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CORPORATE GOVERNANCE, QUO VADIS?

by

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SYLLABUS

CYCLICAL FINANCIAL CRISES
SECURITIES CLASS ACTIONS
EMERGENCE OF CORPORATE GOVERNANCE
GOVERNANCE MONITORING ORGANIZATIONS
GOVERNANCE RATING AGENCIES
GOVERNANCE CODES
SOVEREIGN WEALTH FUNDS
MAIN STOCK EXCHANGES
CORPORATE FINANCE, QUO VADIS?
2008: “ANNUS HORRIBILIS”

- MSCI World Index: -40%
- S&P - U.S.: -39%
- Nikkei - Japan: -42%
- FTSE 100 - UK: -31%
- DAX - Germany: -40%
- CAC 40 - France: -43%
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1715</td>
<td>John Law’s French Indian Company</td>
</tr>
<tr>
<td>1825</td>
<td>U.K. banking panic</td>
</tr>
<tr>
<td>1836</td>
<td>U.S. banking panic</td>
</tr>
<tr>
<td>1873</td>
<td>Vienna stock market crash</td>
</tr>
<tr>
<td>1894</td>
<td>U.S. Gold panic - J.P. Morgan rescue</td>
</tr>
<tr>
<td>1907</td>
<td>U.S. Market crash - J.P. Morgan rescue</td>
</tr>
<tr>
<td>1929</td>
<td>Black Friday stock market crash</td>
</tr>
<tr>
<td>1980</td>
<td>Chrysler US$ 1.5 billion loan rescue</td>
</tr>
<tr>
<td>1986-95</td>
<td>U.S. Savings &amp; Loans US$ 124 billion rescue</td>
</tr>
</tbody>
</table>
**CYCLICAL FINANCIAL CRISES?**

1986-95  Swedish banks US$ 12 billion rescue
1987    Black Monday stock market crash
1997    East Asia IMF financial intervention
1998    LTCM long term capital collapse
2001    U.S. Airlines US$ 15 billion rescue
2001-04 Ahold, Dotcom, Enron, Parmalat, Tyco, Vivendi, Worldcom ...
2007-08 AIG, Bear Stearns, Citigroup, Lehman, Madoff, Merryl Lynch, Soc-Gen, UBS ...

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EXAMPLES OF FINANCIAL LOSSES

UBS Dillon Read Capital Management lost US$ 450 million.

UBS Rami Goldstein lost CHF 620 million in 1997.

LTCM Nobel Prize Winners Robert Merton and Myron Scholes lost US$ 4 Billion in 1998, representing CHF 950 million of losses for UBS.

UBS may be facing securities class action lawsuits exceeding US$ 10 Billion, over Madoff’s alleged Ponzi scheme.
MADOFF US$ 50 BIO. PONZI SCHEME

Barron’s unsuccessful May 7, 2001 warning.

Harry Markopolos unsuccessful November 7, 2005 SEC warning.

SEC 2001-2008 unsuccessful checks of Madoff & Co.

January 2009 Securities Investor Protection Co. 8’000 claims, on behalf of 3 million direct and indirect victims worldwide.
# SECURITIES CLASS ACTIONS

## 2003-2006 Settlements (US$ Billion) *

<table>
<thead>
<tr>
<th>Firm</th>
<th>Settlement Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>COUGHLIN STOIA GELLER RUDMAN &amp; ROBBINS</td>
<td>11.5</td>
</tr>
<tr>
<td>BERNSTEIN LITOWITZ BERGER &amp; GROSSMANN</td>
<td>10.8</td>
</tr>
<tr>
<td>BARRACK RODOS &amp; RACINE</td>
<td>7.9</td>
</tr>
<tr>
<td>MILBERG WEISS</td>
<td>5.2</td>
</tr>
<tr>
<td>HEINS MILLS &amp; OLSON</td>
<td>1.9</td>
</tr>
</tbody>
</table>


* Source: RiskMetrics - SCACS Power Rankings, Nov. 6, 2007

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IMPORTANT OF CORPORATE GOVERNANCE

PENSION FUNDS REPRESENT UP TO 40% OF MAJOR STOCK INDEXES (CAC 40, FTSE 100, S&P 500 ...)

THEY GENERALLY RELY ON INDEXED FUNDS AND CANNOT EASILY SELL STOCKS.

ERGO: THEIR CORPORATE GOVERNANCE ACTIVISM.
GOVERNANCE MONITORING ORGANIZATIONS

- Council of Institutional Investors (CII), Washington DC
- International Corporate Governance Network (ICGN), London
- Organisation for Economic Cooperation & Development (OECD), Paris
- UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting & Reporting (ISAR), Geneva
- World Bank - Global Corporate Governance Forum, Washington DC
UNCTAD - ISAR: 1999 - 2008
Geneva - Switzerland

UNCTAD: U.N. Conference on Trade and Development.


