Chapter Zero Uzbekistan
The Executives' Climate Forum

Handbook on Corporate Governance for Supervisory and Management Boards Members of Companies in the Republic of Uzbekistan

revision 1.1

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Document Purpose

The purpose of this handbook is to explain the concept of corporate governance and its issues, as well as to provide practical recommendations to improve the effectiveness of boards of directors of companies in the Republic of Uzbekistan.

The handbook is designed to be an accessible resource that can be used and referred to as needed, rather than a detailed academic document that must be read cover-to- cover.

This handbook was developed by members of the Steering and Advisory Committees team of the Chapter Zero Uzbekistan (Odil Musaev, Denis Spirin and Karen Srapionov) with support and contribution from the EBRD (Pavle Djuric, Umidjon Abdullaev, Divya Chawla and Solomiia Petryna).

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Executive Summary

Building good corporate governance and, on top of it, sound climate governance is not an easy and swift process. It is rather a transition that takes time, effort, and determination. It requires conscious involvement and long-term commitment from shareholders, Boards, and management.

That road starts from **the Understanding** of corporate governance, the importance of good corporate governance, and its benefits. It is never a 'box-ticking' exercise and requires deep-dive. Corporate governance cannot be precisely measured in USD. But it is always "a coefficient" to a company's and its shares' performance. Bad governance steals from it, while good governance improves it and serves as a company's competitive advantage.

The next step requires putting that understanding into **the Context** of the current situation in the respective jurisdiction and specific company. Each jurisdiction is unique, as well as every company in a jurisdiction. There is no universal 'box solution' to excel in the corporate governance sphere. Yet, there are universal rules and principles that work in the same way everywhere and, when put into the Context, allow a company to embark on a progress path.

Then follows the systemic and consistent implementation **of the Recommendations** by controlling shareholders, Boards, and management. It is a lengthy process, and no one expects significant results tomorrow. But to have at least some results in any foreseeable future, the process should start today and be filled in with substantive steps.

Chapter Zero Uzbekistan is here to be a source of knowledge and help along the road to good corporate and climate governance.

Corporate Governance: Understanding

What is Corporate Governance

Corporate governance is a key factor in ensuring sustainable business development and one of the most important criteria in making management and investment decisions. It is important for the company to achieve its goals and improve its business performance, as well as maintain its legal and ethical reputation in the eyes of shareholders, regulators, and the wider community.

There are various definitions in the corporate governance literature, but they can all be divided into two groups:

The first group of definitions covers corporate governance issues within the company itself, such as the work of the board of directors, the impact of remuneration paid to managers on the company's performance, the relationship between personnel policy and the company's performance, as well as the role of various groups of shareholders and the protection of their rights.

The first group of definitions examines the actual behaviour of corporations: their activities, efficiency, growth, financial structure, and relationships with shareholders and other participants.

The second group of definitions examines the laws and regulations governing the activities of joint-stock companies and their impact on the behavioral models of companies, investors, and other parties to the business process, as well as the relevant law enforcement.

The second group of definitions considers the regulatory framework, i.e., the rules by which companies operate. The source of the rules are the legal and judicial systems, financial markets, and labour markets

Source: IFC, Global Corporate Governance Forum

Benefits of Effective Corporate Governance Practices

There is ample empirical evidence demonstrating the benefits of efficient corporate governance on firm performance. Multiple studies have shown that good corporate governance practices improve various dimensions of a firm:

Better quality of **decision-making and risk management** resulting from efficient corporate governance practices have been shown to lead to better operational and financial performance.

Good corporate governance helps **lower the cost and improve availability of capital** and funding, especially in industries that rely more on external finance for their operations.

Good corporate governance has been consistently shown to result in **higher share prices** (relative to firms with weak governance standards) and improve firm valuation.

Firms with good corporate governance have also been shown to withstand major external shocks better (e.g., financial crises) including through demonstrating **better operational and stock price performance.**

Benefits of Effective Corporate Governance Practices, 2

Good corporate governance:

- creates value and reduces risks by instituting notions of responsibility, transparency and accountability in the life of the company
- introduces the system of delegation and checks and balances to avoid the concentration of power
- is part of many institutional investors' mandates and stewardship responsibilities and, thus, addresses the investor's demand for listed companies to report on policies and practices in relation to environmental protection, social responsibility, treatment of employees, respect for human rights, anti-corruption and bribery, diversity on company boards
- coupled with transparency, it provides a basis for trust that the investors' rights and interests will be respected.

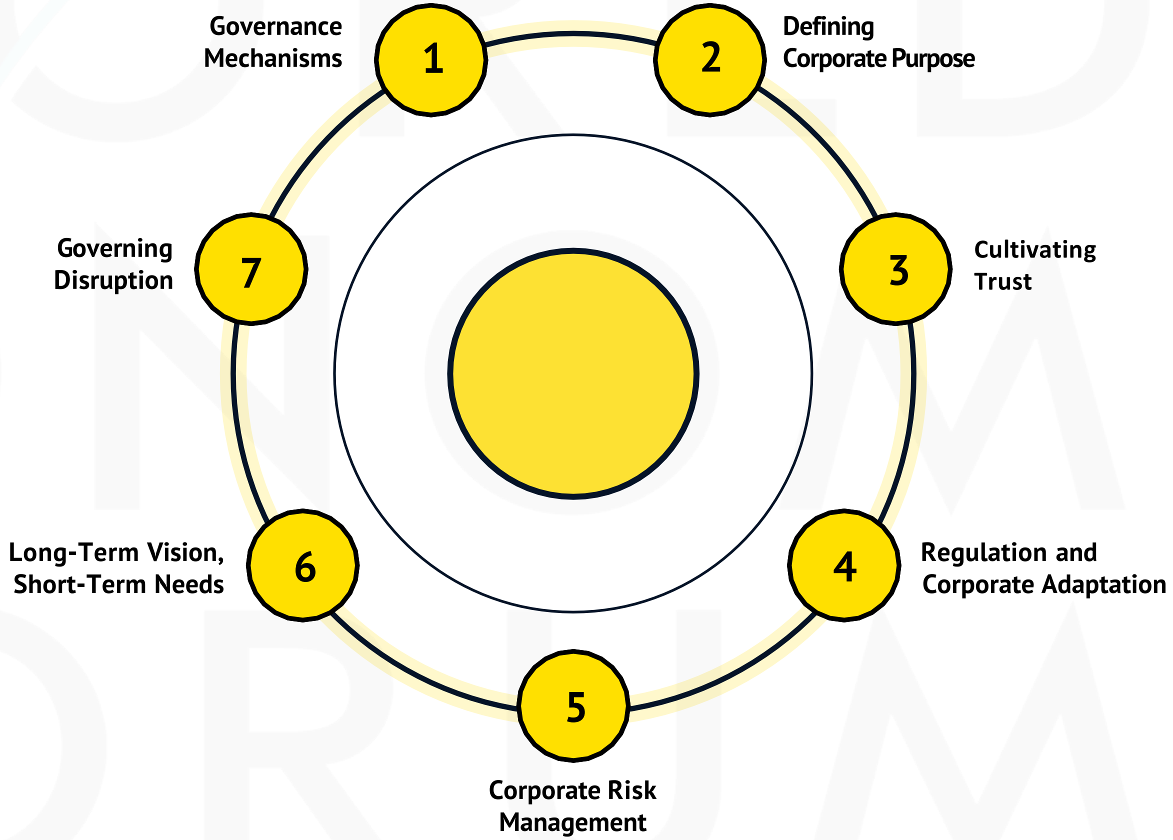
"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society. The incentive to corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will help them to achieve their corporate aims and to attract investment. The incentive for their adoption by states is that these standards will strengthen the economy and discourage fraud and mismanagement".

Sir Adrian Cadbury,
Foreword to "Corporate Governance: A Framework for Implementation", World Bank, 2000

Source: WB, Corporate Governance: A Framework for Implementation

WEF's Corporate Governance Map

Corporate governance should ensure decision-making in the best interests of **all stakeholders** - including customers, employees, regulators, local communities, and shareholders. This applies both during periods of relative stability, and during crises - when many organizations will be forced to confront how well they have or have not prepared from a corporate governance standpoint. **Good governance** relies on internal mechanisms like the structure of a board and incentives for management, and on external mechanisms such as institutions that demand accountability. All of these mechanisms are important, as they form the core of how (and for whom) corporations generate value. Ultimately, corporate governance can help deliver both **economic gains** and more **inclusive societies.**



Source: WEF, Strategic Intelligence Transformation Map

See Appendix 1 for details

Role of Governance in Economic Development

- According to a broader definition, corporate governance can include how a company creates added value and how it is distributed among stakeholders.
- The goal of a properly organized corporate governance system of a company is to maximize the company's contribution to the economy
- The concept of corporate governance includes relations between shareholders, creditors, and companies; between financial markets, institutions, and companies; between employees and companies
- Corporate governance can also include corporate social responsibility, including charity and environmental protection.
- The impact of corporate governance on the growth, development, and well-being of society is carried out through several channels

Why Corporate Governance Matters:

The private investment process, based on market principles and based on effective corporate governance, is now much more important for the economy of most countries than ever. After privatization, corporate governance issues have become relevant in industries that were previously in the hands of the state.

Technological progress, the liberalization and opening of financial markets, and other structural reforms, especially price liberalization and the lifting of restrictions on goods and property rights, have complicated the placement of capital at home and abroad. These complexities make effective corporate governance more important and more complex.

In many ways, raising capital is no longer the prerogative of the owner alone, since companies are getting bigger, and the role of financial intermediaries is growing. The role of institutional investors is also increasing in many countries. This process needs effective corporate governance.

Liberalization and reforms have changed the picture of business on a national and global scale. The old corporate governance schemes are being replaced by new ones, but at the same time, inconsistencies and gaps are being identified.

International financial integration is developing, and the volume of trade and the size of investment flows are increasing. This leads to the emergence of international problems of corporate governance, including periodic conflicts on the basis of national differences in corporate governance cultures.

Source: IFC, Global Corporate Governance Forum

OECD Principles of Corporate Governance

The OECD Principles of Corporate Governance are the international standard for corporate governance.

The Principles clearly define the key elements of the corporate governance structure and offer practical guidance for their application at the national level.

The corporate governance structure should encourage transparent and fair markets and efficient allocation of resources. It must comply with the requirements of the rule of law and support effective oversight and enforcement.

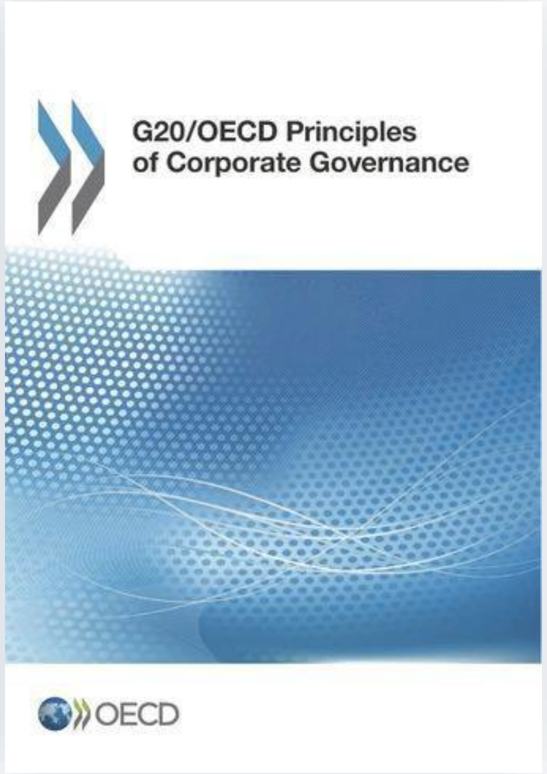
The corporate governance infrastructure should provide substantial incentives throughout the entire investment chain and prescribe securities markets to function in such a way as to promote the development of good corporate governance.

The corporate governance infrastructure should ensure timely and accurate disclosure of information on all material issues related to the corporation, including the financial position, results of operations, ownership, and management of the company.

The corporate governance structure should protect the rights of shareholders and ensure fair and equal treatment of all shareholders, including minority and foreign shareholders. All shareholders should be able to receive effective compensation for the violation of their rights.

The corporate governance structure should recognize the rights of stakeholders provided for by law or in multilateral agreements, and encourage active cooperation between corporations and stakeholders in the light of creating wealth, jobs, and financially sustainable enterprises.

The corporate governance structure should ensure strategic management of the company, effective management control by the board of Directors, as well as accountability of the board of Directors to the company and shareholders.



Source: OECD, Principles of Corporate Governance

OECD Guidelines on Corporate Governance of SOE

The OECD Guidelines on Corporate Governance for State-Owned Enterprises are an internationally recognized standard and are recommendations designed to ensure the effective, transparent, and responsible functioning of state-owned enterprises.

The State exercises ownership rights in relation to enterprises with State participation in the interests of the general public. The State should carefully evaluate and disclose information about the purposes that justify the existence of State property.

The State should act as an informed and active owner, thereby ensuring that the management of enterprises with State participation is carried out on the basis of transparency and accountability and with a high degree of professionalism and efficiency.

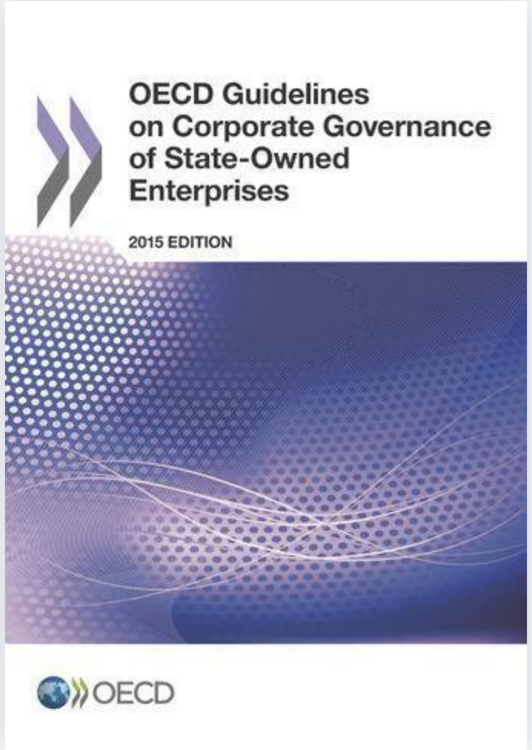
Following the rationale for the ownership of state property, the legal and regulatory structure for state- owned enterprises should ensure a homogeneous competitive environment and fair competition in the market.

