

# **Corporate Transparency in Latin America**

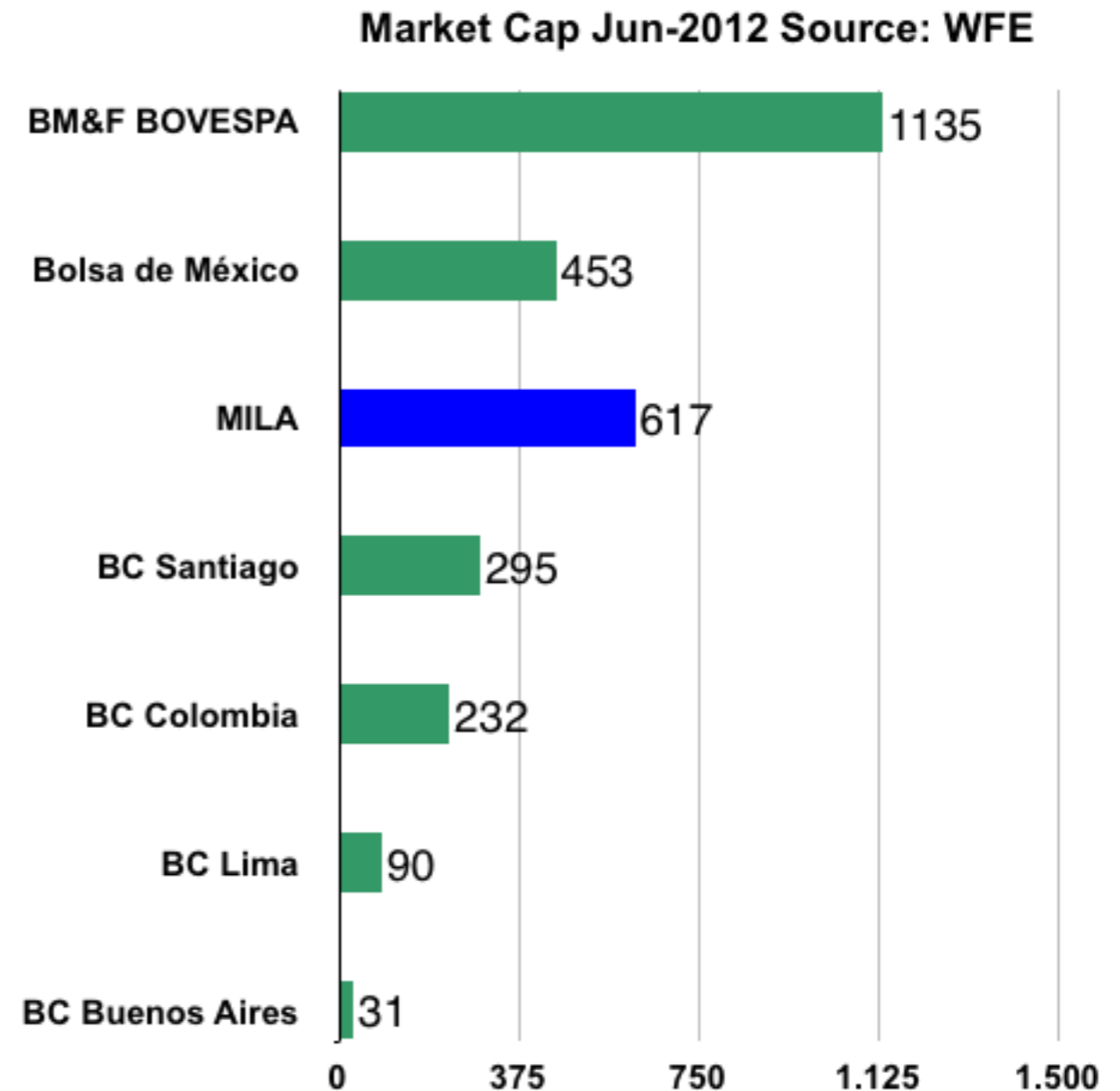
**Gonzalo Delaveau**  
Chairman of ChileTransparente  
Brasilia - November 2012