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GOVERNANCE RATING AGENCIES

Corporate Library
ECGS: DSW, Ethos, PIRC, Proxinvest ...
Egan Jones
Glass Lewis / Ontario Teachers
Governance Metrics International (GMI)
Proxy Governance + Manifest + Marco Consulting
RiskMetrics + ISS + IRRC + Deminor
Vigeo + Ethibel + Stack at Stake + Avanzi
OECD GOVERNANCE CODE

Basis for an effective corporate governance framework

Rights of shareholders and key ownership factors

Equitable treatment of shareholders

Role of stakeholders in corporate governance

Disclosure and transparency

Responsibility of the Board

OECD, Paris - 1999 and 2004 update

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The ICGN assembles global institutional investors holding stock securities exceeding US$ 10’000 Billion.


Conferences were also held in Washington DC with the U.S. Council of Institutional Investors, in San Francisco with CalPERS, in Mumbai with the Asian Centre for Corporate Governance, etc.
ICGN GOVERNANCE CODE

1. Corporate Objectives
2. Disclosures & Transparency
3. Voting Rights
4. Corporate Boards
5. Executive Remunerations
6. Strategic Corporate Focus
7. Peer Group Benchmarking
8. Accounting & Auditing
9. Corporate Citizenship
10. Corporate Governance Implementation

## NEW SOVEREIGN WEALTH FUNDS

<table>
<thead>
<tr>
<th>Region</th>
<th>US$ Million *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>2’000</td>
</tr>
<tr>
<td>Singapore</td>
<td>400</td>
</tr>
<tr>
<td>Norway</td>
<td>300</td>
</tr>
<tr>
<td>China</td>
<td>200</td>
</tr>
<tr>
<td>Russia</td>
<td>170</td>
</tr>
<tr>
<td>Canada</td>
<td>140</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>120</td>
</tr>
<tr>
<td>Lybia</td>
<td>50</td>
</tr>
<tr>
<td>Etc.</td>
<td></td>
</tr>
</tbody>
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OLDEST SOVEREIGN WEALTH FUND?

Caisse des Dépôts et Consignations (CDC) founded 200 years ago in Paris.

CDC investments: 90% fixed income and 10% equities (Accor hotels, Casino supermarkets, Club Med, EADS, Saint Gobain, Suez, etc).

In 2006, CDC founded the “Etablissement de Retraite Additionnelle de la Fondation Publique” (ERAPF), to manage an annual stream of € 1.5 Billion for the pensions of 4.6 million French civil servants.
FROM BYRSA TO MODERN STOCK EXCHANGES

BYRSA: PHOENICIAN TRADING EXCHANGE IN CARTHAGE
The current denominations - e.g. Bourse, Borsa, Bolsa - derive from the Carthagenerian Byrsa 700 B.C.

AMSTERDAM + LONDON STOCK EXCHANGES 1600 A.D.
PARIS STOCK EXCHANGE 1709 A.D.
NEW YORK STOCK EXCHANGE 1792 A.D.
GENEVA STOCK EXCHANGE 1855 A.D.
TOKYO STOCK EXCHANGE 1878 A.D.
CAIRO - ALEXANDRIA STOCK EXCHANGE 1903 A.D.
(fifth in the world before the second World War)

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## LEADING STOCK EXCHANGES

### Market Capitalizations

<table>
<thead>
<tr>
<th>Exchange</th>
<th>US$ Trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYSE Euronext</td>
<td>9.8</td>
</tr>
<tr>
<td>Nasdaq + OMX</td>
<td>2.7</td>
</tr>
<tr>
<td>Shanghai</td>
<td>1.8</td>
</tr>
<tr>
<td>LSE + Borsa Italiana</td>
<td>1.7</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.3</td>
</tr>
<tr>
<td>TSX Group</td>
<td>1.0</td>
</tr>
<tr>
<td>Deutsche Börse</td>
<td>0.9</td>
</tr>
<tr>
<td>BME Spain</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: World Federation of Exchanges, March 2009
CORPORATE GOVERNANCE, QUO VADIS?

200 national and regional codes throughout the world. ICGN (investors) + OECD (governments) international Codes.

Should the ICC also develop an international Code?

U.S. Senator Charles Schumer introduced the 2009 Shareholder Bill of Rights Act, providing annual elections for all board directors, separation of board chairs and CEO functions, shareholder advisory vote on executive remunerations, etc.

New SEC Head Mary Schapiro’s positive impact on board directors’ qualifications, elimination of uninstructed voting by brokers, revised fee structure of credit rating agencies, etc.