Boards of directors of state-owned enterprises should have the necessary authority and objectivity to perform their functions of strategic management and control over the activities of management.

When state-owned enterprises are public, the enterprises must ensure equal shareholder rights and equal access to corporate information.

The State property management policy should fully recognize the obligations of enterprises to interested parties and require enterprises to report on their relations with interested parties.

State-owned enterprises must comply with high standards of information transparency and are subject to accounting, disclosure, regulatory compliance, and auditing standards as public companies.



Source: OECD, Corporate Governance of SOE

Global Corporate Governance Trends (2023)

Skepticism about board quality

With more savvy and empowered stakeholders paying close attention to many aspects of board performance, this year will see further scrutiny of board quality, effectiveness, and composition. The US is entering a new universal proxy era that will invite a more assertive approach by shareholders on director qualifications and disclosure. In Brazil, the push for greater levels of gender diversity and independence may herald more formalized nomination processes. While India could experience a great refreshment of non-executive director appointments, European companies continue to face demand for upgrades to board skills and structure – such as the requirement for listed German companies to have two financial experts on their boards, as well as the explicit code recommendation for the skills profile to include sustainability expertise relevant to the enterprise. These heightened demands for proof of board effectiveness will add momentum to existing efforts to make board evaluation processes more rigorous

CEOs in the crosshairs

Regardless of region, the current global economic distress and turbulent markets are affecting the governance landscape. Everything from the war in Ukraine, post-covid supply chains, and rising inflation have put strain and stress on companies and their leadership, and experts expect an even greater emphasis on board oversight of CEO performance and succession planning across geographies. As investors grow weary of outsized payouts and excessive bonuses, it's not surprising that there will be a harsher spotlight on executive compensation. On this topic, expect significant differences from market to market. In some, such as the US and Singapore, new rules are now in force or expected. In others, private pressure might lead to additional change, such as with evolving expectations for compensation linked to ESG issues in the UK.

Maturation of ESG programs and disclosures

Despite some increasingly pushing back against the ESG agenda, global investors are doubling down on demands for enhanced sustainability reporting and environmental responsibility activities. Most notably, the Corporate Sustainability Reporting Directive will disrupt the ESG landscape across the EU by harmonizing standards and shaping the reporting environment for years to come. The aperture on ESG issues continues to broaden as a growing number of stakeholders demand sustainability and corporate social responsibility assurances. The Say on Climate movement is shaping up to be the next big thing in the UK, and there is a higher demand for ESG skills in Indian boardrooms. The climate agenda continues to demand attention in Latin America. In the US, expect an increased focus on human capital issues and labor rights.

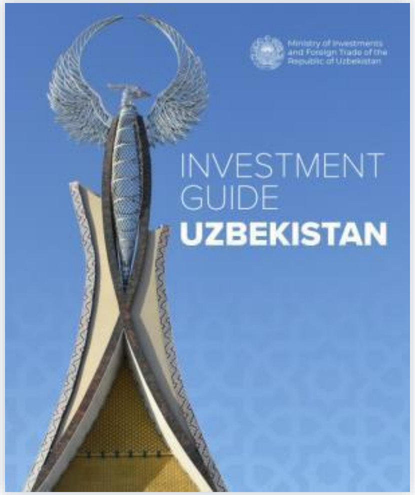
Source: Harvard, Global Corporate Governance Trends for 2023

Corporate Governance:
Uzbekistan Context

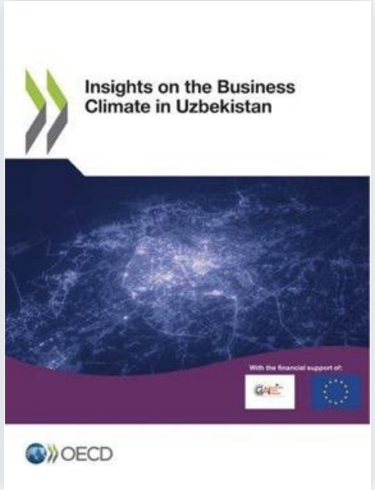
Business Climate in Uzbekistan

International Rating	Indicator
Doing Business Index 2020	69/190
Rule of Law Index 2021	85/139
Index of Economic Freedom 2021	108/178
Fitch Sovereign Credit Rating 2023	BB-
Corruption Perceptions Index 2021	137/180
Sustainable Development Goals 2021	77/165
OECD's FDI Restrictiveness Index 2020	36/85
Open Data Inventory 2023	40/193
Global Innovation Index 2021	86/132

Source: MEF, Uzbekistan in International Ratings



Investment Guide Uzbekistan, MIFT 2022



Insights on the Business Climate in Uzbekistan, OECD 2023

Cost of Doing Business in Uzbekistan, PwC 2021

Uzbekistan: Window of Opportunity, BCG 2019

Corporate Governance System Assessment (1/2)

In 2020, the EBRD published a report on assessing the corporate governance system in Uzbekistan.

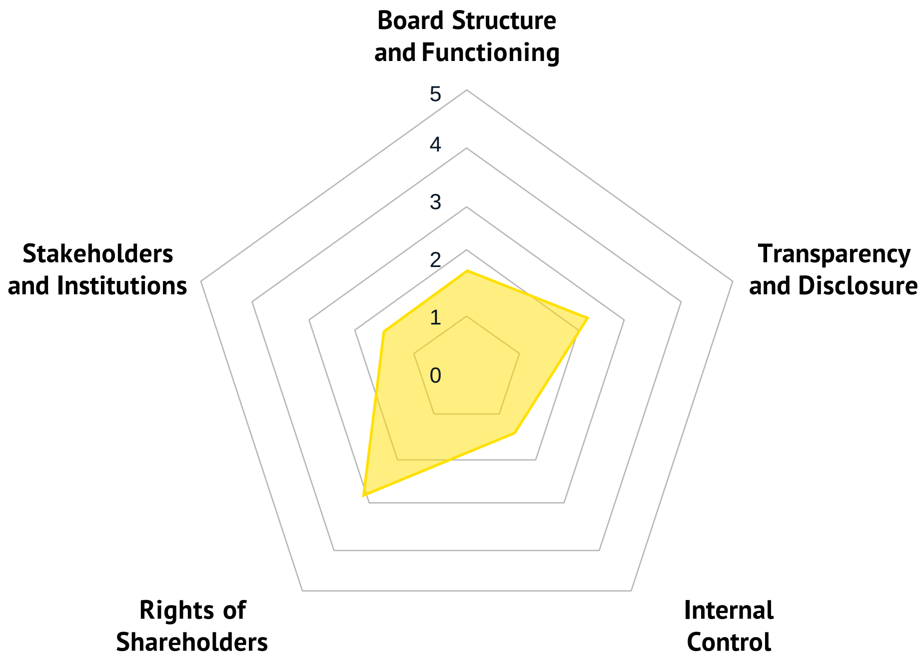
The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in corporate governance.

The analytical grid developed for assessing the governance framework is based on internationally recognized best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC, and World Bank ROSC governance methodologies).

For the purpose of the Assessment, the corporate governance framework and the practices were divided into five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions.

The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country's approximate best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5



Source: EBRD, Uzbekistan Country Report 2020 – Corporate Governance Assessment

See Appendix 2 for details

Corporate Governance System Assessment (2/2)

1. Structure and Functioning of the Board Weak/Very weak	**1.1. Board Composition** Weak/Very weak	**1.2. Gender Diversity at the Board (10.9%)** Weak	**1.3. Independent Directors** Very weak	**1.4. Board Effectiveness** Weak/Very weak	**1.5. Responsibilities of the Board** Weak
2. Transparency and Disclosure Weak	**2.1. Non-Financial Information Disclosure** Weak/Very weak	**2.2. Financial Information Disclosure** Fair/Weak	**2.3. Reporting to the Market and to Shareholders** Fair/Moderately Strong	**2.4. Disclosure on the External Audit** Weak	
3. Internal Control Weak	**3.1. Quality of the Internal Control Framework** Weak	**3.2. Quality of Internal and External Audit** Fair	**3.3. Functioning and Independence of the Audit Committee** Very Weak	**3.4. Control over Related Party Transactions and Conflict of Interest** Fair	
4. Rights of Shareholders Fair	**4.1. General Shareholders' Meeting (GSM)** Fair/Moderately strong	**4.2. Protection against Insider Trading and Self-dealing** Fair/Weak	**4.3. Minority Shareholders Protection and Access to Information** Fair	**4.4. Registration of Shareholdings** Fair/Moderately strong	
5. Stakeholders and Institutions Weak	**5.1. Corporate Governance Structure and Institutions** Fair	**5.2. Corporate Governance Code** Very weak	**5.3. Institutional Environment Very** Weak/Weak		

Source: EBRD, Uzbekistan Country Report 2020 – Corporate Governance Assessment

Corporate Governance System in Uzbekistan (1/5)

For today, Uzbekistan is one of the most dynamically developing countries in the region. Uzbekistan's GDP grew by 6% in 2023. GDP growth in 2024 is also expected to be 6%.

In connection with the ongoing **structural reforms** and **economic transformations**, as well as the **strategic goals** approved by the state for the further development of Uzbekistan, and the approved Goals in the field of **sustainable development,** issues related to corporate governance are **becoming more relevant** than ever.

The main drivers of changes inthe field of corporate governance :

- Attracting foreign investors
- The program of privatization of state assets
- Development of the local capital market
- Transition to a “green” economy
- Private sector development
- Strategies for the Development of New Uzbekistan
- 16 UN National SDGs

Chapter Zero Uzbekistan
The Executives' Climate Forum

Chapter Zero Uzbekistan is designed to help directors in the field of climate corporate governance, as well as to help improve the quality of corporate governance in general.

Corporate Governance System in Uzbekistan (2/5)

More than 620 Joint-stock Companies (JSC) operate in Uzbekistan, about 113 of which are listed on the Tashkent Stock Exchange

Almost all joint-stock companies are partially or

completely owned by the state

The corporate governance framework is regulated by the Civil Code, the Law on Joint Stock Companies, the Law on the Securities Market, the Law on Banking, and the Regulation on Corporate Governance in Commercial Banks. In addition, there are various laws and regulations governing external and internal audit and risk management

In 2016, the "Corporate Governance Code" was adopted, based on the norms of the legislation of the Republic of Uzbekistan and the international principles of corporate governance

In 2022 the Law on the management of state assets has been approved and came into force in 2023. Chapters 6-7 cover corporate governance requirements and recommendations for SOEs.

In 2022 a decree on the process of selection and appointing of SOE board directors.

The Corporate Governance Code

Questionnaire for conducting an independent assessment of the corporate governance system

The Corporate Governance Code was adopted in 2016 by the Commission on Increasing of Efficiency of Management in Joint Stock Companies and Improvement of the System of Corporate Governance.

The Code is voluntary and can be applied by joint stock companies on a “comply or explain” basis. Companies which implement the Code should decide whether they want to implement certain its recommendations, disclose this information and report on implementation of Code. The implementation of the Code is rather rare in practice.

The Code includes the following chapters:

I. General provisions
II. Ensuring transparency of activities
III. Implementation of internal control mechanisms
IV. Ensuring the protection of the rights and interests of shareholders
V. Defining a development strategy
VI. Introduction of mechanisms for the interaction of IO with shareholders
VII. Conflict of interest
VIII. Implementation of a standard organizational structure
IX. Publication of information based on ISA and FO
X. Monitoring the implementation of the recommendations of the Code
XI. Final Provisions

Source: UzSAMA, The Corporate Governance Code

See Appendix 3 for details

Corporate Governance System in Uzbekistan (3/5)

In 2021, the Government of Uzbekistan approved the Strategy of Management and Reform of state-owned Enterprises for 2021-2025.

The strategy was developed with the participation of international financial institutions, in particular experts attracted by the EBRD.

As a result of the implementation of the Strategy, it is expected:

- Gradual increase of the number of independent members of the supervisory boards of enterprises with state participation to 30 percent
- Reduction of the number of enterprises with state participation by 75 percent
- Conducting primary and secondary public placement of shares of enterprises with state participation

Source: RCM–619 от 26.10.2022

Who can be an Independent Director?

The supervisory board of a joint-stock company whose shares are included in the stock exchange quotation list, as well as a company with a state share of more than 50%, must include at least one independent member.

If earlier an independent member of the company could not be a shareholder of the Joint- stock company, now he can own no more than 5% of the voting shares of the company

An independent member of the Supervisory Board **cannot be:**

- an employee of an audit organization who has provided services to the company and (or) affiliated persons of the company over the past three years;
- a person who has been a member of the supervisory board of the company for six consecutive years;
- a person who does not meet the requirements established by the company's charter or documents approved by the resolutions of the general meeting of shareholders.

Source: LRU–814 from 18.01.2023

Corporate Governance System in Uzbekistan (4/5)

In 2023, the State Assets Agency developed updated Corporate Governance Rules for state-owned enterprises and a model Code of Ethics, as well as, as an integral part of the Code, an Anti-Corruption Policy, a Conflict-of-Interest Management Policy, and a Violation Reporting Policy.

These documents were developed with the participation of the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD).