# Preface

- The Corporate Transparency Index has several positive points
  - The ability to know the potential risk the investors assume when they invest in a public corporation (PLC), beyond brokers` recommendations.
    - Even, the risk for the pensions fund can be lowered
  - The ability to know strengths of the corporate governance of a listed corporation
  - The ability to identify international better practices (for Latin American companies) than can be replicated in the region
  - The ability to identify room for improvement
  - Incentivizes the corporation to compete for better standards

# Preface

- This Project is referred to as the Mercado Integrado Latino Americano [MILA] (Integrated Latin American Market) formed by the Chilean, Peruvian and Colombian Stock Markets.
- It aims to develop capital markets through market integration in order to provide investors with an increased security supply and issuers with increased sources of financing.
- Benefits
  - For investors: it would bring "increased alternatives in financial instruments, increased possibilities for diversification, better risk-return balance, increased possibilities for creating new portfolios for distribution to local clients."
  - For issuers it would allow "access to new markets, extending demand for their financing by capturing the interest of an increased number of investors and capital cost reductions for companies."
  - And for brokers, it would foster "the integration of more attractive and competitive stock exchanges, increase the range of products for distribution to its clients and allow creating new investment vehicles, strengthening technology and adopting international standards."
- **With respect to the last point, this report is indeed an effective tool for determining the progress made in adopting international standards on corporate transparency.**

