, Research literature and theories are covered in the first two sessions. Next, it is followed by introduction of our research methodology in session 3 (3<sup>rd</sup>). Continuously, session four (4) covers our familiar four (4) groups of empirical findings. And our conclusion and policy suggestion is covered in the fifth (5<sup>th</sup>) session. Before last, there is an exhibit session which covers some summary of this paper's analysis and comparison. And lastly, a glossary note is provided with information for reference and because of reducing repeating terminology.

## 2. Body of Manuscript

### Research literature review

There are many and controversial opinions on corporate governance theories and practices. For example, Jensen and Meckling (1976) presented their conceptual agency theory on the separation of ownership and management. Belgian Code 2009 stated that corporate governance is a set of rules and behaviours which determine how companies are managed and controlled.

Besides, Thailand 2006 Code defines CG as a set of structures and processes of the relationship between a firm's board of directors, its MGT and its shareholders to boost the firm's competitiveness, growth and long-term shareholder value taking into account the interests of other

stakeholders. Malaysian Code on CG 2012 defines CG as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value.

Additionally, Berger et al (2013) found out that during the financial crisis, bank defaults are strongly influenced by a bank's ownership structure.

Generally, CG refers to the set of systems, processes and structures in which the company is governed.

Because there are not many researches and surveys done in Western European region on CG, next, what is the limited comparative standardized set of so-called comparative Western European corporate governance standards?

### Theory of Corporate Governance, Scandal and Market Manipulation

#### Theory of manipulation

Market manipulation covers errors in the interfering of the market operation and creates false information on price or market for a financial commodity such as stock.

Aggarwal and Wu (2003) suggested a strong role for government regulation to discourage manipulation while encouraging greater competition for information. And more illiquid stocks are more likely to be manipulated and manipulation increases stock volatility. Imisiker and Tas (2011) presented from Istanbul stock exchange, small firms, firms with less free float rate and a higher leverage ratio are more prone to stock price manipulation.

#### Theory of corporate governance and financial crisis

In 2008, OECD also stated that the financial crisis revealed severe shortcomings in corporate governance.

Winter (2011) pointed that after the governance crisis 2001-2003 and the regulatory response through the Sarbanes

Oxley Act and the European CG codes, the financial crisis has revealed persistent governance problems in financial institutions relating to executives, non executives and shareholders. Also, Ezzine and Olivero (2013) found out that effective governance mechanisms enhance the ability of firms to absorb a stock market crisis. Guota et al (2013) pointed that there is the lack of significant impact of corporate governance quality on performance. And well governed firms do not outperform poorly governed firms. Hence, we can see, there exist various views on corporate governance and its importance.

### **Research methodology**

Firstly, we analyze and compare corporate governance principles in each of the two (2) different groups including: 1) Group 1 – Limited Western European CG representative standards including Belgian Code 2009 and The Netherlands Corporate Governance Principles; and 2) Group 2 - Relatively good corporate governance group including Italian Code and Austrian CG principles;

Secondly, we also use international standards of corporate governance such as: ICGN and OECD Corporate Governance Principles and Enhancing Banking CG Code 1999 which have many modifications in corporate governance principles after the crisis period.

Then, we propose what so-called limited comparative Western European corporate governance principles which are aiming to create a basic background for relevant corporations interesting in different aspects of corporate governance subjects and functions as the recommendation to relevant countries' government and other relevant organizations for public policy and necessary evaluation.

Last but not least, for a summary of our standards, see Exhibit and the below table 1 and 2 in relevant sessions.

### **Empirical findings**

#### **A- Findings on Corporate governance issues after financial crisis, corporate scandals and market manipulation**

Some certain popular issues include: the roles and duties of CEO and senior management.

Also, we can find out another corporate governance (CG) issue, it is the lack of descriptions of an effective risk management system.

#### **B- Findings on Ways of Manipulation during Corporate Scandals**

Several Manipulation Techniques were found out during corporate scandals, but not limited to:

##### **B.1 – The manipulation techniques in the income statement:**

In Waste Management Scandal (1998), a Houston publicly traded waste management firm, there is a report of \$1.7 b in fake income.