1

The following norms were included in these documents:

In the Rules of Corporate Governance for enterprises with state participation :

- ensuring equal rights of all shareholders (participants) of state-owned enterprises, protecting the rights of minority shareholders;
- increasing the obligations of state-owned enterprises to all stakeholders, including employees, creditors, customers, suppliers, etc.;
- implementation of an integrated control system based on the COSO model (The Committee of Sponsoring Organizations of the Treadway Commission) in order to improve the internal control system at enterprises, risk management, and effective organization of the internal control system;
- ensuring openness and transparency of the coverage of SWOT analysis of enterprises, increasing the responsibility of the supervisory board and the executive body in the management of enterprises, and monitoring compliance with corporate rules.

2

In the Code of Ethics, as well as the Anti-Corruption Policy, Conflict of Interest Management Policy, and Violation Reporting Policy :

- ethical standards of employees of enterprises with state participation, basic principles of ethical standards, implementation of anti-corruption policy, ethical standards in relations with suppliers and business partners;
- prevention of a conflict of interest and elimination of its consequences, identification of possible factors of a conflict of interest, maintaining a register of admitted conflicts of interest;
- obligations to report violations of ethical standards, guarantees of protection of informants, and responsibility of persons violating the norms

Source: UzSAMA, Press Center

Corporate Governance System in Uzbekistan (5/5)

3

Also, the Law on State Property Management, in the chapter on Management of Enterprises with State Participation, provides for:

- Enterprises with state participation, including the formation of their governing bodies, are managed in accordance with the principles of corporate governance;
- Financing the activities of enterprises at the expense of their own funds;
- Control over the implementation of the corporate governance system at enterprises with state participation is performed by state bodies;
- The implementation of the corporate governance system is assessed at an enterprise with state participation, based on the results of which remuneration is paid to the members of the Supervisory Board;

4

Besides, the Law on State Property Management, in the chapter on Basic Requirements for the Activity of the Management Bodies of an Enterprise with State Participation, provides:

- The general meeting of shareholders is the supreme management body of an enterprise with state participation;
- At the general meeting of shareholders (participants) of an enterprise with state participation is attended by a representative of the state, i.e. trust manager of investment assets, who performs trust management of the state share, or an individual authorized to vote on the state share on the basis of a relevant power of attorney;
- Independent members of the supervisory board of enterprises with state participation are included in the supervisory boards of enterprises with state participation;
- A candidate to the Supervisory Board of state-owned enterprises with state participation is selected by a selection committee formed by state bodies;
- The head of the executive body of an enterprise with state participation is elected by the general meeting of shareholders for a period of three years based on the recommendation of the supervisory board;
- The amount of reward for the executive body should be based on a transparent reward system approved by the general meeting of shareholders.

The State Assets Management Agency (SAMA) has recently issued its report on the performance of its SOE portfolio. Pages 32-39 (section 2.2) include a summary of the implementation progress of the state property management strategy to date. Section 6 in the report is dedicated to the progress with the implementation of modern corporate governance practices in SOEs. **See Appendix 4 for details**

Source: The Law on State Property Management SAMA's report on the performance of its SOE portfolio

Corporate Governance: Recommendations

Sound Corporate Governance

Shareholders

-Have vision of Strong and Effective Board and intention to rely on it
-Aim to have significant share of independent directors
-Approve competitive Board remuneration policy
-Carefully select*, nominate and elect Board members
-Approve strategy**, communicate strategic vision and high-level KPIs
-Do not interfere into Board's work and into daily management

Supervisory Board

- Approve management team and its remuneration policy**
-Consider strategy and refer it to the Shareholders' consideration
-Approve main directions of the company's activity, its business-plan** and management KPIs
-Supervise management
-Report to shareholders
-Do not interfere into daily management

Management

-Design strategy and main directions of the company's activity and refer them to the Board's consideration
-Effect daily management
-Report to the Board

Strong and Effective Board rests on several pillars, starting from:

- proactive, substantive, and involved members (acting with due regard to the shareholders' vision, but without their direct instructions)
- significant share of independent directors with leading roles in audit, remuneration and nomination committees***
- competitive Board remuneration policy
- competence including approval of the strategy, management KPIs, and significant aspects of the company and its group's activity
- final say in the design of the management team and its remuneration policy, active supervision of its work
- regular personal attendance Board and its committees' meetings with planned and proactive agenda

*At the early stage of corporate governance development that cannot be outsourced to the company itself and never to its management. In the case of developed governance and a strong and effective Board, the shareholders may allow themselves to rely on the Board's recommendations, developed by its nomination committee (where independent directors have a majority).

** Uzbekistan legislation refers approval of a strategy to shareholders' meetings' competence; and also refers to shareholders' meetings' competence appointment of a management team, approval of its remuneration policy and approval of a business-plan by default, but they can be 'transferred' to a Supervisory Board's competence.

*** Audit committee and remuneration committee are supposed to be 100% independent; and nomination committee – at least majority independent.

Source: Analysis of the report authors.

See Appendix 5 for details

Corporate Governance:
Shareholders

Understanding the Boundaries of General Meeting's Decision Making

A General Meeting of Shareholders (GMS) is the highest management body of the company and allows shareholders to consider and approve the most important aspects of the company's activity, including its corporate governance system and structure:

- approves the company's Charter and internal documents, which allows shareholders to determine number of the Supervisory Board's members, tailor the Board's competence, establish the Board's committees and their competence, framework risk-management, internal control and internal audit systems, etc.
- elects the Board's members and approve their remuneration, which allows shareholders to maintain the Board balanced in terms of knowledge, skills, experience, independence and diversity.
- by default, appoints executive managers of the company and approve their remuneration, which allows to set high-level strategy, corporate governance and climate governance KPIs for them (at the same time the law allows to delegate that authority to the Board).
- vets the company's strategy and, by default, business-plan (while the latter item may be delegated to the Board), which allows communicate shareholders' strategic vision to the Board and executive management.
- considers the company's annual reports and the Board's reports, which provides a mechanism for the reporting and responsibility by the Board to shareholders.

At the same time, a General Meeting of Shareholders has closed competence prescribed by the law and cannot interfere into competence of the Supervisory Board or executive management.

Also, to ensure a proper Board's role in the company's corporate governance system and respective accountability of the management, it is recommended to transfer to the Board authority to appoint executive managers of the company and approve their remuneration. Plus, a General Meeting of Shareholders is not designed to effectively consider complicated and detailed documents, such as business plan, which require multiple discussions and corrections in the process, thus, it is also recommended to delegate respective authority to the Board.

Shareholders

- Have vision of Strong and Effective Board and intention to rely on it
- Aim to have significant share of independent directors
- Approve competitive Board remuneration policy
- Carefully select, nominate and elect Board members
- Approve strategy, communicate strategic vision and high-level KPIs
- Do not interfere into Board's work and into daily management

Source: Analysis of the report authors.

Establishing High-Level Expectations and Targets

There are two basic models of shareholders' involvement into management of their company*. One model suggests that main shareholder (or several core shareholders) personally involved into management of the company and combine his/her shareholder status with that of Board Chairman or executive manager. This model more common for privately-controlled early-stage business (and in case of founder-driven innovative businesses may persist over long period of time) and allows a main shareholder to deliver his vision directly to the Board and management during day-to-day communications. Another model implies complete separation of management from ownership and excludes any direct shareholders' roles in the Board and executive management activity. Between these two "extreme' models there are some models which may be described as mixed and where, for example, a controlling shareholder elects to the Board those his/her managers who are responsible for running respective part of his/her business, or where a state elects to Boards of state-controlled companies respective governmental officials.

Shareholders are supposed to rely on the Board in terms of management of the company and to Establish High-Level Expectations and Targets for the Board to implement, and importantly, and is especially important in cases of "pure separation" and "mixed" models, need instruments to deliver respective expectations and targets to the Board**:

1. First, a controlling shareholder has to formulate respective High-Level Expectations and Targets. Normally they cover high-level strategy and business goals, market valuation and ROIC expectations***, general corporate governance and sustainability targets, etc. A state may formulate them in a state-ownership policy document.
2. A controlling shareholder then must communicate the expectations and targets to the Board candidates during the nomination process and may continue that communication when they are already elected to the Board on a recurrent basis. It is crucial to ensure that such communication do not supersede Board meetings and don't serve as a place where Board's decisions 'pre-approved' or even drafted. If a corporate controlling shareholder, or a state elects to the Board its representatives, the best option would be to elect the same persons who are responsible for respective business at the level of the shareholder. This helps to ensure that all respective discussions happen, and decisions taken exactly on the Board meetings.
3. Respective expectations and targets have to be then discussed by the Board, translated to the management, and, following the management's work-through, returned to the Board and transposed to the company's strategy****, main directions of the company's activity and business plan.
4. The Boards is expected to also approve the executive managers' remuneration policy*****, allowing to link variable part of their remuneration with respective KPIs' fulfillment.

There is also maybe one other class of shareholders – minority shareholders. Their strategy and business goals expectations normally coincide with those disclosed by the company in its documents, as that is why they invested in its shares. At the same time, they always have high, and legitimate, expectations in relation to a fair treatment of their interests and rights as co-owners of the company and of respective corporate governance level, as well as in relation to a sustainable development of the company.

* For the purpose of this section we consider only situations which suggest existence of Supervisory Board.

**Taking into account concentrated ownership in Uzbekistan, this section provides recommendations for "a company with a controlling shareholder" situation.

*** For listed or expected-to-be-listed companies.

**** according to current legislation, to be approved by General Shareholders Meeting

***** it is recommended to transfer respective authority to the Board

Source: Analysis of the report authors.

Board Composition Planning: Developing a Balanced Board Profile

To rely on the Board in terms of management of the company, shareholders have to elect the Board based on a Balanced Board Profile, which takes into accounts number of the Board's seats, knowledge, skills and experience, diversity considerations, as well as independence of the Boards members.

Number of the Board's seats should make possible to organize the Board's work in the most effective way, including the possibility to form committees consisting of Board members, as well as provide significant minority shareholders of the company with an opportunity to elect a candidate to the Board by their votes*.

Combined knowledge, skills and experience of the Board's members form the Board's collegial wisdom and allow the Board to have productive discussions and exercise its powers. The Board's diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom, which allows the Board to make decisions more effectively by reducing the risk of 'groupthink'.

The further effectiveness of the Board, including in relation to development of the company's strategy, evaluation of the executive bodies, protection of the interests of shareholders, risk management and sustainable development, requires independent directors' involvement. To ensure that independent directors can influence the Board's decisions, it is recommended that independent directors constitute at least one-third of the Board. It is also recommended to form the audit committee and remuneration committee only from independent directors, as well as to form at least majority-independent nomination committee.

For preliminary consideration of issues related to the composition of the Board, it is recommended to create the Board's nomination committee, which, in that context, should:

- assess the composition of the Board in terms of knowledge, skills, experience, diversity and independence, involvement of its members in the work of the Board, identify priority areas for strengthening the composition of the Board, and draft the nomination policy;
- interact with shareholders, including minority shareholders, in the context of selecting candidates for the Board; which is especially important in the context of the law's rules which allow independent candidates to be nominated only by the Board – it is recommended for the committee to discuss respective candidates with shareholders, as well as to suggest shareholders to formulate their vision as to who can be nominated as independent directors;
- analyze professional qualifications and independence of all candidates, formulate and communicate to shareholders recommendations regarding voting for the candidates.

The Board should consider and approve the nomination policy and nominate independent candidates** based on recommendation of the nomination committee. Shareholders are also recommended to nominate candidates with due regard to the nomination policy, but that should not undermine their nomination rights and should not serve as a ground for rejection of their nominated candidates.

* In Uzbekistan Boards are elected by cumulative voting and, thus, for minority shareholders it is possible to elect a Board's member just but their votes, but that possibility depends on a number of the Board's seats.

** As was mentioned above, in Uzbekistan independent candidates can be nominated only by the Board itself.

Source: Analysis of the report authors.

Approving Financial and Operational Reports and Evaluating the Work of the Board

The Board must ensure that the quality of the work of the Board, its committees and members is assessed. An assessment should be aimed at determining the degree of effectiveness of their work and the compliance of their work with the needs of the development of the company, at enhancing their work and at identifying areas in which their activities can be improved. It is recommended that the evaluation of the performance of the Board be carried out carefully and within a formalized procedure. The criteria for evaluating the Board should include an assessment of the professional and personal qualities of the members, their independence, coherence of work and the degree of personal participation, as well as other factors affecting the effectiveness of the work of the Board. The results of self-assessment and, if applicable, external assessment must be considered at an in-person meeting of the Board. As a result of the assessment, the Chairman of the Board and the nomination committee must, if necessary, formulate proposals for improving the work of the Board and its committees. Based on the results of individual assessments, recommendations can be made to improve the qualifications of individual members of the Board. If necessary, individual training programs must be created and conducted. The Chairman of the Board and the Nomination Committee should oversee the implementation of such programs. Respective assessment should be done on a regular basis, at least once a year. It is also recommended at least once in every three years to conduct respective independent assessment by an external independent organization.

In that context, the Board's nomination committee should be responsible for annual conduct of a detailed formalized self-assessment (and, if applicable external assessment) of the Board and its committees from the standpoint of the effectiveness of their work as a corporate body, as well as the individual contribution of directors to the work of the Board and its committees, development of recommendations to the Board regarding improving the work procedures of the Board and its committees, preparation of a report on the results of self-assessment (and, if applicable, external assessment) for inclusion in the company's report.

Along with the information required by the law, it is recommended to include in the company's annual report or the Board's report the following information related to the Board's work's evaluation:

- a report on the work of the Board and its committees, which, inter alia, is recommended to include information on the number of in-person and in-absentia meetings, participation of each member of the Board in meetings, a description of the most significant issues considered at meetings of the Board and its committees, the most important recommendations that the committees gave to the Board;
- information about the main results of the self-assessment of the work of the Board, and in the case of engaging an independent external consultant to assess the activities of the board of directors - information about the main results of the assessment, about such a consultant, whether the consultant has any connections with the company, as well as about positive or negative changes in the activities of the board of directors as compared to the results of the previous assessment.