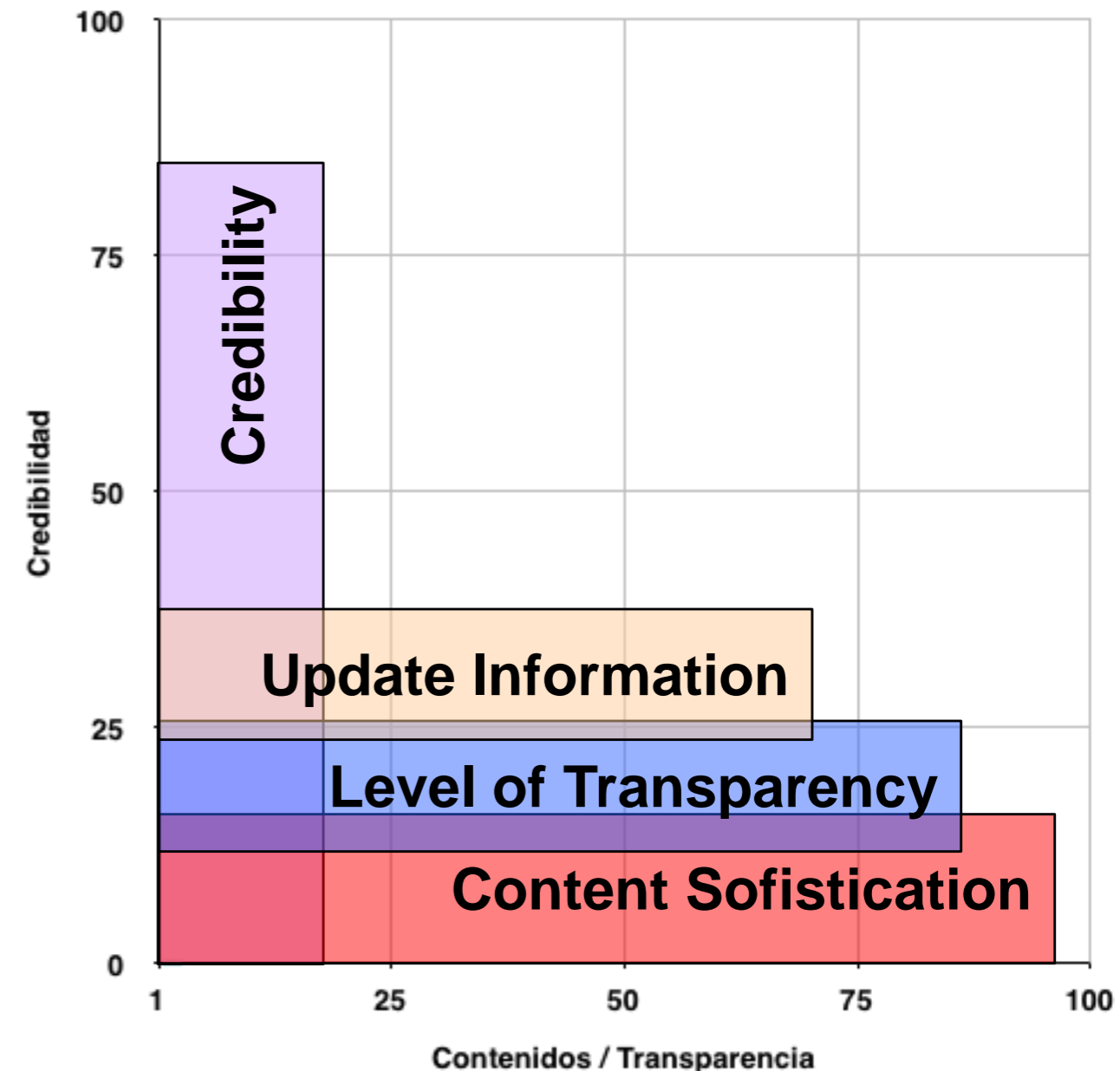


# Methodology

- Full scanning of the corporate web site of the main companies
  - Random International *Benchmark*
    - 40 global corporations
    - Mostly sectors
    - Largest Financial Markets
      - Mostly OECD countries
  - Chilean firms included in the general index
  - Peruvian firms included in the general index
  - Colombian firms included in the general index
  - MILA
    - More than 170 shares
    - With focus on the S&P MILA 40
  - There are three different reports, one for every financial market.
- **Main Goal**
    - **To contribute to the creation of the virtuous circle that lead the largest public companies to improve their corporate transparency level**

# Meta Index

1. First, it reviewed all literature about transparency and best practices of corporate governance all over the world.
2. Second, it established which are the contents regularly disclosed to public for a group of the most important firms in the world
3. Third, it created a list of all the contents typically disclosed for the global corporations
4. Fourth, it observed the effective amount of content disclosed by the Latin American Large Corporations
5. Finally, it established the average level of transparency, it established gaps and created a Ranking



# Drivers and weights

Six drivers had been detected

1. Business and corporate introduction
2. Corporate Governance
3. Financial Information
4. Services to shareholders
5. Sustainability
6. Digital tools

The weights were first according to the relevance of the driver of the shareholders and the potential investors and others stakeholders later.

- Several sensibility tests were done... none showed significant differences in the results.