##### **B.2 - The manipulation techniques in both the income statement and balance sheet:**

In the case of Refco financial service company, based in New York, entered the crisis and Chapter 11 in 2005 when its CEO had concealed \$430 b in bad debts.

##### **B.3 - The manipulation techniques relevant to international accounting practice code:**

In the scandal case of Global Crossing Ltd., a telecommunication firm, there is a failure in using international accounting standards (GAAP) in making financial reports. The company did not fairly present financial statements.

##### **B.4 - Other manipulation techniques net belong to above classifications:**

In some scandals, there is management manipulation which causes the loss of investments. In the case of Worldcom, a telecomm scandal, directors have used false accounting methods to manipulate stock prices after falling.

### **C- Actions on Preventing or Controlling negative manipulation**

Among necessary actions to control negative market manipulation are, but not limited to, the mechanism of the board and its committees aiming to increase effectiveness and transparency with investors. Accounting and financial reporting process are also taken into account.

### **D- Findings on Construction of Comparative Western European Corporate Governance Standards**

These findings will be shown in a detailed analysis of a model indicated in the later sessions.

**<D.1> - Group 1 – Limited Western European Corporate Governance standards analysis**

#### **The Belgium Code of Corporate Governance 2009**

The Belgian Code 2009 has been modified from its first version in 2004.

Among its advantages are, but not limited to, CG charter and CG statement. CG statement of the annual report covers a description of operation of committees, whereas CG charter includes direct or indirect relationship of the firm and major shareholders.

Generally speaking, The Code focuses on Board, Committees and disclosure of remuneration policy of executive managers mentioned in the CG statement. (see Exhibit 1).

#### **The Netherlands Corporate Governance Principles**

The Netherlands Best practices 2006 cover some major CG matters such as board roles and risk management.

Different from other European Codes, one of its distinctions is clarifying roles of supervisory board (SB). For example, SB should meet regularly and retain effective control over the firm.

For more information, please see Exhibit 2. However, it would be better to mention guidelines of CEO roles.

#### **Comparison between the Belgian and the Netherlands Corporate Governance Principles**

A lot of information on roles of Board is in the Belgian Code 2009. For example, it is pointed that the Board ensures the integrity and timely disclosure of the firm F.S, but it would be better to give guidelines for a compliance officer. (see Exhibit 1).

On the other hand, the Netherlands Code stated roles of SB in ensuring appropriate plans and policies for the firm. Besides, it also oversees business performance.

#### **<D.2> -Group 2 – Relative Good Corporate governance group analysis**

#### **Italian 2002 Corporate Governance standards analysis:**

Good recommendations involved the description of IC system. For example, the firm appoints a person who runs the IC system and report to IC committee, MD, board of auditors.

Besides, it makes a sound point to suggest that IC committee reports to BD every 6 months on the adequacy of the IC system.

A minor point that might be noted here is that it does not describe well the roles of compliance officer; please refer to the Exhibit 3.

In summary, the 2002 Code and supported documents paid well attention to Board and IC committee.

#### **Austrian Code of Corporate Governance standards analysis:**

In the 2012 Code, we recognized that it pays attention to Supervisory Board roles. For example, the SB needs at least 3 members. And it also mentions disclosure of fixed and variable remuneration for each individual of MGT board and SB.

And among its advantages is that it mentions general information on GM published on website. Please refer to Exhibit 4.

On the other hand, it has a disadvantage as it does not describe well CEO roles.

### **Comparison between the Italian and Austrian Corporate Governance Principles**

First of all, there is a focus in the 2012 Austrian CG Code setting itself a benchmark for corporations. Moreover, it states roles of SB and criteria for SB members such as professional experience and independence.

Beside, The Italian Code of Good Corporate Governance 2006 pointed that the Board is in charge of examining transactions with significant impacts on profits, assets and liabilities. It also makes good points of the board role in verifying controls to monitor performance of the firm.

### **The 1<sup>st</sup> Establishment of so-called relatively Good Corporate Governance standards**

This following table is built with the summary of above Commonwealth CG standards.