General Shareholders Meeting considers the company's annual reports and the Board's reports, which include respective financial and operational information, as well as the information about the Board's work. That provides a mechanism for the reporting and responsibility by the Board to shareholders.

Source: Analysis of the report authors.

Pay and Remuneration Policy

A remuneration paid by the company must be sufficient to attract, motivate and retain persons who have a knowledge, skills and experience necessary for the company. Payment of remuneration to members of the Board, executive management and other key management employees of the company must be carried out in accordance with the remuneration policy adopted by the company.

The company's remuneration policy must be developed by the Board’s remuneration committee, considered and approved, where applicable, by the Board and then its part in relation to the Board and executive management remuneration referred for approval of a General Shareholders Meeting. The Board, with the support of the remuneration committee, must ensure control over the introduction and implementation of the remuneration policy, as well as its review and adjustment.

The remuneration for the Board’s members should ensure that their financial interests are aligned with the long-term financial interests of shareholders. In that context, fixed annual remuneration is the preferred form of remuneration for the Board’s members. The use of any forms of short-term motivation and additional financial incentives is not recommended. A short-term motivation includes any motivation programs that involve evaluating performance results, linking them to the dynamics of the company's capitalization and bonuses based on the results of a period of less than three years. At the same time, long-term ownership of the company’s shares most contributes to the convergence of the financial interests of members of the board of directors with the long-term interests of shareholders. However, it is not recommended to condition the right to sell the shares on the achievement of certain performance indicators. A participation of the Board’s members in option programs is also not recommended. In terms of a long-term motivation, it is optimal to allow a Board’s member to sell the company's shares at least one year after his resignation from the Board. It is not recommended to provide any additional compensation in the event of an early termination of powers of a member of the Board.

The remuneration for the executive management and other key management employees should provide for a reasonable and justified ratio of the remuneration’s fixed part and the variable part, where the latter should depend on the result of the company’s performance and their personal contribution to respective results. In relation to the variable part, the remuneration committee is recommended to develop a set of individualized key indicators for a short-term incentive system. The selected indicators must be relevant and linked to the long-term strategy of the company, and their KPIs must be ambitious. It is recommended that the results of the short-term incentive program be assessed at the end of the year, or, if this corresponds to the nature and scale of the company’s activities, at the end of a period of one to three years. Also, in relation to the variable part, the remuneration committee should consider and evaluate the feasibility of a long-term incentive program, taking into account the business model, the company's planning horizons, the objectivity of long-term indicators, etc. Companies whose shares are admitted to organized trading are recommended to implement a long-term motivation program for the executive management and other key management employees using company’s shares (as well as options or other derivative financial instruments, the underlying asset of which is company shares). The long-term incentive program should provide the right to sell the shares no earlier than three years from the date of their provision. In addition, it is recommended to condition the right to sell the shares on the achievement of certain company indicators, including non-financial ones, if such indicators are applicable. The amount of compensation paid by the company in the event of an early termination of powers of the executive management and other key management employees at the initiative of the company and in the absence of bad faith actions on their part, should not exceed twice the amount of the fixed part of the annual remuneration.

Source: Analysis of the report authors.

Opening Up the Ownership Structure to External Investors

Different family-owned businesses have different reasons and ambitions when it comes to allowing external parties into the ownership structure. In many cases, those are related to:

- Succession
- Managing business decision-making separately from family decision-making
- Expansion and growth plans
- IPO plans
- Securing external finance on better terms

These reasons also inform the pace and shape of governance changes. In addition to deciding on the share of capital which would be opened to external investor(s) and the type of investors themselves, shareholders of the family-owned business should, among other questions, also consider:

- Setting up a family constitution in order to define the family's rationale for owning the company as well as key values of the company
- Setting up a family member employment policy in order to guide hiring of family members in the future
- Whether to establish a full board of directors or an advisory board

Going public is the ultimate step in opening the company to external investors and besides the right market opportunities and company size, it requires an advanced corporate governance structure with a track-record of good corporate governance practices.

General Meetings in the context of Family Owned Businesses

In the early stages of family ownership, there can be little practical difference between family meetings, shareholder meetings and board meetings. However, as the ownership and corporate structures get more complex, it is wise to separate family institutions from the decision-making of the shareholders.

Family Member Shareholding Policies are also an important component as they define how the shares are to be distributed among family members as well as how they can sell their shares if they want to exit the ownership structure.

For companies which have external investors as shareholders, good practice calls for a strong framework of shareholder rights where attention should be paid, among others, to the following matters:

- Protection of minority shareholders and ensuring their participation at shareholders' meetings as well as representation of their interests in key decision (e.g., board nomination right and cumulative voting for board members)
- Clarity in rights of different classes of shares (in case of preferential or dual class shares)
- Fair treatment regarding information disclosure (material shareholder agreements, conflicts of interest, etc.)
- Notice and agenda of all shareholders' meetings.

The Legal Aspects of GSM Functioning

A General Meeting of Shareholders (GMS) is the highest management body of the company and allows shareholders to consider and approve the most important aspects of the company's activity, which, in addition to mentioned on the previous slides, include such important reserved matters as approval of:

- corporate restructuring and liquidation of the company,
- authorized capital, increase and decrease of share capital, shares' split, consolidation and buy-backs, issue and buy-backs of bond, issue of derivative financial instruments,
- distribution of the company's profits and losses,
- disapplication of shareholders' pre-emptive rights,
- the most significant large scale and certain related-party transactions,
- an external auditor, etc.

Given the importance of GMS, it is crucial for shareholder to be properly and timely notified about an upcoming GMS and supplied with all relevant documents and information. The law requires to notify shareholders about an upcoming GMS in 21 days before the meeting, including by posting respective notification on the company's web-site, though doesn't specify how and when exactly the meeting's materials should be made available to them. It is recommended to provide shareholders with all the meeting's materials simultaneously and in the same way with the notification. It is also recommended that GMS' materials should not be limited to only those required by the law but should also include all other documents and information that may help shareholders to take informed decision. Good corporate governance practice suggest creation of a channel which allows shareholders to ask a GMS related questions before the GMS day.

The law prescribes only in-person attendance and distant electronic voting (in the day of a meeting) forms of GMS with record-date being 3 days before the date of a meeting. Also, in cases of approval of certain important items, such as a large-scale transaction or corporate restructuring, the law provides to shareholders, who voted against or "for valid reasons" didn't participate in voting, buy-back rights. In the context of these rules, to ensure full realization of respective shareholders' rights, it is recommended to use distant electronic voting systems, but at the same time to always keep in-person attendance part of a meeting (i.e. even in case of distant electronic voting on the meeting) to ensure shareholders rights to attend the meeting, speak and ask face-to-face questions. Also, it is recommended in practice to provide mentioned buy-back rights to all shareholders who didn't participate in respective important items voting.

The GMS procedures must provide an equal opportunity for all persons present at the meeting to express their opinions and ask questions.

The decisions of a GMS must be available to all shareholders. It is recommended to include in the company's charter and its internal documents the obligation of the company to post the minutes of GMS on its website as soon as possible.

Source: Chapter Zero Uzbekistan and regional corporate governance codes

Corporate Governance:
Board of Directors

Implementation of the Board's Role in Strategy Development and in the Approval of Business Plans

The Board must establish the long-term main directions of the company's activity, evaluate and approve the key performance indicators and main business goals of the company, evaluate and approve the company's business plan, as well as consider the strategy and refer it to GMS approval. The Board should also participate at a very early stage in discussions of any significant changes to the company's previously approved goals, strategy or business plan.

The company's strategy and business plan must contain clear criteria, most of which must be expressed in quantitatively measurable indicators, and also have intermediate KPIs. Such criteria should allow the Board to assess the compliance of the company's economic and financial results with the planned indicators, the effectiveness of practical steps aimed at implementing the strategy, as well as the degree of its implementation. In accordance with the specified criteria and indicators, the Board must regularly monitor the implementation of the strategy and business plan.

In companies that have controlled entities, it is recommended for the Board to have powers to determine the strategy and assessing the performance of the controlled entities.

The Board should monitor that the company's executives act in accordance with the approved strategy, main directions of the company's activity and its business-plan. The Board is recommended to periodically hear reports from the executive managers on the implementation of the strategy, paying special attention to how the results achieved correspond to those established in the company's strategy.

It is recommended that the Board is to hold a special meeting at least once a year to discuss strategy issues, progress in its implementation and its actualization.

To support its respective activities, the Board may form its strategy committee. In that case, it is recommended that the tasks of the strategy committee include, inter alia, (i) determining the company's strategic targets, monitoring the implementation of the company's strategy, developing recommendations to the Board for adjusting the existing strategy of the company; (ii) development of main directions of the company's activity; (iii) assessment of the long-term effectiveness of the company's activity, etc.

* Uzbekistan legislation refers approval of a strategy to shareholders' meetings' competence; and also refers to shareholders' meetings' competence appointment of a management team, approval of its remuneration policy and approval of a business-plan by default, but they can be 'transferred' to a Supervisory Board's competence.

Supervisory Board

- Approve management team and its remuneration policy*
- Consider strategy and refer it to the Shareholders' consideration
- Approve main directions of the company's activity, its business-plan* and management KPIs
- Supervise management
- Report to shareholders
- Do not interfere into daily management

Source: Analysis of the report authors.

The Board's Role in Establishing and Supervising a System of Internal Controls

The Board must determine the principles and approaches to organizing the risk management and internal control system (RMIC) in the company. When creating a RMIC system, it is recommended to apply globally accepted concepts and practices in the field of RMIC*. The organization of a RMIC system requires formalization in the company's internal documents of the role and tasks of the Board, executive managers, audit committee, internal audit unit and other divisions of the company, as well as the procedure for their interaction.

An effective RMIC system implies its construction at various levels of management, taking into account the role of the corresponding level in the process of development, approval, application and evaluation of the RMIC system: (1) at the operational level - by introducing and implementing the necessary control procedures in operational processes; (2) at the organizational level - through the organization of functions that coordinate the activities of the company within the framework of the RMIC system and ensure its operation (such as risk management, internal control, compliance control, quality control, etc.).

The Board of the company is recommended to take the necessary measures to ensure that the RMIC system complies with the principles and approaches determined by the Board and functions effectively. The Board at least once a year should review the organization, functioning and effectiveness of the RMIC system and, if necessary, make recommendations for its improvement. Information on the results of the Board's consideration of the effectiveness of the RMIC system is provided to shareholders as part of the company's report.

For a systematic independent assessment of the reliability and effectiveness of the PMIC system and corporate governance practices, the company must organize an internal audit. The law prescribes creation of an internal audit unit** which should be used to conduct internal audit. The company should ensure the independence of the internal audit unit, which is achieved by separating functional and administrative accountability. It is prescribed by the law that the internal audit unit is accountable to the Board (or to its audit committee, in case of its existence) and that the Board creates the unit, appoint its employees and organize quarterly hearings of its reports. To further ensure functionally subordination of the unit to the Board, it also recommended that the Board: (1) approves the internal audit policy, defining the goals, objectives and functions of internal audit; (2) approve of the internal audit activity plan and budget of the internal audit unit; (3) approve remuneration for the head of the internal audit unit; (4) consider significant restrictions on the powers of the internal audit unit or other restrictions that could negatively affect the implementation of internal audit. At the same time, it is recommended that the internal audit division be administratively subordinated to the executive management, which means that it is responsible for (1) allocation of the necessary funds within the approved budget of the internal audit unit; (2) receiving reports on the internal audit unit's activities; (3) providing support in interaction with departments of the company; (4) administration of policies and procedures for the activities of the internal audit unit.

When carrying out an internal audit, it is recommended to assess the effectiveness of the RMIC system, assess corporate governance, and also apply globally accepted standards of activity in the field of internal audit.

*The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control—Integrated Framework (ICIF 2013), as well as supplemental guidance for organizations to achieve effective internal control over sustainability reporting (ICSR); ISO 31000 Risk Management – Principles and Guidelines; ISO.IEC 31010:2019 Risk management — Risk assessment techniques.

** For companies with book value of assets more than one hundred thousand "basic calculated values".

Source: Analysis of the report authors.

Boards' Key Role and Appointment

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

B. The board should establish the company's purpose, values, and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

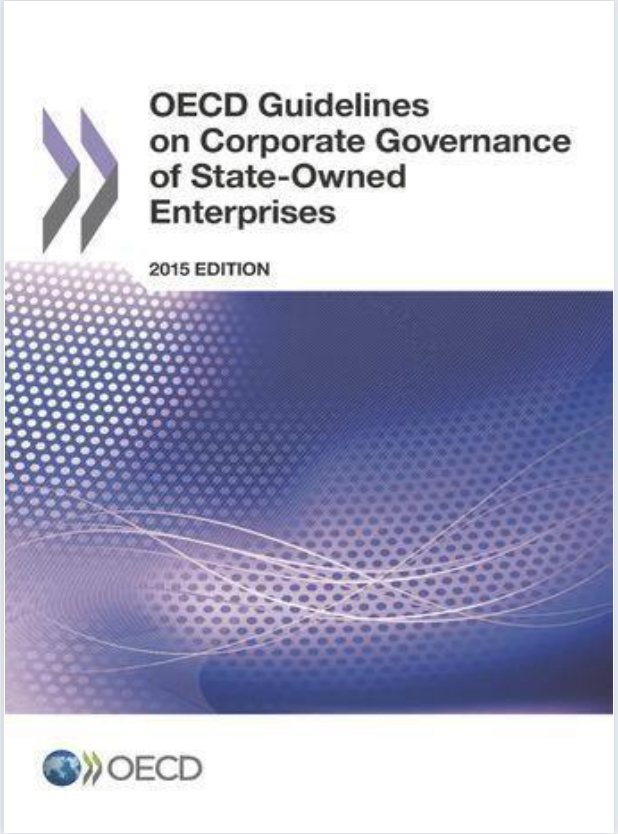
J. Appointments to the board should be subject to a formal, rigorous, and transparent procedure, and an effective succession plan should be maintained for the board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

K. The board and its committees should have a combination of skills, experience, and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

L. Annual evaluation of the board should consider its composition, diversity, and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Please refer to the Code for more recommendations
Source: The UK Corporate Governance Code

Boards' Appointment in Companies Controlled by the State



SOE board composition should allow the exercise of objective and independent judgment. All board members, including any public officials, should be nominated based on qualifications and have equivalent legal responsibilities.

