Colombia 5 years after the Código País – a time for reflection

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Some questions for reflection

- How has Colombia's corporate governance framework progressed over the last 5 years?
- Have the government and market authorities achieved what they set out to do?
- Is it sufficient?
- Does Colombia need to change its objectives to adapt to the changing global market and corporate governance landscape?

Where did Colombia stand before adoption of the Código País?

- In 2013, Colombia was just beginning the accession process to become a Member of the OECD
- This included a review of Colombia by the OECD Corporate Governance Committee assessing Colombia’s “willingness and ability” to implement the OECD’s standards of corporate governance –now known as the G20/OECD Principles of Corporate Governance.

Globally, governments were implementing lessons from the global financial crisis

- OECD findings: corporate governance failures played a key role in contributing to the crisis:
  - Boards of directors failed due to problems of composition and competence;
  - Their oversight of risk management was a major weakness;
  - Remuneration incentives contributed to excessive risk-taking;
  - Shareholders failed to ensure that effective boards were in place.

Governments sought to restore trust in markets by addressing these

- OECD countries responded through legal and regulatory changes that we have documented in the OECD Corporate Governance Factbook:
  - The Factbook shows that 87% of 49 jurisdictions that are involved in the OECD Corporate Governance Committee now have requirements or recommendations for risk management, up from 62% in 2015.
  - Disclosure requirements and recommendations on remuneration have also sharply increased during this period.
  - A growing number of jurisdictions have established stewardship codes aimed at strengthening shareholder engagement.
  - Many jurisdictions have developed quotas or soft targets for gender diversity on boards, and standards for independence are also continuing to evolve.

Colombia in 2013 was influenced by both global and local trends

- The global concern about trust in markets following the financial crisis and the need to strengthen corporate governance standards was reinforced by local developments in Colombia :
  - The Interbolsa case and its aftermath exposed limitations in Colombian supervisory authority to effectively oversee complex financial conglomerates operating across multiple jurisdictions.
  - Both global and local developments underlined the importance for Colombia to enact and implement high international standards to strengthen investor confidence.

Colombia’s 2013-2018 reforms

- Colombia used the accession process as an opportunity to achieve long-desired reforms:
  - Implementation of IFRS and international audit standards
  - Issuance of the revised Código País
  - Enactment of the Financial Conglomerates Law and implementing regulation for oversight of related party transactions and conflicts of interest

But are these corporate governance reforms sufficient?

- First, it is important to address what is the purpose of corporate governance?
  - To support better performance of companies;
  - To build trust between investors and companies to facilitate financing of company growth.
- While higher standards have some benefits, there remains more work to do to fully meet these purposes. In particular, the Colombian stock market has not succeeded in attracting more companies in recent years.

Colombia is not alone; its experience is consistent with global trends

- The number of listed companies in UK, US and other developed markets has been stagnant or declining, while Asia's share of global equity markets is increasing.
- This has led to a reflection of the causes of these trends.
  - Lower interest rates and global liquidity have contributed to greater availability of venture capital, private equity and other funding sources.
  - Companies have more options and stock markets face greater competition from other sources of finance.

OECD has subsequently increased attention to proportional and flexible regulation

- A recent OECD study documents how 39 jurisdictions adapt corporate governance regulations to differing circumstances:
  - Concentrated versus dispersed ownership;
  - Company size and/or maturity
  - Special sectoral regulation
- Comply or explain codes are one example, but also includes binding regulation assigning different standards for different types of companies.

A time for further reflection in Colombia

- Proportional and flexible regulation is also relevant for Colombia.
- The recommendations of the Capital Markets Commission also merit further consideration:
  - Corporate governance will continue to be important
  - Proposals to attract more SMEs and more listing of SOEs also should be considered

OECD will support Colombia's further processes of reflection

- Through Colombian participation in the research and policy dialogue of the OECD Corporate Governance Committee
- Latin American Corporate Governance Roundtable and Task Force on Equity Market Development
  - Review of capital market development strategies;
  - Evolving good practices for public enforcement;
  - Consideration of cost-effective disclosure.

Conclusions

- Colombia has made major progress over the last five years in implementing higher standards of corporate governance.
- Further improvements are achievable but Colombia has already achieved consistency with OECD standards and its initial reform objectives.
- On the other hand, the use of public equity markets globally is changing and OECD countries including Colombia need to further reflect on how to adapt in a proportional and flexible way.
- The OECD is committed to supporting Colombia in these efforts.