### **D.3- The 1<sup>st</sup> Establishment of so-called limited comparative Western European Corporate Governance standards**

#### **Comparison of corporate governance standards between <D.1> and <D.2> group**

Before we come to set up a set of general limited standards of corporate governance, we need to review the standards combined in the previous two (2) groups

The advantages of Group 1 consist of, but not limited to, the roles of AC in reviewing the relevance of accounting standards used by firm (see Table 1 and 2). On the contrary, the relative Good Corporate Governance Group standard states well and focuses on the role of Supervisory board (SB). For example, it also mentions w/o SB approval, MGT board member cannot run a business (see 2012 Austrian Code). Last but not least, Italian Code presents the role of GM as the meeting to provide shareholders with information while

complying with the procedure relating price-sensitive information.

### **A so-called Limited Comparative Western European Corporate Governance Set of standards**

Based on the above analysis, we consider building comparative standards for a comparative Western European Corporate Governance system.

### **Conclusion**

To overcome weaknesses from CG during crises, The Belgian Code 2009 suggested Board roles are important skills, the experience and knowledge of a new board candidate should be evaluated (see Exhibit 1).

Besides, the Netherlands Code included guidelines for supervisory board (SB) including an orientation and education program for new members of SB.

In consideration of corporate governance issues analyzed in the previous sessions, we proposed the main and sub quality factors in this paper **a set of general comparative Western European corporate governance standards** in a limited model with selected countries. Though limited, it has some implications for further research and proper recommendations to relevant government and organizations. And it also provides relevant academic and non-academic, lawyer and consultant, board and non-board people with minimum information for further researches.

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## Exhibit

### Exhibit 1 – The 2009 Belgian Code of Corporate Governance (a short summary evaluation)

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Chairman of the board should not be chair of AC; at least 1 with accounting and auditing expertise;	Review IA function; Set up by board;	Terms mentioned in CG charter; New AC members provided with IC, RM, operational, financial, accounting and auditing information;	<u>Not mentioned clearly in the code;</u>	
Nomination committee	Assist board on nomination and planning of CEO; majority comprises independent NEDs;	Set up by board; has remuneration report; with basic, variable remuneration, pension;	Terms mentioned in CG charter; recommend suitable candidates for board; recommends appointment CEO; meet at least twice a year;	<u>Not mentioned clearly in the code;</u>	
Compensation, Remuneration committee	Meet at least twice a year;	Set up by board; remuneration to attract, retain, motivate directors;	Terms mentioned in CG charter; make proposals to board;	<u>Not mentioned clearly in the code;</u>	
CEO /President/MD	<u>Not mentioned clearly in the code;</u>	Join meetings of remuneration committee;	Clear division of duties b.t running the board and running firm business;	<u>Not mentioned clearly in the code;</u>	
The Chair	Promote effective interaction b.t executive MGT and board;	Take necessary measures to develop a climate of trust;	Should not be the same CEO; ensure directors receive accurate, clear and timely information; ensure all directors make knowledgeable contributions to board discussion;	<u>Not mentioned clearly in the code;</u>	
CEO and The Chair relationship	Chairman fully respect executive responsibilities of CEO;	Chairman supports, advises CEO; division of duties clarified;	Chairman establishes close relationship with CEO;	<u>Not mentioned clearly in the code;</u>	
Corporate Secretary	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Board describes roles and tasks of secretary;	<u>Not mentioned clearly in the code;</u>	
Compliance officer	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Board of Directors	Independent (at least 3 NEDs)	One tier board; pay attention to CSR, gender and diversity;	Terms mentioned in CG charter; adapts its governance structure to evolving needs; ensure financial and HR resource in place;	Ensure effective monitor and control;	
Executive/Rep representative director	Independency of judgement and objectivity in making board	In board;	Provide all business and financial information to board;	<u>Not mentioned clearly in the code;</u>	