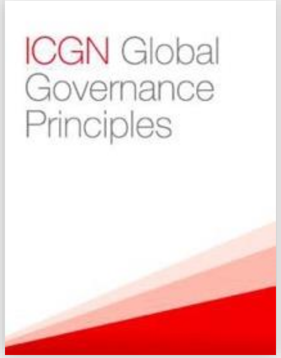
A central prerequisite in empowering SOE boards is to structure them so that they can effectively exercise objective and independent judgment, be in a position to monitor senior management, and take strategic decisions. All board members should be nominated through a transparent process and it should be clear that it is their duty to act in the best interests of the enterprise as a whole. They should not act as individual representatives of the constituencies that appointed them. SOE boards should also be protected from political interference that could prevent them from focusing on achieving the objectives agreed on with the government and the ownership entity. Any state representatives nominated to serve on SOE boards should have equivalent legal responsibilities I other board members. For instance, they should not enjoy de jure or de facto exemptions from individual responsibility.

It is considered good practice to strive toward diversity in board composition including with regards to gender, age, geographical, professional, and educational background. Persons linked directly with the executive powers – i.e. heads of state, heads of government, and ministers – should not serve on boards as this would cast serious doubts on the independence of their judgment. For SOEs engaged in economic activities, it is recommended that board members have sufficient commercial, financial, and sectoral expertise to effectively carry out their duties. In this respect, private sector experience can be useful.

Source: [OECD, Corporate Governance of SOE]

Boards’ Responsibility: ICGN Global Governance Principles

ICGN Global Governance Principles



The ICGN Principles describe the responsibilities of boards and shareholders respectively and aim to enhance dialogue between the two parties.

They embody ICGN’s mission to inspire and promote effective standards of governance to help advance efficient markets worldwide.

Principle 1: Board role and responsibilities
The board should promote the long-term best interests of the company by acting on an informed basis with good faith, care, and loyalty, for the benefit of shareholders, while having regard for relevant stakeholders.

Principle 2: Leadership and independence
Board leadership requires clarity and balance in the board and executive roles and integrity of independent process to protect the interests of shareholders and relevant stakeholders in promoting the long-term The success of the company.

Principle 3: Composition and appointment
The board should comprise a sufficient mix of directors with relevant knowledge, independence, competence, industry experience, and diversity of perspectives to generate effective challenge, discussion, and objective decision-making in alignment with the company’s purpose, long-term strategy, and relevant stakeholders.

Principle 4: Corporate culture
The board should instill and demonstrate a culture of High standards of business ethics and integrity aligned With the company’s purpose and values at the board level And throughout the workforce.

Principle 5: Remuneration
Remuneration should be designed to equitably and effectively align the interests of the CEO, executive Officers, and workforce with a company’s strategy and purpose to help ensure long-term sustainable value preservation and creation. Aggregate remuneration should be appropriately balanced with the payment of dividends to shareholders and retention of capital for future investment and the level of quantum should be defendable relative to social considerations relating to inequality.

Principle 6: Risk oversight
The board should proactively oversee the assessment and disclosure of the company’s key risks and approve the approach to risk management and internal controls regularly or with any significant business change and satisfy itself that the approach is functioning effectively.

Principle 7: Corporate reporting
Boards should oversee timely and reliable company disclosures for shareholders and relevant stakeholders relating to the company’s financial position, approach to sustainability, performance, business model, strategy,
and long-term prospects.

Principle 8: Internal and external audit
The board should establish rigorous, independent and effective internal and external audit procedures,
to ensure the quality and integrity of corporate reporting.

Principle 9: Shareholder rights
The rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that a shareholder’s voting rights are directly linked to its economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

Principle 10: Shareholder meetings
Boards should ensure that meetings with shareholders are efficiently, democratically, and securely facilitated to enable constructive interactivity and accountability for the company’s long-term strategy, performance, and approach to sustainable value creation upon which voting decisions may be influenced.

Source: OECD, Corporate Governance of SOE

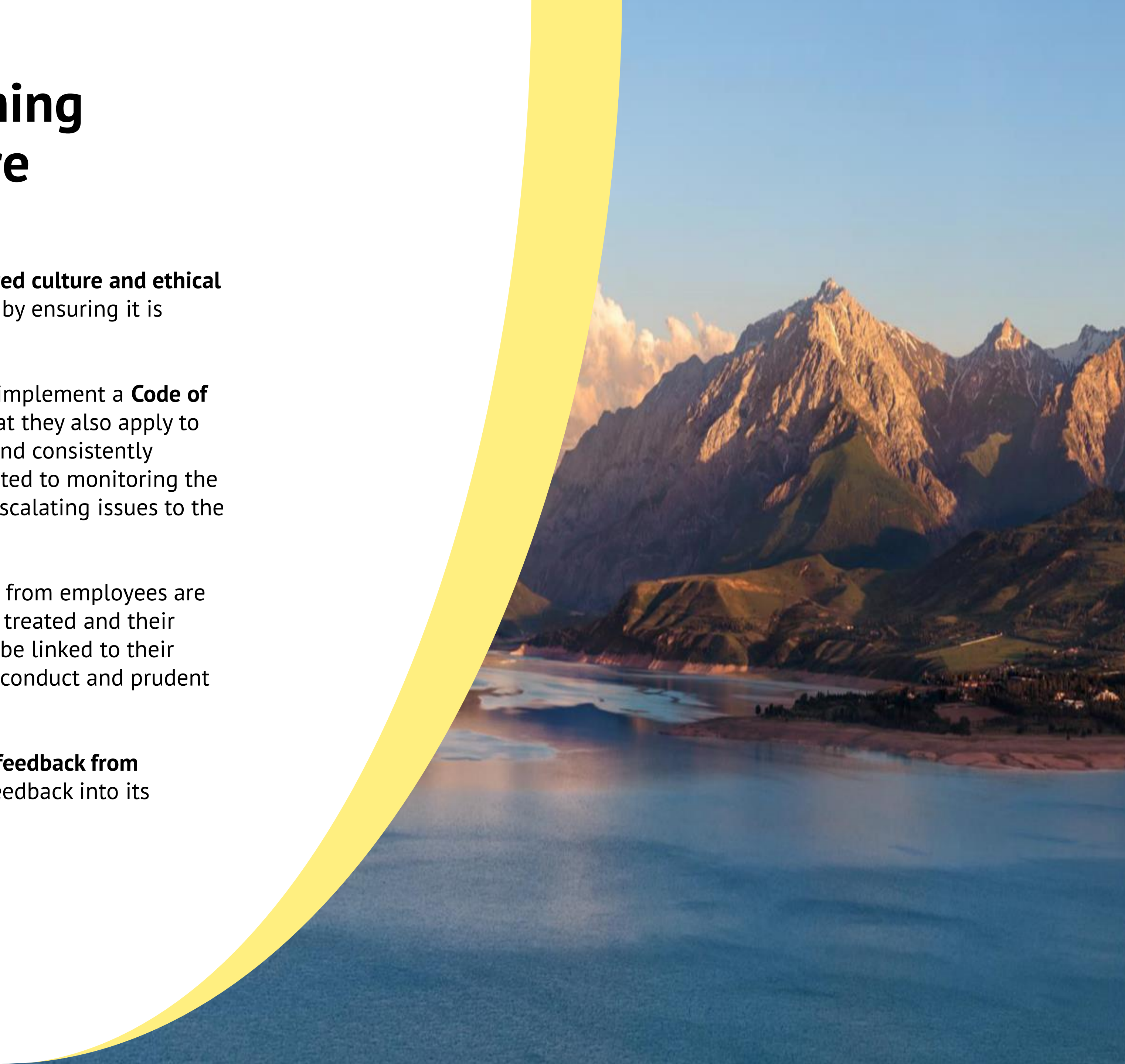
The Board's Role in Establishing the Desired Corporate Culture

Boards are uniquely positioned to define and implement the **desired culture and ethical values through leadership** – by setting the 'tone from the top' and by ensuring it is understood deeper in the organisation.

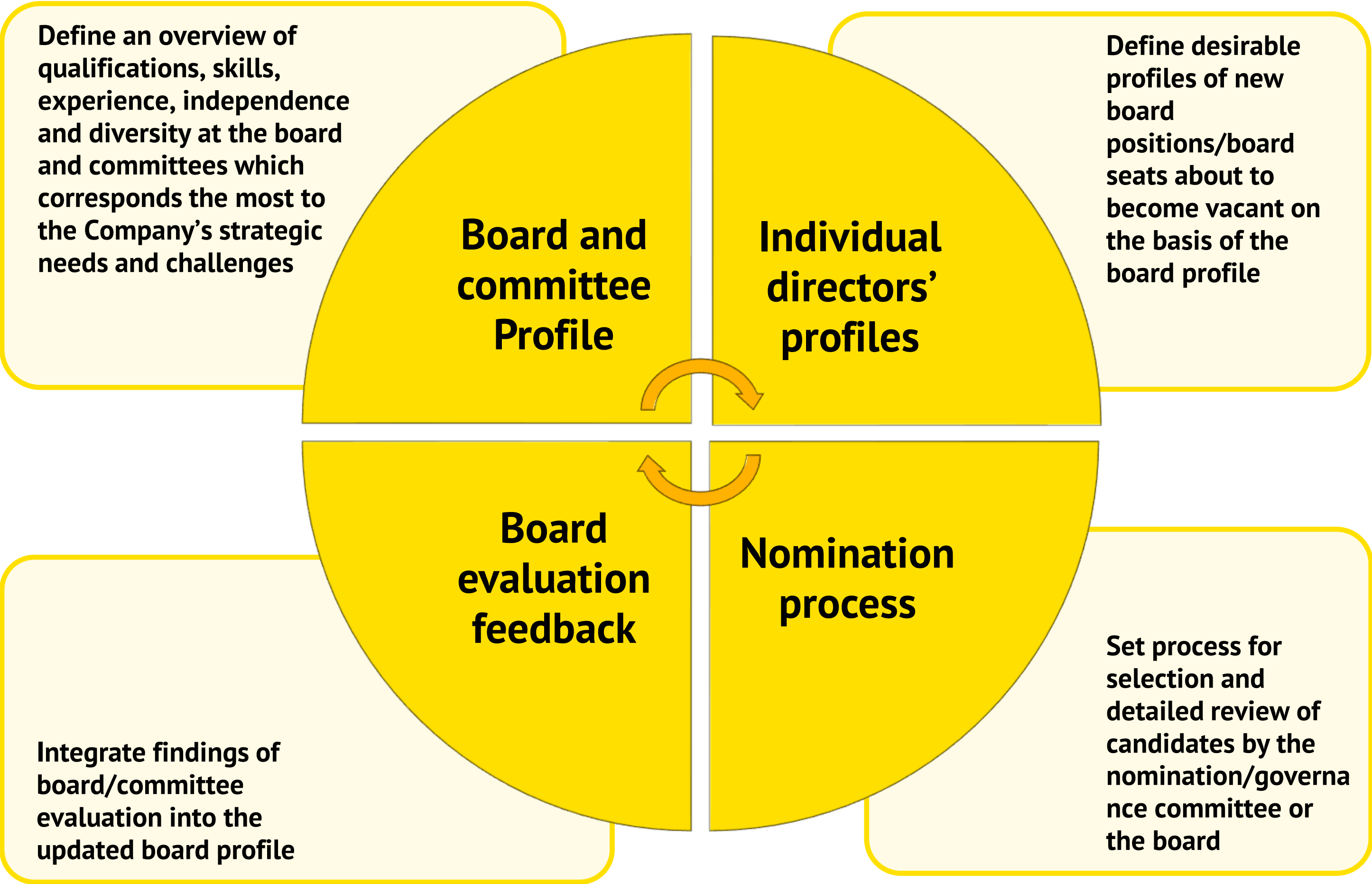
One of the main mechanisms for achieving this is to develop and implement a **Code of Conduct** and **Whistleblowing mechanism**. They need to be such that they also apply to the board and management and that they are actively promoted and consistently applied. This can achieved by appointing a company officer dedicated to monitoring the code/whistleblowing mechanism implementation and reporting/escalating issues to the board.

It is also important that **objectives and performance requirements** from employees are set in a clear and transparent manner and that the employees are treated and their performance assessed fairly. Also, employee compensation should be linked to their performance but this should be done in a way that fosters ethical conduct and prudent business behaviour and that does not distort incentives.

Finally, the board should be very interested in understanding the **feedback from stakeholder engagement** (primarily employee) and building this feedback into its decision-making.



Board Composition Planning and Board Nomination policy Development in Line with Key Challenges and Tasks



The Essential Added Value of Independent Board Members and Board Diversity

Objectivity	Expertise	Engagement
• Mind-set geared towards the company's best interest • Balancing element between shareholders, stakeholders and management • Provide comfort to outside stakeholders (e.g. investors but also partners and customers) on critical issues e.g. related party transactions and conflicts of interest, financial reporting etc.	• Unique skills and specialist knowledge (including market knowledge) • Insight into other companies' experiences and lessons learned • Greater awareness of potential management blind spots and strategic pitfalls	• Encourage constructive and honest board discussion, drive change in board • Ensure unbiased assessment of senior management (and Board performance) – especially when management a significant owner • Participate in board committees (according to qualifications)

Boards' Independence: Independence and Non-Executive Directors

In corporate governance, independence is important in a number of contexts. It is vital that external auditors are independent of their clients, that internal auditors are independent of the colleagues they are auditing, and that non-executive directors have a degree of independence from their executive colleagues on a board*.