# The Model

## Corporate Transparency Model

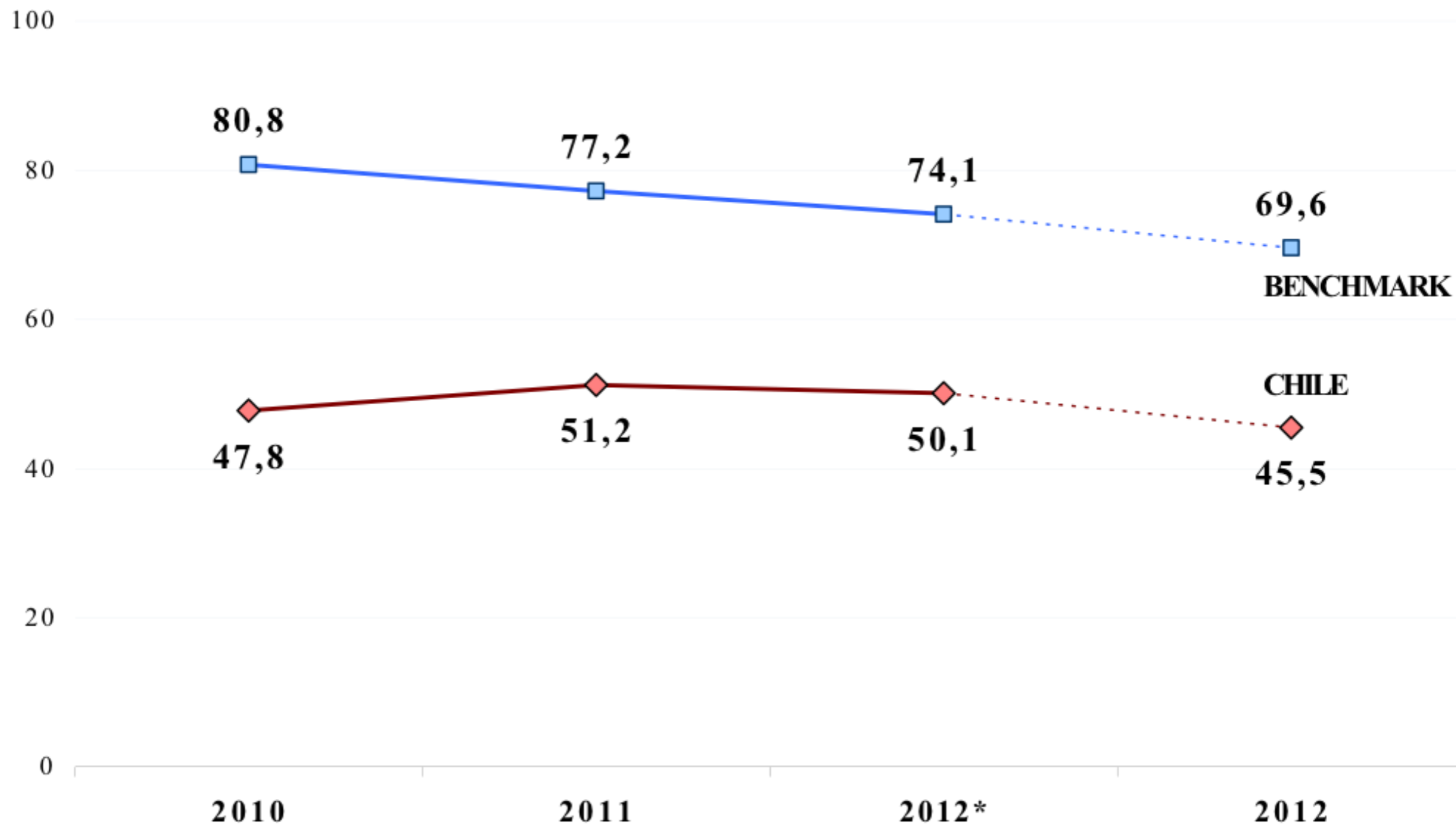
DRIVERS	WEIGHTS	ATTRIBUTES	N° OF CONTENT	EXAMPLES
Presentation and business	10%	Description of the business carried out by the company, historical background, strengths, trade coverage, etc.	10	Corporate history, Mission, vision, values, Group companies, Other countries
Corporate Governance	25%	Detailed description of the organization and its form of governance.	29	Social status Composition of Share Capital Corporate Structure (shareholders) Organization of the company Payment to the Board
Services and information for investors	20%	Information that an investor may wish to know. It may range from basic facts to strategic plans, dividends, the stock market quote, etc.	22	Essential events Presentations Calendar of events Dividend policy Frequently asked questions
Financial information	30%	Accounting standards, delivery formats, monitoring and periodic delivery of information.	14	Audited annual report Quarterly Financial Statements Financial Ratios
Sustainability	10%	Description of and information on business sustainability policies and relationships with stakeholders.	25	Strategy and policies Health and safety issues Waste materials Energy savings Sustainability memory
Digital Tools	5%	Tools which facilitate the search for and understanding of information.	10	Contact us Other languages Facebook Twitter