	decisions;				
Non-executive director	Independency of judgement and objectivity in making board decisions;	In board; ½ board comprises NED;	Help develop strategies and key policies proposed by executive MGT; meet at least once a year w/o CEO and other EDs;	<u>Not mentioned clearly in the code;</u>	
Independent director	Independency of judgement and objectivity in making board decisions;	Not an executive member of board;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CFO	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	AC decides when CFO, CEO attend meeting;	<u>Not mentioned clearly in the code;</u>	
Management team ( <i>Senior Administration</i> )	Board decides structure, powers, duties of MGT;	Careful MGT of potential risks; executive MGT include all EDs;	Board reviews executive MGT performance;	<u>Not mentioned clearly in the code;</u>	
Supervisory for the board	<u>Not mentioned clearly in the code;</u>	Proper supervision of conformity;	Directors have access to independent professional advice;	<u>Not mentioned clearly in the code;</u>	
Supervisory for the managers	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Acts by board;	<u>Not mentioned clearly in the code;</u>	
Internal control	<u>Not mentioned clearly in the code;</u>	A framework of IC set by executive MGT approved by board;	Main features written in CG statement; executive MGT set IC systems to assess, identify, manage risks;	<u>Not mentioned clearly in the code;</u>	
Internal or statutory audit	<u>Not mentioned clearly in the code;</u>	Guaranteed free access to board;	Board supervises IA function;	<u>Not mentioned clearly in the code;</u>	
External audit	<u>Not mentioned clearly in the code;</u>	Guaranteed free access to board;	Comment on the true and fair view of the firm assets and liabilities, financial positions; report AC key matters of FS;	In accordance with financial reporting framework in Belgium;	
Disclosure and transparency	Executive MGT prepare firm disclosure of F.S;	Through CG charter and CG statement;	Allow effective external monitoring;	A high level of transparency; promote effective dialogue with (potential) shareholders;	
Shareholders and Minority Stockholder	A website section describes their rights to join GM;	Respect rights of minority shareholders;	Controlling shareholders can appoint representatives to the board; Board ensures its obligations to shareholders are met;	<u>Not mentioned clearly in the code;</u>	
Accountability	<u>Not mentioned clearly in the code;</u>	Demands on business	Executive MGT accountable to board for the	<u>Not mentioned</u>	



		leaders;	discharge of its duties;	<u>clearly in the code;</u>	
Leadership	<u>Not mentioned clearly in the code;</u>	Chairman responsible for leadership of board;	Board provides entrepreneur leadership;	<u>Not mentioned clearly in the code;</u>	
Employee	<u>Not mentioned clearly in the code;</u>	AC decides whether senior employee join meeting;	At GM, directors answer questions which do not prejudice firm, employee, shareholders;	<u>Not mentioned clearly in the code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	<u>Not mentioned clearly in the code;</u>	Have a policy;	Each board member avoid direct and indirect conflicts of interest;	<u>Not mentioned clearly in the code;</u>	
Code of ethics (conduct)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Group and subsidiaries	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	A policy for transactions with related firms included in CG charter;	<u>Not mentioned clearly in the code;</u>	
CG Code itself	Set a proper balance b.t leadership, entrepreneurship and performance; as well as control and conformity;	Ensure leadership, integrity and transparency in the decision making process;	Help determines firm goals; one-tier board model; has principles, provisions and guidelines;	Create more and faster transparency; long term value creation;	
Management system	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Main features of risk MGT system mentioned in CG statement;	<u>Not mentioned clearly in the code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Exhibit 2 – The Netherlands Code of Governance (a short summary evaluation)

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>	<b>Responsibilities</b>	<b>Objectives</b>	<b>Note</b>
Audit committee	Maintain professional relationship with IA and EA;	Direct communication channels to IA and EA;	SB establish AC;	<u>Not mentioned clearly in the code;</u>	
Nomination committee	<u>Not mentioned clearly in the code;</u>	S.D selected through a formal process;	Has a nomination committee of supervisory directors (S.D);	<u>Not mentioned clearly in the code;</u>	
Compensation, Remuneration committee	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CEO /President/MD	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
The Chair	<u>Not mentioned</u>	<u>Not</u>	<u>Not mentioned clearly in</u>	<u>Not</u>	