Clearly, then, there are varying degrees of independence. In the case of the continuum [in one extreme case we have] the 'total independence'. At this point, the parties in the relationship have no connection with each other, may not know the identity of each other, and, therefore, have no reason at all to act other than with total dispassionate independence. On the other extreme – the 'zero independence' end – the two parties are so intimate with each other that they are incapable of making a decision without considering the effect of that decision on the other party.

Source: ACCA, Independence as a concept in corporate governance

Measures to increase NED independence:

First,
it is usually the case that NEDs should have – and have had – no business, financial, or other connections with the company during the past few years. This means that, for example, the NED should not have been a shareholder, an auditor, an employee, a supplier, or a significant customer.

Second,
cross-directorships are usually banned. This is when an executive director of Company A serves as a NED in Company B and, at the same time, an executive director of Company B serves as a NED at Company A. Such a relationship is considered to make the two boards too intimately involved with each other and potentially reduces the quality of the scrutiny that the two NEDs involved in the cross- directorship can bring.

Third,
restrictions or total bans on share options for NEDs are often imposed. These are intended to help ensure that NEDs are able to stand slightly apart from the executive board and offer advice and scrutiny that are unhampered by vested interests such as short-termism on the company's share price.

Fourth,
NED contracts sometimes allow them to seek confidential external advice (perhaps legal advice) on matters on which they are unhappy, uncomfortable, or uncertain. This should be at the company's expense and helps the NED to gain outside, objective advice on the issue he or she is concerned about.

Finally,
The board and its committees should have a combination of skills, experience, and knowledge.
Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

*According to the legislation of Uzbekistan, members of the management board and director of the company, persons working under an employment agreement (contract) in its subsidiaries and affiliates, and members of the management bodies of these organizations cannot be elected to the supervisory board of the company. Therefore, in the context of Uzbekistan, we may apply this to the independence of members of the supervisory board from management.

An Overview of Board Committees

The creation of committees allows the board to better manage its collective time by organising discussion on specific issues in smaller groups made by directors specialised in a certain area. It also allows for discussions on sensitive topics to be insulated from undue interference and discussed in the most objective possible manner. However, while tasks may be delegated to a committee, the responsibility and final decision-making authority is with the board as a whole.

Board committees typically featured in most large/complex companies are:

Audit committee

Responsibilities include:

- Ensuring a robust financial reporting process
- Setting accounting policies
- Overseeing internal controls
- Leading selection of external auditor and coordination during audit

Nomination (or governance) committee

Responsibilities include:

- Defining board/committee profile and carrying out assessment of board/committee candidates
- Leading the process for hiring of CEO and senior management
- Assisting board chair in undertaking board evaluations
- Assessing independence of INEDs

Remuneration committee

Responsibilities include:

- Defining the remuneration policy for the board (subject to board consideration and shareholder approval)
- Defining remuneration and incentive plans for senior management (subject to board approval*)
- Overseeing remuneration systems in the company and ensuring their appropriateness

Key success factors for committees:

- Clear mandate
- Composition (made of qualified board members, with audit and remuneration committees are 100% independent and nomination committee at least majority independent)
- Exchanges with other committees
- Access to management information and internal controls
- Clear information-lines to the board

In addition to these, there can be other committees e.g. risk (if not already covered by the audit committee), strategy, ESG/sustainability and ethics/compliance committee.

* Uzbekistan legislation by default refers approval of a management team's remuneration to shareholders' meetings' competence, but it can be 'transferred' to a Supervisory Board's competence

Board and Committee Performance Evaluation

Evaluations aim to enhance the board's and its committees' effectiveness by identifying possible improvements in their composition, structure, leadership, functioning and ability to work as a team. The objectives of board evaluation are to:

- Inform whether the board and committees are fit for purpose and how they can better guide the company;
- Identify essential skills and qualifications of board and committee members as well as any skill gaps;
- Allow the board to understand if it and the committees are focusing on the most relevant questions;
- Promote better time management and more efficient board/committee meetings as well as the right support;
- Provide assurance to shareholders and stakeholders on the adequacy of board functioning.

Scope of board evaluation typically includes:

- Adequacy of board composition, profile and committee structure
- Boardroom dynamics including trust, constructive challenge and respect among board/committee members
- Effectiveness of the board and committee leadership and conduct of meetings
- Performance of oversight responsibilities, including on management performance and internal control
- Board members' workload, time commitment and presence at meetings
- Quality of information and reporting to the board/committees
- Effectiveness of board/committee support (e.g. secretary)

Dissemination
- Initiation of the process by the board chair
- Development of the evaluation questionnaire and its dissemination
- Scheduling of interviews

Aggregation and processing
- Responses by board and committee members (usually sent to corporate secretary)
- Interviews for clarifications and one-on one insights
- Collation and processing of responses

Reporting and analyzing results
- Drawing of preliminary conclusions (e.g. strengths and areas for improvement)
- Discussion on the results on the board (and before that, on the nomination/ governance committee if present)
- Sharing summary results at AGM

Follow up
- Development of an action plan/follow up actions, setting deadlines and implementing parties
- Periodic reporting and reviews of progress on board meetings

Board and Management Succession Planning

Purpose of a succession plan for both the board and management is to ensure leadership continuity in key positions and ongoing relevance of governing bodies needed to respond to the company’s strategic challenges.

For members of the board, succession plans can be connected to the board profile and periodic board evaluations, informing the key desired competencies and qualities of future potential candidates

When it comes to management succession planning, the aim is also to retain and develop individual employees with the highest intellectual capital and motivate merit-based career progression deeper in the organisation. Succession plans need to accommodate for both planned and unplanned departures and increase the company’s ability to react quickly and minimise potential for negative impact on continuity and operations.

Responsibility for adopting and keeping the plan relevant on an ongoing basis lies with the nomination committee or governance committee or the whole board in their absence.

The succession plan should include:

- An analysis of key positions and the current management needs in those positions;
- Assessment of strengths and weaknesses of senior managers;
- Identification of internal candidates with potential to succeed to positions, with an assessment of the skills and experience required to effect succession (including any additional training, rotations etc.);
- Alternative plans for identification of externally available candidates (e.g. through executive search companies);
- Special plans for emergency situations;
- Process for evaluating and revising the plan.

Boardroom Effectiveness

The law defines a Board's competence and also allows to extend it by the company's charter. The latter is very powerful corporate governance instrument whish allows to take into account the company's business, group's structure, etc., and to tailor the effective Board which competence covers exactly the issues important for the company. At the same time, it is very important to ensure due balance between the Board considering all the important items and not being snowed under "micro-management" issues.

The Chairman of the Board must ensure the effective organization of the activities of the Board and effective operation of the committees of the Board, as well as the Board's interaction with other bodies of the company. In this regard, it is recommended to appoint as a Chairman a person who has an impeccable business and personal reputation and significant experience in leadership positions, and whose honesty, integrity, and commitment to the interests of the company are beyond any doubt. The Chairman must ensure a constructive atmosphere for meetings, free discussion of issues included in the meeting agenda, and control over the implementation of decisions made by the Board. The Chairman organizes the development of a work plan for the Board of Directors, control over the implementation of decisions of the Board, formation of the agenda for meetings of the Board, development of the most effective decisions on issues on the agenda and, if necessary, free discussion of these issues, as well as a constructive atmosphere for holding meetings. It is recommended to set in the internal documents an obligation of the Chairman to take all necessary measures to timely provide members of the Board with the information necessary to make decisions on the agenda's issues.

The corporate secretary provides support for the effective work of the Board. The corporate secretary must have knowledge, experience and qualifications sufficient to perform its duties, an impeccable reputation and enjoy the trust of shareholders. To ensure the independence of the company's corporate secretary, it should be accountable directly to the Board. It is recommended that the corporate secretary's functions include participation in the preparation and holding of general shareholders meetings and ensuring the work of the Board and its committees.

Meetings of the Board are recommended to be held at least once every two months in accordance with the Board Calendar approved by the Board. The Board Calendar must contain a list of issues that will be considered at meetings. Also, the law provides the right, including to the Board's members, to convoke extraordinary Board meeting.

An in-person meeting is the preferred form of holding a meeting of the Board. It allows for a more meaningful and complete discussion of agenda items by members of the Board. The most important issues should be resolved at meetings held in person. Decisions on the most important issues of the company's activities are recommended to be made at a meeting of the Board by a qualified majority of votes out of all the Board's members.

A procedure for preparing and holding meetings of the Board should providing members of the Board with the opportunity to properly prepare for the meetings. Notification about the convening of a meeting, the form and agenda of the meeting, with the attachment of materials related to the issues on the agenda, must be carried out within a time frame that allows members of the Board to develop a position on the issues on the agenda. By default, such a period should not be less than five calendar days.

It is recommended to maintain and store, along with the minutes, transcripts of meetings of the Board or use other recording methods to reflect the positions of each member of the Board on issues on the agenda. Dissenting opinions of members of the Board must be attached to the minutes of meetings of the Board and form an integral part of them. It is also recommended that the minutes of a meeting of the Board include information about how each member of the Board voted on issues on the meeting agenda.

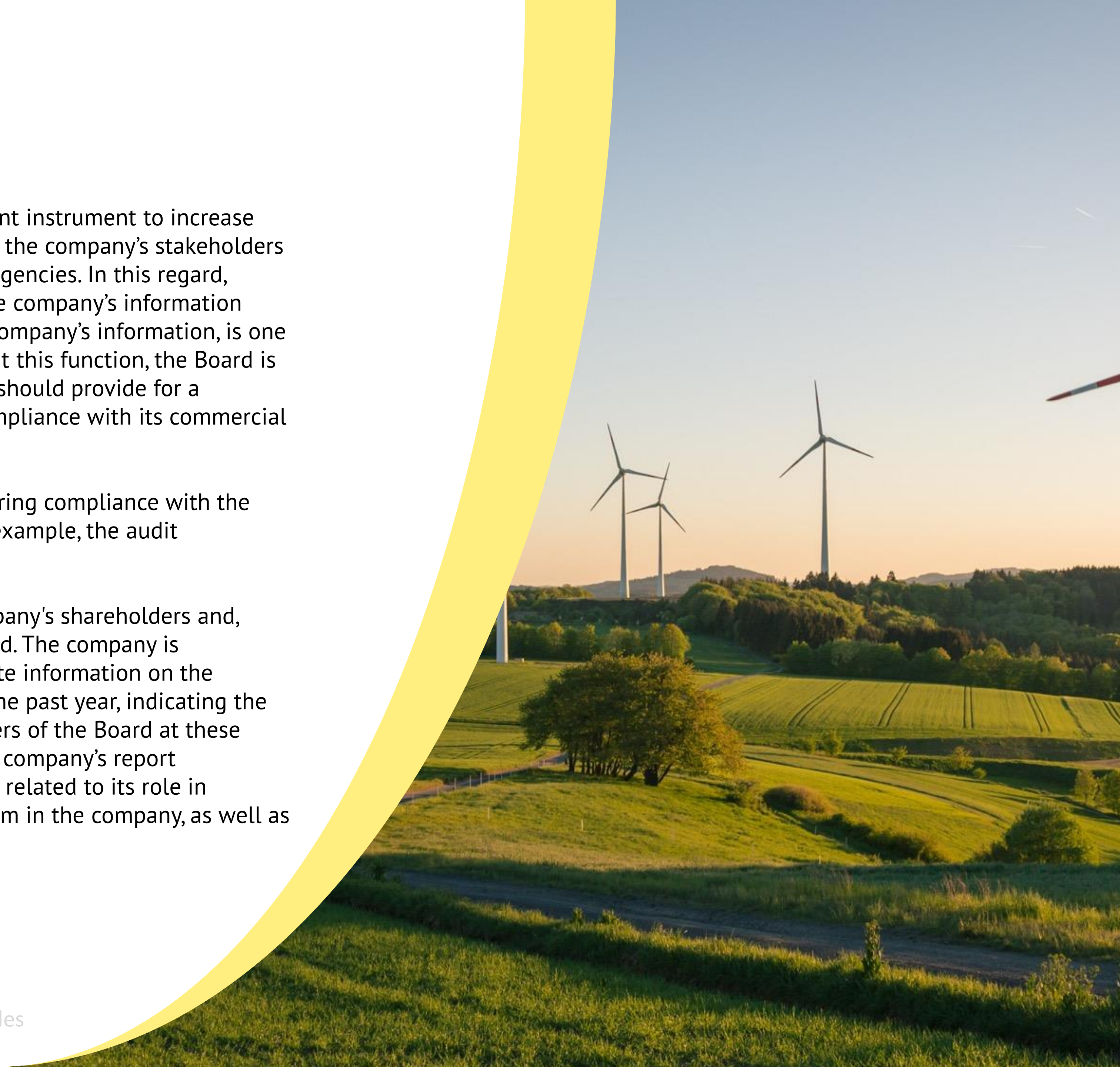
Source: Chapter Zero Uzbekistan and regional corporate governance codes

Disclosures

Timely and complete disclosure of information is the most important instrument to increase the value of the company, attract capital and maintains the trust of the company's stakeholders - shareholders. partners, clients, suppliers, the public, government agencies. In this regard, monitoring the proper organization and effective functioning of the company's information disclosure system, as well as ensuring shareholders' access to the company's information, is one of the most important functions of the Board. In order to implement this function, the Board is recommended to approve the company's information policy, which should provide for a reasonable balance between the openness of the company and compliance with its commercial interests.

It is recommended that the Board assigns responsibility for monitoring compliance with the company's information policy to one of the Board committees (for example, the audit committee) or the company's corporate secretary.

At the same time, the Board itself must be accountable to the company's shareholders and, thus, the information about the work of the Board must be disclosed. The company is recommended to disclose in its report and on the company's website information on the number of meetings of the Board and its committees held during the past year, indicating the form of the meeting and information about the presence of members of the Board at these meetings. It is also recommended that the company disclose in the company's report information about the performance by the Board of responsibilities related to its role in organizing an effective risk management and internal control system in the company, as well as disclose the main results of assessing the work of the Board.