# Results 2010-12

## Corporate Transparency Index: 2010-12

Source: I<sup>d</sup>N

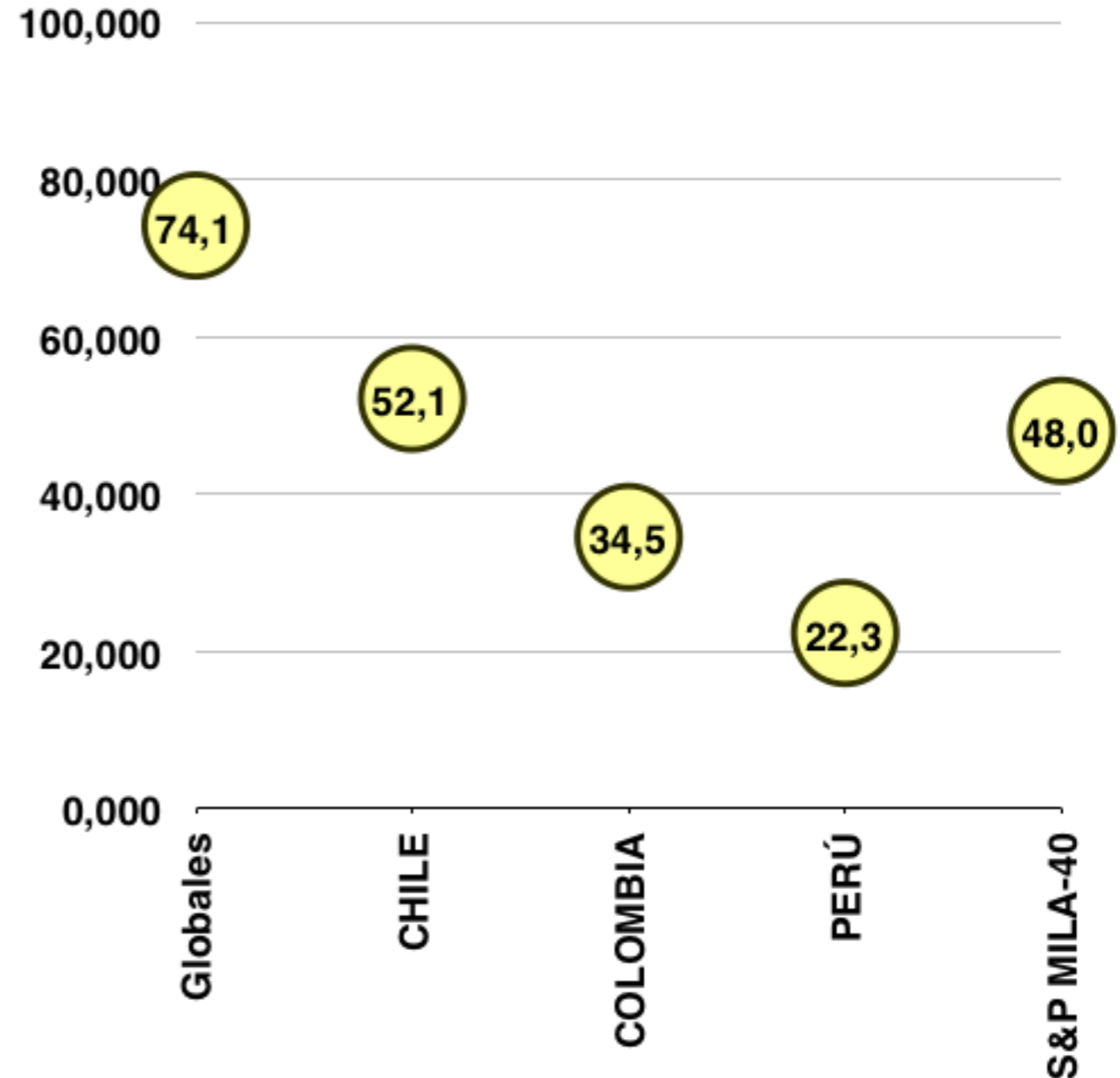
\*/Methodology 2011





# MILA Results 2012

- Results
  - Chile would have a higher level of Corporate Transparency than Colombia
  - And Colombia would have a higher level than Peru.
- The 40 stocks included in the S&PMILA40 index would have reached a Corporate Transparency average level of 48 points.