	<u>clearly in the code;</u>	<u>mentioned clearly in the code;</u>	<u>the code;</u>	<u>mentioned clearly in the code;</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Corporate Secretary	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Compliance officer	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	A compliance committee installed, or a high level compliance officer appointed;	<u>Not mentioned clearly in the code;</u>	
Board of Directors	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Adopt strategy; training senior MGT;	<u>Not mentioned clearly in the code;</u>	
Executive/R representative director	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	SB reviews compensation of ED, reflecting duties and risks;	<u>Not mentioned clearly in the code;</u>	
Non-executive director	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Independent director	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CFO	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Management team ( <i>Senior Administration</i> )	Meeting for objectives developed by SB;	Invited once a year to discuss mgt report;	Supervisory board develops position descriptions for senior mgt and limits to mgt duties;	SB ensure competent MGT on an ongoing basis;	
Supervisory for the board	Approve/develop corporate objectives;	Function independently of mgt; appropriate structure and procedures;	Set adequate information, documentation and reporting system;	Monitor the operations and firm performance;	
Supervisory for the managers	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	SB ensures individuals involved in daily MGT are of professional, integrity and social and moral;	<u>Not mentioned clearly in the code;</u>	
Internal control	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Supervisory board responsible for the integrity of IC and MIS;	<u>Not mentioned clearly in the code;</u>	
Internal or statutory audit	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
External audit	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	

		<u>code;</u>		<u>code;</u>	
Disclosure and transparency	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Shareholders and Minority Stockholder	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Accountability	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Leadership	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Employee	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Unrelated supervisory director free from any of interest;	<u>Not mentioned clearly in the code;</u>	
Code of ethics (conduct)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Group and subsidiaries	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CG Code itself	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	SB assign committee of S.D duties for developing firm approach to CG;	<u>Not mentioned clearly in the code;</u>	
Management system	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

### Exhibit 3 – Evaluation of Italian 2002 CG Principles

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>	<b>Responsibilities</b>	<b>Objectives</b>	<b>Note</b>
Audit committee	<u>Not mentioned clearly in the code;</u>	Set the board of auditors, instead of AC;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Nomination committee	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Board set a committee with NED to appoint directors/chairman/MD;	<u>Not mentioned clearly in the code;</u>	
Compensati	Consist of NEDs;	Board form	Remuneration of MD; criteria	<u>Not</u>	

on, Remuneration committee		it;	for remuneration of top mgt;	<u>mentioned clearly in the code;</u>	
CEO /President/MD	<u>Not mentioned clearly in the code;</u>	MD included in board;	Keep the board informed of the main regulatory innovations in which the firm operates; identify main risks;	<u>Not mentioned clearly in the code;</u>	
The Chair	Arranging for distribution of information timely to BD;	Included in Board; board delegates powers to chairman;	call the board meeting, set agenda; coordinate activities of BD; ensure all directors make a knowledgeable contribution to board discussion;	Promote effective mgt of firm;	
CEO and The Chair relationship	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	BD has a chairman;	<u>Not mentioned clearly in the code;</u>	
Corporate Secretary	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Compliance officer	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Board of Directors	Independence of judgement;	Meet at regular interval;	Set the firm strategic, financial objectives; delegates power to MD; appoint some MD;	Guarantee effective and efficient performance of its functions;	As underst ood from the Code;
Executive/R epresentative director	<u>Not mentioned clearly in the code;</u>	ED included in board; NED outnumber ED;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Non- executive director	Specific expertise to board discussion; the number relates to size, complexity and nature of activity;	Views carry significant weight in taking board decision; independent; Member of executive committee;	Included in board; NED contribution in matters where interests of ED and shareholders not coincide; bring independent and biased judgement to resolutions proposed by MD;	<u>Not mentioned clearly in the code;</u>	
Independent director	<u>Not mentioned clearly in the code;</u>	Member of executive committee;	Involved in board discussion, join in committee;	<u>Not mentioned clearly in the code;</u>	
CFO	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Managemen t team ( <i>Senior Administration )</i>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Some Directors perform MGT functions;	Create maximum value for shareholders;	
Supervisory for the board	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the</u>	