Source: Chapter Zero Uzbekistan and regional corporate governance codes

Corporate Governance: Management

Organising Management Decision-Making and Developing an Authority Matrix

Unlike the board, which is in charge of strategic and oversight matters, management is typically entrusted with the day-to-day running of the company. Management's composition is typically more flexible than that of the board. Depending on the governance system applied in the company, there can be either a management board with its chairman acting as a CEO, and where such board may act as a management board per se or as a management (or executive) committee, or a single manager (e.g. CEO), or even a combination of these.

Management board as a separate collective decision-making body is mostly found in two-tier systems (i.e. the ones that have a supervisory board). This body typically has a limited number of members, all of which have voting rights. Accordingly, the decisions of the management board are made by voting and are usually subject to formal working procedures. In contrast, the management committee is usually just a coordination and exchange forum by senior managers that is not empowered to make decisions as such. It is subject to less strict formal requirements and can include managers of different levels.

Regardless of the management model applied, it is important to have a documented comprehensive administrative and financial authority matrix that assigns the responsibility and authority to concerned parties within different management levels and functions. The authority matrix includes detailed authorities of preparation, review, approval and recommendation for key decision-makers in the company, including on:

- Strategic management; such as preparation of strategy, policies and procedures, etc.
- Finance and Accounting; such transaction authorisations, changes in accounting policies, cash management, budget, etc.
- Administrative affairs; such as procurement limits, contracting with suppliers, etc.
- Human Resources; such as manpower planning, recruitment, training, appraisal systems, etc.

Ensuring Effective Information Flows to the Board

There are several instruments to ensure effective information flows to the Board:

- Informational “deep-dive” for the Board’s members;
- executive managers reports;
- regular provision of information to members of the Board by the management;
- the Board’s members’ requests.

Members of the Board, especially those elected to it for the first time, should have the opportunity to quickly obtain a sufficient understanding of the company’s strategy, the corporate governance system adopted by the company, the risk management and internal control system, the distribution of responsibilities between the executive managers of the company and other significant information about its activities. In this regard, the company is recommended to develop a procedure for familiarizing newly elected members of the Board with this information.

The Board is recommended to periodically hear reports from the executive managers on the implementation of the strategy. They must also regularly report to the Board of directors on the creation and operation of the risk management and internal control system. Respective procedures should be incorporated in the company’s documents.

The company must create a system to ensure that members of the Board receive regular information about the most important events in the financial and economic activities of the company and legal entities controlled by it, as well as other events affecting the interests of shareholders. In addition, it is recommended that the internal documents of the company provide for the obligation of executive managers and heads of the main structural divisions of the company to promptly provide complete and reliable information on issues on the agenda of meetings of the Board and at the request of any member of the Board, as well as determine responsibility for failure to fulfill this obligation.

The effectiveness of the work of members of the Board largely depends on the form, timing and quality of the information they receive. The information that is periodically provided to members of the Board of directors by executive managers is not always sufficient for the proper performance by a member of the Board of directors of its duties. In this regard, the Board members are encouraged to request additional information when such information is necessary to make an informed decision. The obligation of the company’s managers to provide such information to members of the Board must be enshrined in the company's internal documents.

Source: Analysis of the report authors.

Ensuring Key Staff Succession Planning

Succession planning is one of the tools that can support a company in solving human resources challenges, such as an ageing workforce, competition in the labour market, labour/employee migration, lack of candidates with the necessary skills in the labour market, etc. It is also a key factor in strategic planning and a key element in dealing with emerging risks related to human capital.

The contents and logic of staff succession planning follow that of management succession planning, with the added flexibility that the plan need not capture only formal leadership positions, but all critical roles as defined internally. Effective succession plans should be defined in close cooperation between relevant business department and the human resources function and they should be based on, and correspond to the strategic and operational needs of the company, i.e. its ability to deliver on its strategic and business plans.

Setting key positions and assessing management needs

Key positions can be defined in several ways, but usually the two key criteria used for this are the complexity of the role and its criticality for the uninterrupted implementation of business processes.

Once key positions are defined, it is necessary to understand the needed competencies for each of them in order to benchmark potential succession candidates and identify opportunities for learning and development. Competencies for key positions are often divided into three categories: (i) technical, (ii) leadership and (iii) general/horizontal professional.

Identification of internal and potential external candidates and their development needs

This step requires linking existing employees or potential external candidates to key positions as potential successors, and this can be done through a mix of criteria related to their business performance track record as well as their potential. As an outcome of this analysis, there should be one or more potential candidates for each of the key positions (if available) and this pairing should also provide a clearer idea on the experience and learning gap that should ideally be covered by the candidate(s) before succession takes place, which can in turn inform their personal development plans.

Succession plans for identified key positions

Based on the outcomes from the above analysis, tailored succession plans can be defined according to specifics of each case, including individual career progression and development plans. While the HR function is responsible for advising on and implementing staff succession plans, management should have a key role in making sure the framework is understood throughout the company and that the plans remain relevant to the company’s actual needs.

Internal Control Functions

Executive managers ensure the creation and maintenance of the functioning of an effective risk management and internal control system in the company and are responsible for implementing the decisions of the Board in relation to organization of the risk management and internal control system. The executive managers distribute powers, duties and responsibilities for specific risk management and internal control procedures among the heads of the company's divisions . The heads of the company's divisions, in accordance with their functional responsibilities, are responsible for the development, documentation, implementation, monitoring and development of the risk management and internal control system in the areas of the company's activity entrusted to them.

To ensure the effective functioning of the risk management and internal control system, it is recommended to create a separate structural unit for risk management and internal control, the tasks of which should include:

1. general coordination of risk management processes;
2. development of methodological documents ensuring the risk management process;
3. organizing training for the company’s employees in relation to risk management and internal control;
4. analysis of the company’s risk portfolio and development of proposals for a response strategy and redistribution of resources in relation to the management of relevant risks;
5. generation of summary reporting on risks;
6. implementation of operational control over the process of risk management by divisions of the company and, in accordance with the established procedure, controlled entities;
7. informing the Board and executive managers of the company about the effectiveness of the risk management process, as well as on other issues provided for by the policy in relation to the risk management and internal control.

The company's risk management and internal control system must provide an objective, fair and clear picture of the current state and prospects of the company, the integrity and transparency of the company's reporting, and the reasonableness and acceptability of the risks accepted by the company. The risk management and internal control system allows the company to respond in a timely manner to emerging risks and is a set of organizational measures, methods, procedures, norms of corporate culture and actions taken by the company to achieve an optimal balance between the growth of the company's value, profitability and risks, to ensure the financial stability of the company , effective management of business activities, ensuring the safety of assets, compliance with legislation, charter and internal documents of the company, timely preparation of reliable reporting. As part of the risk management and internal control system, it is recommended to provide a set of measures aimed at preventing corruption and reducing reputational risks. The company is recommended to approve the company's anti-corruption policy, which defines measures aimed at creating elements of corporate culture, organizational structure, rules and procedures that ensure the prevention of corruption.

Disclosures

The company and its activities must be transparent to shareholders, investors and other stakeholders. The company must develop and implement an information policy that ensures effective information interaction between the company, shareholders, investors and other stakeholders.

The company's information policy must determine the goals and principles of information disclosure by the company, establish a list of information, in addition to that provided for by law, the obligation to disclose which the company assumes, as well as the procedure for disclosing information (including information channels through which disclosure should be made, and forms of disclosure), the period during which access to disclosed information must be provided, the procedure for communication of executive managers and employees of the company with shareholders and investors, as well as representatives of the media and other stakeholders, as well as measures to ensure control over compliance with the company’s information policy.

The implementation of the company's information policy is carried out by the executive managers of the company. Control over compliance with the information policy is exercised by the company’s Board.

Disclosure of information by the company must be carried out in accordance with the principles of regularity, consistency and efficiency, as well as accessibility, reliability, completeness and comparability of the disclosed data.
The company is recommended to avoid a formal approach when disclosing information and to disclose material information about its activities, even if the disclosure of such information is not required by law.

The company should disclose information not only about itself, but also about its key controlled entities. In particular, an important aspect of such group-level disclosure is an information about the role played by each of the key controlled entities in the group, the main activities of each of such entities, the functional relationships between the key companies of the group and the mechanisms that ensure accountability and control within the group.

The company is recommended to prepare in accordance with internationally recognized standards and disclose its sustainability reports.

Corporate Climate Governance

Overview of Corporate Climate Governance

Corporate Climate Governance (CCG) refers to the **rules, policies and processes** by which organisations **identify, assess, manage and disclose** the **risks and opportunities** resulting from **climate change.**

CCG **enables** organisations to **use climate-related information** in internal business **processes and decision-making.**

CCG **promotes systemic, institutional change** that creates incentives for **re-orientating business processes** towards **low-carbon and climate-resilient pathways.**

To establish an effective governance model for climate considerations:

- Define drivers and benefits
- Assign roles and responsibilities
- Integrate climate-related aspects in the existing governance model
- Build skills and capacities

Drivers and Benefits of Integrating Climate Considerations into Corporate Governance

Corporate governance provides the architecture for an organization to stabilize its operations in the view of the emerging risks, opportunities, impacts of climate change and the changing market.

Future-proof business

Access to finance: Companies that cannot demonstrate action on climate governance may experience restricted access to capital. There is growing pressure from investors, lenders and regulators to address the risks related to climate change.

New business opportunities: Preparedness and leadership can help to identify new markets, product lines and clients.

Preventing short-termism in decision-making: By preparing for climate risks that will materialise over a longer time horizon as compared to the typical business planning cycle.

Building competitive advantage: Preparing in advance for inevitable change brings forth innovation. Being ready for challenges sooner than others offers the chance for your organisation to take a leadership position.

Operational excellence

Agile response to new technologies, markets and stakeholder expectations: The uncertain and complex nature of climate change and the related risks and opportunities will require your organisation to respond to changes in an agile manner. Early implementation ensures that the company will use new tools and procedures smoothly when climate risks are already materialising with increasing intensity.

Effective integration of material climate change risks into risk management and strategic planning: Your organisation should implement operational improvements based on the analysis tailored to your specific situation, addressing relevant and material climate risks and impact.

Effective addressing of material climate change impacts: Based on the aforementioned analysis, your organisation should focus on the material climate change impacts, which means prioritising across climate risk types and determining their materiality compared to other risks.

Compliance readiness

Preparedness to upcoming regulations and market standards: Prompt action in corporate climate governance is a prerequisite for ensuring compliance with emerging regulations and market standards as the scope of such legislation and market standards is expanding.

Preventing greenwashing: Understanding and avoiding the perception of greenwashing reduces reputational and legal risk for your organisation.

Addressing the rising risk of climate litigation: Through effective corporate climate governance your organisation can minimise the risk of climate claims – e.g. Milieudefensie v Royal Dutch Shell; Lliuya v RWE

How to Implement Climate Governance – TCFD and ISSB Recommendations

Taskforce on Climate-related Financial Disclosures (TCFD) / International Sustainability Standards Board (ISSB)

The Financial Stability Board created the Taskforce on Climate-related Financial Disclosures (TCFD) in 2015 to improve and increase reporting of climate-related financial information.

TCFD recommendations, published in 2017, apply to companies in all sectors and jurisdictions. As of 2022, more than 4,850 companies globally are TCFD supporters.

The **International Sustainability Standards Board (ISSB)** was set up in November 2021 by the International Financial Reporting Standards **(IFRS)** Foundation to create a global baseline for voluntary sustainability/climate-related disclosures relevant to investors.

ISSB released two standards in 2023: **IFRS/ISSB S1** (General sustainability-related disclosures); and **IFRS/ISSB S2** (climate-related standards).

ISSB standards build on work of market-led investor-focused reporting initiatives—including the TCFD - and takes over the monitoring of companies' climate-related disclosures from the TCFD from 2024.

Are the ISSB Standards Mandatory?

National authorities across the world will individually decide whether and to what extent use IFRS ISSB standards as mandatory, however, a wide application of the standards is expected.

The ISSB's work is backed by the G7, the G20, IOSCO, the Financial Stability Board, African Finance Ministers and by **Finance Ministers and Central Bank Governors from over 40 jurisdictions**.

The ISSB collaborates closely with jurisdictions to foster **regulatory adoption** of its standards, as well as to facilitate compatibility and interoperability.

Besides regulatory adoption, the ISSB is supporting voluntary adoption of its standards, particularly in jurisdictions where the IFRS Accounting Standards are not currently mandated but where investors are seeking relevant sustainability disclosures.

Find out more: https://www.ifrs.org/sustainability/knowledge-hub/

Four pillars of TCFD and ISSB recommendations on disclosure

The requirements in IFRS S2 Climate-related Disclosures are consistent with the four core recommendations published by the Task Force on Climate-related Financial Disclosures (TCFD).

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

IFRS standards, however, goes beyond the TCFD recommendations in terms of depth and detail of disclosure requirements.

Deep-dive into TCFD/ ISSB recommendations

Step-by-step implementation guide

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
Describe the Board's role in assessing and managing climate-related risks and opportunities.	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Describe the organization's processes for identifying and assessing climate-related risks.	Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process
Describe management's role in assessing and managing climate-related risks and opportunities.	Describe the impact of climate related risks and opportunities on the organization's businesses, strategy, and financial planning	Describe the organization's processes for managing climate-related risks.	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: ifrs-s2-comparison-tcfd-july2023.pdf

Detailed Recommendations: Pillar 1 - Governance

The objective is to enable users of financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities. To achieve this, the entity should **disclose information about**:

Governance and oversight of climate-related risks and opportunities :

- describe the existing governance, i.e. board, committee or other equivalent body responsible for oversight;
- describe how climate-related responsibilities are reflected in their terms of reference, mandates, role descriptions and other policies;
- how is it determined whether appropriate climate-related skills/competencies are available in the team or will be developed;
- the processes and frequency by which the board and/or board committees (e.g., audit, risk ext.) are informed about climate-related issues;
- how responsible parties consider climate-related risks and opportunities when overseeing strategy, decisions on major transactions and risk management processes/policies. This includes whether trade-offs associated with those risks and opportunities are considered;
- How responsible parties set relevant targets and monitor progress, including if and how performance metrics are included in remuneration policies

Management's role in the governance processes and **procedures** used to manage climate-related risks and opportunities:

- whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee;
- whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and how these controls and procedures are integrated with other internal functions.