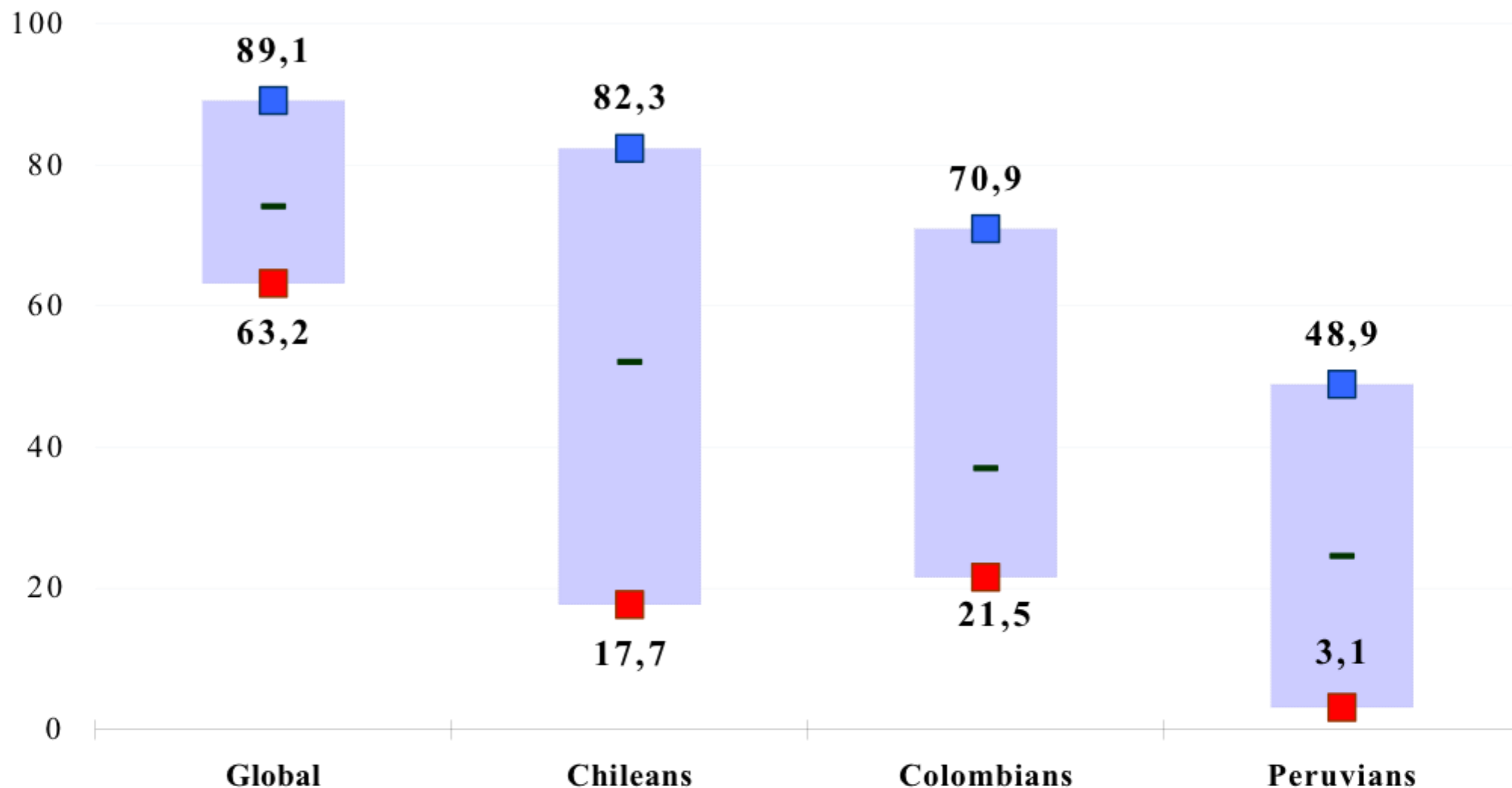
# Benchmark Results

## Corporate Transparency in the MILA

Scattering Data - 2012

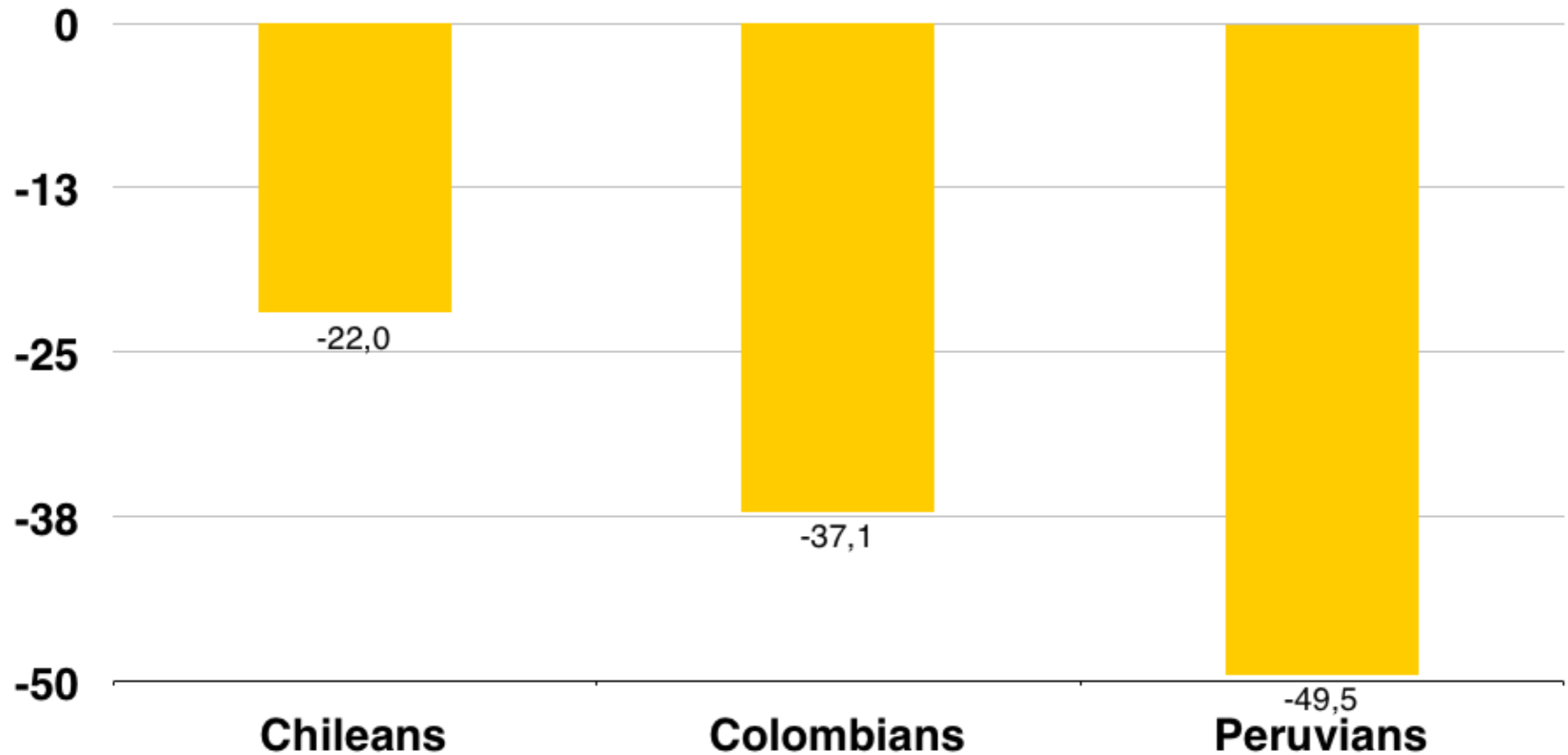
Source: I<sup>d</sup>N

■ Maximum  
— Mean  
■ Minimum



# MILA Gaps

## Differences to the Global Average Source: IdN



# The MILA Ranking


RK.12	COUNTRY SECTOR	CORPORATION ITC.12	RK.12	COUNTRY ITC.12	CORPORATION SECTOR
1	cl Financial	Banco Santander <b>77,0</b>	21	pe Mining	Southern Copper <b>48,9</b>
2	cl	Bci Financial <b>76,0</b>	22	co	Grupo Nutresa Food <b>48,9</b>
3	cl	Endesa Energy <b>72,2</b>	23	cl	Cge Energy <b>48,4</b>
4	cl	Enersis Energy <b>71,7</b>	24	cl	CorpBanca Financial <b>47,5</b>
5	co	Ecopetrol Oil/Gas <b>70,9</b>	25	pe	Credicorp Ltd. Financial <b>45,8</b>
6	cl	Banco de Chile Financial <b>69,7</b>	26	co Holding	Inversiones Argos <b>44,6</b>
7	cl	Lan Transport <b>68,5</b>	27	cl	Salfacorp Construcción <b>42,9</b>