		<u>code;</u>		<u>code;</u>	
Supervisory for the managers	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Board supervise general performance of the firm;	<u>Not mentioned clearly in the code;</u>	As understood from the code;
Internal control	Processes to monitor the efficiency of firm operation;	Made up exclusively of independent directors;	Set an internal control committee; BD responsible for IC;	<u>Not mentioned clearly in the code;</u>	
Internal or statutory audit	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	The person run IC also the head of IA;	<u>Not mentioned clearly in the code;</u>	As understood from the code;
External audit	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	IC committee, together with EA, access the accounting standard appropriateness;	<u>Not mentioned clearly in the code;</u>	
Disclosure and transparency	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	MD ensure the correct handling of confidential information;	<u>Not mentioned clearly in the code;</u>	
Shareholders and Minority Stockholder	Directors encourage participation of shareholders in GM;	All directors attend GM;	Board report to shareholders at GM;	<u>Not mentioned clearly in the code;</u>	
Accountability	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Leadership	Strong executive leadership;	Through the commitment of each director;	Performed by board;	<u>Not mentioned clearly in the code;</u>	As understood from the code;
Employee	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
3 <sup>rd</sup> parties and conflicts of interests		Assess potential conflicts b.t interests of firm and of controlling shareholders;	Special reference to situations of conflicts of interest;		
Code of ethics (conduct)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Group and subsidiaries	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CG Code itself	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Managemen	<u>Not mentioned</u>	<u>Not</u>	<u>Not mentioned clearly in</u>	<u>Not</u>	

t system	<u>clearly in the code;</u>	<u>mentioned clearly in the code;</u>	<u>the code;</u>	<u>mentioned clearly in the code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Exhibit 4 - Evaluation of Austrian 2012 CG Principles

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>	<b>Responsibilities</b>	<b>Objectives</b>	<b>Note</b>
Audit committee	Chairperson not a MGT member in past 3 years; at least 2 meetings per year;	1 person with practical experience in finance and accounting;	Select an auditor for F.S; proposal for distribution of profits;	<u>Not mentioned clearly in the code;</u>	
Nomination committee	Professional qualification and a balanced composition of expert knowledge;	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Compensation, Remuneration committee	At least 1 member with remuneration policy experience;	Chairperson is SB chairperson; may use services of a consultant;	Remuneration of MGT board based on work scope, duty and personal performance;	<u>Not mentioned clearly in the code;</u>	
CEO /President/MD	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
The Chair	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Corporate Secretary	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Compliance officer	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Board of Directors	Take into account interests of shareholders, employee;	Called mgt board; SB members cannot be MGT board member;	Agree strategic direction with SB;	<u>Not mentioned clearly in the code;</u>	
Executive/R representative director	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Non-executive	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned</u>	

director		<u>clearly in the code;</u>		<u>clearly in the code;</u>	
Independent director	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CFO	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Management team ( <i>Senior Administration</i> )	<u>Not mentioned clearly in the code;</u>	provide SB with comprehensive information on risks and bus. development (confidentiality);	A balanced analysis of risks and opportunities in a takeover bid;	<u>Not mentioned clearly in the code;</u>	
Supervisory for the board (SB)	Open discussion b.t mgt board (MB) and SB; MB report corruption to SB once a year;	New candidate disclosed before GM; docs prepared 1 week before meeting;	A balanced analysis of risks and opportunities in a takeover bid; be informed cases with impact on profit or liquidity;	<u>Not mentioned clearly in the code;</u>	
Supervisory for the managers	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Acts by SB;	<u>Not mentioned clearly in the code;</u>	
Internal control	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	AC monitor the effectiveness of the company-wide IC system;	<u>Not mentioned clearly in the code;</u>	
Internal or statutory audit	<u>Not mentioned clearly in the code;</u>	Once a year, report on audit plan;	Can be conducted by a separate staff unit;	<u>Not mentioned clearly in the code;</u>	
External audit	AC exchange views with EA at meeting w/o presence of MGT board members;	Independent;	Any additional business relationships to be audited; send audit report to SB;	<u>Not mentioned clearly in the code;</u>	
Disclosure and transparency	<u>Not mentioned clearly in the code;</u>	Appoint a contact person for investor relations;	Disclose any new facts that it communicates to financial analysts to shareholders;	<u>Not mentioned clearly in the code;</u>	
Shareholders and Minority Stockholder	Treated equally under the same conditions;	Resolution passed at Gm disclosed on website;	When appointing SB GM consider balance of structure and business;	<u>Not mentioned clearly in the code;</u>	
Accountability	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	Firm prepare consolidated F.S in accordance with IFRS; IAS34;	<u>Not mentioned clearly in the code;</u>	
Leadership	<u>Not mentioned clearly in the code;</u>	SB meets at least 4 times a year; SB decides	Act by SB;	<u>Not mentioned clearly in the code;</u>	

		the approval of F.S;			
Employee	<u>Not mentioned clearly in the code;</u>	Employee's representatives Have rights to receive information;	Employee's representatives exercise functions on honorary basis;	<u>Not mentioned clearly in the code;</u>	
3 <sup>rd</sup> parties and conflicts of interests	If SB member find him/herself a conflict of interest, disclose to SB chairperson; Chairperson disclose to his/her deputy;	MGT board member inform SB transactions of group companies and conflicts;	MGT board take decisions w/o being influenced by controlling shareholders;	<u>Not mentioned clearly in the code;</u>	
Code of ethics (conduct)	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
Group and subsidiaries	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	<u>Not mentioned clearly in the code;</u>	
CG Code itself	Not require disclose business secrets;	Reviewed once a year;	Set a system of MGT and control of companies;	Increase transparency for all stakeholders;	
Management system	Describe in mgt report the most important features of IC and RM;	CG report mentions measures taken to promote women to MGT board and SB, top MGT positions;	The firm has a CG report which mentions the composition and working procedure of MGT board;	<u>Not mentioned clearly in the code;</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				



Table 1 – A so-called Limited Western European CG representative standards

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>
Audit committee	AC discuss significant financial reporting issues with EA and executive MGT; meet at least 4 times a year; twice a year meet IA and EA to discuss weakness of IC;	New AC members provided with IC, RM, operational, financial, accounting and auditing information;
CEO and The Chair	Consider positive and negative aspects if board considered the former CEO as chairman;	Chairman consults with CEO setting board meeting agenda;
Corporate Secretary	Ensure good information flow within board, committee, executive MGT and NEDs;	Advise board on all governance matters; regularly report to board;
Compliance officer	A compliance committee installed, or a high level compliance officer appointed;	Can be company lawyer;
Board of Directors	No individual or group dominate board's decision making; organizing meetings using internet, video or telephone;	Ensure accuracy and completeness of CG charter and CG statement;
Independent director	Independency of judgement and objectivity in making board decisions;	Not an executive member of board;
Supervisory board to the Management	SB ensures individuals involved in daily MGT are of professional, integrity and social and moral;	SB ensures MGT take follow-up actions on supervisory recommendations;
Supervisory to the Board of Directors	Meet regularly and retain effective control over the firm	Committee of SB comprises a majority of unrelated supervisory directors; the engagement of an outside adviser;
Internal control	A framework of IC set by executive MGT approved by board;	Main risks identified and managed;
Internal audit	AC review IA work program;	AC recommends appointment/removal head of IA
External audit	Examine with AC safety measures taken to decrease risks;	Comment on the true and fair view of the firm assets and liabilities, financial positions; report AC key matters of FS;
Disclosure and transparency	SB ensures timely and accurate disclosure;	Executive MGT prepare firm disclosure of F.S;
Shareholders	Controlling shareholders can appoint representatives to the board; Board ensures its obligations to shareholders are met;	Controlling shareholders can appoint representatives to the board;
The corporation as a whole entity	Has CG code with provisions and guidelines on how the firm implements the provisions of the code;	CG charter on firm website and CG statement on annual report;

Table 2 – A relatively Good Corporate Governance standards

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>
Audit committee	Monitor the work of the auditor; audit any consolidated F.S;	Set up by SB; monitor the preparation of accounting procedures;
CEO and The Chair	Included in Board; board delegates powers to chairman;	MD identify main risks;
Corporate Secretary	N/A (for further research and implementation)	N/A (for further research and implementation)
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors (MGT board)	Take appropriate measures to secure compliance with laws; chairperson of	Fundamental decisions on goals or strategy reached by all MGT board;