8	cl	Copec Industrial/Forestry <b>61,7</b>	28	co	Bancolombia Financial <b>41,9</b>
9	cl	Cmpc Industrial/Forestry <b>59,8</b>	29	co	Cementos Argos Cement <b>40,4</b>
10	cl	Entel Telecom <b>59,3</b>	30	co	Pacific Rubiales Energy <b>40,4</b>
11	cl	Concha y Toro Wines <b>58,6</b>	31	cl	Sqm Industrial <b>38,7</b>
12	co	Intercon. Eléctrica <b>57,9</b>	32	pe	Volcan Mining <b>38,0</b>
13	cl	Colbún Energy <b>55,4</b>	33	co	Banco de Bogota Financial <b>37,0</b>
14	co Retail	Almacenes Éxito <b>52,1</b>	34	co	Corp. Financiera Financial <b>36,6</b>
15	cl	Falabella Retail <b>51,8</b>	35	co	Grupo Sura Financial <b>36,6</b>
16	cl	Ccu Beverages <b>51,3</b>	36	cl	SM Banco Chile Holding <b>26,2</b>
17	cl	Gener Energy <b>51,1</b>	37	pe	Buenaventura Mining <b>23,0</b>
			38	co	Grupo Aval Holding <b>22,0</b>

# Conclusions

- **The Good:** 7 corporations obtained a score better than the minimum proposed by the global benchmark of 40 corporations
  - 6 Chileans
  - 1 Colombian
- **The Bad:** The gaps were significant to achieve the international standard proposed by the 40 global corporations
- **The Ugly:** No Peruvian companies reached the global minimum score.

# Challenges Ahead

- It needs gathering efforts from
  - shareholders, boards and management
  - Regulators, investors y individual shareholders
- Increase leadership from:
  - Stock Markets
  - Guilds
  - Regulators
  - Pension Funds
- Value sustainability
- Create vehicles that consider transparency, sustainability, etc.
  - Create indices based on these criteria.
- Finally, install minimum transparency requirements to trade in the Stock Markets or to allow Pension Funds to invest in them.



**Corporate Transparency is an Asset  
to the 21<sup>st</sup> Century**

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