Independent director	MGT board discuss chairperson of SB about strategy and RM; Involved in board discussion, join in committee such as IC committee;	Member of executive committee;
Supervisory board to the Management	Acts by SB;	Board supervise general performance of the firm;
Supervisory to the Board of Directors	Develop internal rules of procedures for its work, establishing committees; chairperson of SB prepare meetings of SB;	Provide support to MGT board in governing the enterprise; appoint members of MGT board;
Internal control	AC monitor the effectiveness of the company-wide IC system;	IC committee made up of a majority of independent directors, access with EA the appropriateness of accounting standards adopted;
Internal audit	Once a year, report on audit plan;	Can be conducted by a separate staff unit;
External audit	IC committee, together with EA, access the accounting standard appropriateness;	AC exchange views with EA at meeting w/o presence of MGT board members;
Disclosure and transparency	MD ensure the correct handling of confidential information;	SB mandate disclosed in CG report
Shareholders	All directors attend GM;	Board report to shareholders at GM;
The corporation as a whole entity	The firm has a CG report which mentions the composition and working procedure of MGT board;	MGT board report to SB once a year measures to fight corruption at firm;

Table 3 - The Comparative Western European Corporate Governance standards

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>
Audit committee	AC discuss significant financial reporting issues with EA and executive MGT; meet at least 4 times a year; twice a year meet IA and EA to discuss weakness of IC;	Monitor the work of the auditor; audit any consolidated F.S;
Nominating committee	Professional qualification and a balanced composition of expert knowledge;	Assist board on nomination and planning of CEO; majority comprises independent NEDs;
Numeration or Compensation Committee	Remuneration of MGT board based on work scope, duty and personal performance;	Meet at least twice a year;
CEO and The Chair	Consider positive and negative aspects if board considered the former CEO as chairman;	The Chair call the board meeting, set agenda; coordinate activities of BD; ensure all directors make a knowledgeable contribution to board discussion;
CFO	AC decides when CFO, CEO attend meeting;	N/A (for further research and implementation)
Corporate Secretary	Board describes roles and tasks of secretary;	Ensure good information flow within board, committee, executive MGT and NEDs;
Compliance officer	A compliance committee installed, or a high level compliance officer appointed;	N/A (for further research and implementation)
Board of Directors or Management Board	Check the adequacy of organizational and administrative structures set by MD;	No individual or group dominate board's decision making; organizing meetings using internet, video or telephone;
Independent director	Involved in board discussion, join in committee	Independency of judgement and objectivity in making board decisions;

Supervisory board to the Management	such as IC committee; SB ensures individuals involved in daily MGT are of professional, integrity and social and moral;	SB ensures MGT take follow-up actions on supervisory recommendations;
Supervisory to the Board of Directors	Internationality of members, gender, age structure;	Meet regularly and retain effective control over the firm
Internal control	Set an internal control committee; Processes to monitor the efficiency of firm operation;	A framework of IC set by executive MGT approved by board;
Internal audit	Can be conducted by a separate staff unit;	AC review IA work program; Once a year, report on audit plan;
External audit	IC committee, together with EA, access the accounting standard appropriateness;	Comment on the true and fair view of the firm assets and liabilities, financial positions; report AC key matters of FS;
Disclosure and transparency	MD ensure the correct handling of confidential information;	Executive MGT prepare firm disclosure of F.S;
Shareholders	All directors attend GM;	Controlling shareholders can appoint representatives to the board; Board ensures its obligations to shareholders are met;
Stakeholders	CG Code designed to increase transparency for all stakeholders;	MGT board responsible for communication tasks affecting firm image perceived by stakeholders;
Accountability	Firm prepare consolidated F.S in accordance with IFRS;	Executive MGT accountable to board for the discharge of its duties;
Leadership	Chairman responsible for leadership of board;	Board provides entrepreneur leadership; strong executive leadership;
Employee	Employee's representatives have rights to receive information;	At GM, directors answer questions which do not prejudice firm, employee, shareholders;
3 <sup>rd</sup> parties and conflicts of interests	Assess potential conflicts b.t interests of firm and of controlling shareholders;	Each board member avoid direct and indirect conflicts of interest;
The corporation as a whole entity	Fundamental decisions on goals or strategy reached by all MGT board;	CG charter on firm website and CG statement on annual report;
The Code	Help determines firm goals; one-tier board model; has principles, provisions and guidelines;	Ensure leadership, integrity and transparency in the decision making process;

*(Note: source are based on corporate governance standards of group <D.1> and <D.2> and the appraisal of these standards)*