Source: IFRS Sustainability Disclosure Standard S2 Climate-related Disclosures.

Detailed Recommendations: Pillar 2 - Strategy

The objective is to enable users of financial reports to understand an entity's strategy for managing climate-related risks and opportunities. To achieve this objective, an **entity shall disclose information about**:

Climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects:

- describe the risks and opportunities, also considering industry-specific topics;
- specify the time horizons – short, medium, or long term – when these risks and opportunities could reasonably be expected to occur.

Their effects on firm's **businesses model, value chain, financial position, financial performance and cash-flows over short-, medium-, long-term.**

- describe the area of concentration of risks and opportunities, and the anticipated effect over short-, medium- and long-term;
- describe impact on financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities), for example, plans for capital expenditure, major divestments or acquisitions, asset retirement, costs arising from physical damage to assets, increased revenue from low-carbon products and services.

Their effects on **strategy and decision making,** including information about the entity's climate-related **transition plan**:

- how the entity has responded to/ plans to respond to climate-related risks and opportunities in its strategy and decision-making;
- how it plans to achieve any climate-related targets it has set and/or required by law or regulation;
- changes to the entity's business model to address the risks and opportunities, for example, plans to manage or decommission carbon-, energy- or water-intensive operations; resource allocations resulting from demand or supply-chain changes; additional expenditure on R&D; acquisitions or divestments;
- does the entity have a climate-related transition plan, including key assumptions used in its development.

Resilience of the entity's strategy and business model to climate-related changes, developments, and uncertainties, inter alia:

- key assumptions of analysis, including climate-related policies in the relevant jurisdictions, energy mix, macroeconomic trends, technology development;
- which climate-related scenarios and horizons the entity has considered and why, whether aligned with international practice;
- the entity's ability to redeploy, repurpose, upgrade or decommission existing assets.

PLEASE NOTE: Disclosure requirements under IFRS S2 are industry specific, with tailored advice being provided in the Industry-based Guidance on Implementing IFRS S2. The industry-based guidance has been derived from SASB Standards and is organised according to the Sustainable Industry Classification System® (SICS®).

Detailed Recommendations: Pillar 3 - Risk Management

The objective of disclosures on risk management is to enable users of financial reports to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including if and how those processes are integrated into and inform the entity's overall risk management process. To achieve this objective, an **entity shall disclose information about**:

The entity's **processes for identifying, assessing, prioritizing and monitoring** climate-related risks:

- the methodologies, data sources and scope of operations used in identification of climate-related risks;
- if and how climate-related scenario analysis is used to identify climate-related risks;
- how the entity assesses the nature, likelihood and magnitude of climate related-risks, e.g. which qualitative and quantitative factors are used;
- procedures for monitoring of climate-related risks;
- whether and how the entity has changed the processes as compared to the previous reporting period.

Management and integration of these risks in overall risk strategy

- how the institution makes decisions to mitigate, transfer, accept, or control climate-related risks;
- the processes for prioritizing climate-related risks, including how materiality determinations are made within the institution
- how processes for managing climate-related risks and opportunities are integrated into the organization's overall risk management framework

Source: IFRS Sustainability Disclosure Standard S2 Climate-related Disclosures.

Detailed Recommendations: Pillar 4 - Metrics and Targets

The objective is to enable users of financial reports to understand an entity's performance against its climate-related risks and opportunities, and progress towards climate-related targets set by law, regulation or by entity. To achieve this, an **entity shall disclose**:

Metrics used to assess climate-related risks and opportunities in line with the entity's strategy and risk management process, including:

- **cross-industry metrics** (e.g. GHG Scope 1, 2 and 3, measured as per GHG Protocol, with assumptions and methodology) and
- **industry-specific metrics** relevant to a company's business model, activities or other features common to the industry;
- whether and how performance metrics are incorporated into remuneration policies;

Targets set by law or by entity to manage climate-related risks and opportunities and **performance against targets**:

- key targets, for example, water, renewable energy, energy efficiency goals; financial goals and loss tolerances; revenue goals for low carbon products;
- interim milestones, base period from which progress is measured and target period;
- how the latest international agreements or regulation have influenced the targets and if targets are validated by a third party;
- if/how carbon credits will be used to achieve a company's net GHG emissions targets;
- approach to setting, monitoring and reviewing each target, including whether the target was derived using a sectoral decarbonisation approach.

Metric category	Unit of measure	Example metrics
Climate-related transition risks	amount and percentage	• volume of real estate collaterals highly exposed to transition risk • concentration of credit exposure to carbon-related assets • percentage of revenue from coal mining
Climate-related physical risks	amount and percentage	• proportion of property, infrastructure or other alternative asset portfolios in areas subject to flooding, heat stress or water stress • proportion of real assets exposed to climate-related hazards • revenue associated with water withdrawn and consumed in regions of high or extremely high baseline water stress
Climate-related opportunities	amount and percentage	• revenues from products or services that support the transition to a lower-carbon economy • net premiums written related to energy efficiency and lower-carbon technology • number of zero-emissions vehicles, hybrid vehicles and plug-in hybrid vehicles sold • proportion of homes delivered and certified by a third-party, green-building standard
Capital deployment	presentation currency	• percentage of annual revenue invested in research and development of lower-carbon products/services • percentage of investment in climate adaptation measures (for example, soil health, irrigation and technology)

Sources: IFRS and TCFD

WEF Guidance on Corporate Climate Governance - Principles

Climate Accountability
The board should take company's long- term resilience to climate risks

Subject Command
The board should be properly informed about climate-related risks and opportunities and able to make relevant decisions.

Board Structure
The board should implement the right board and committee structures to ensure that climate risks and opportunities are understood, managed, and reported.

Materiality Assessment
The board should ensure that management fully identifies climate-related risks in the short, medium, and long-term, assess their materiality, and takes appropriate action according to the materiality of risks.

Strategic Integration
The board should ensure that management factors material climate-related risks and opportunities into the company's strategy, risk management process, and investment decisions.

Incentivizing
The board should align executives' incentives with the long-term success of the business. This may include climate-related targets in executive incentive schemes.

Reporting and Disclosure
The board should ensure that the company discloses its material climate- related risks, opportunities, and strategic decisions to all stakeholders - especially investors and regulators. These disclosures should be included in financial reporting.

Exchange
The board should stay informed on current best practices in climate governance by maintaining dialogue with peers,policy-makers, investors, and others.

For further guidance on implementing questions, refer to the WEF guiding principles and questions

Source: WEF, Principles for Effective Climate Governance

Boards' Climate Governance Role: Implementation of ESG Practices

1 **MISSION**
The management has formulated a mission that includes the social, environmental, and economic components of its activities

2 **STRATEGY:**
- The management approved the corporate strategy and its functional component
- The strategy sets out the strategic goals internal and external for each aspect of ESG policy

3 **AREAS OF ACTIVITY:**
- The divisions responsible for the activities in the field of sustainable development have been identified
- The implementation of the directions is carried out at the corporate and enterprise level

4 **GOALS BY AREAS OF ACTIVITY:**
Goals have been formulated in all areas in the field of sustainable development

5 **KEY PERFORMANCE INDICATORS:**
KPIs are used in the analysis and evaluation of the results of activities in the following areas

6 **TARGET VALUES FOR KPIs:**
Progress towards achieving the set goals is tracked using target values

7 **MONITORING AND REPORTING :**
A regular process of monitoring the results and preparing reports on areas of activity in the field of sustainable development has been organized

Source: Analysis of the report authors.

APPENDIX 1

Description of the elements of a good corporate governance mechanism

Governance Mechanisms

APPENDIX 1

Corporate governance relies on a handful of mechanisms to align executives with owners and other stakeholders

Corporate governance involves establishing mechanisms to align the goals of a company's executive team with those of owners and other stakeholders (customers, local communities) in the interest of fostering sustainable and long-term development. One of the main mechanisms is the board of directors. It plays a vital role in keeping the executive team both accountable and on track relative to its stated purpose and long-term goals. There has been a lot of discussion about the most effective structure for a board - which tends to depend on the nature of the organization, its market, and its regulatory environment. For a board to be truly effective it must decide on its optimal size, the independence of its members, the means to assess potential risks, and the renewal process necessary to maintain effectiveness. There has been heated debate about how to add diversity (in terms of both skills and backgrounds) to boards, in the interest of enhancing strategic guidance. Another high-profile topic is incentives, or setting the right type of compensation for top executives in order to encourage long-term decision-making that is in line with the organization's purpose.

The compensation debate revolves around not only pay levels but also structure: short-term vs long-term, preferred stock vs. options, performance vesting options as well as discretionary bonuses. Research has shown that setting variable incentives tied to long-term horizons is conducive to long-term profitability, an increase in innovation, and increases in employee and client satisfaction. One key mechanism is the ability of shareholders to engage with management and discuss material matters and (most importantly) vote on proposals at annual meetings. Shareholders can include anyone from founding families to institutional investors like pension funds, and a significant share will likely be participating via retirement plans. Shareholder engagement keeps managers on their toes - and while not every form of activism genuinely adds value, making managers respond to shareholder pressure helps them to avoid becoming entrenched and insulated. There has been a marked increase in corporate responsiveness to shareholder pressure related to climate and gender equality issues in recent years, as well as a greater emphasis on long-term strategic plans - reflecting the fact that many shareholders now have longer-term investment horizons.

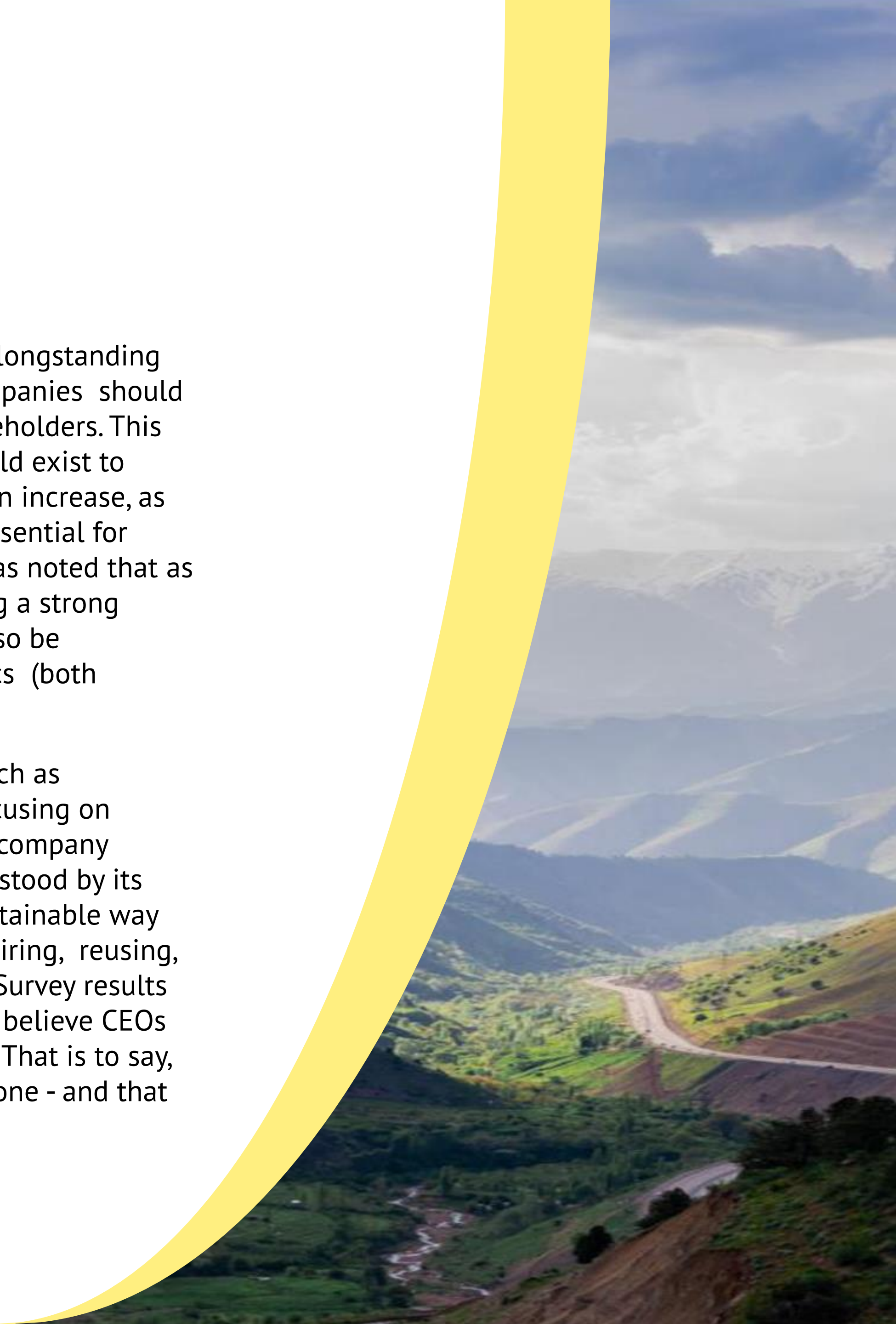
Defining Corporate Purpose

APPENDIX 1

An organization's reasons for being should extend well beyond financial gains

The Business Roundtable, an association of CEOs of the largest American companies, has departed from a longstanding view that corporations exist solely to serve their shareholders. In 2019, the organization declared that companies should benefit all stakeholders, including customers, employees, suppliers, and communities - in addition to shareholders. This strongly reinforced the idea that profits are not the sole purpose of a business and that corporations should exist to solve problems and provide services. If they are successful at doing this, long-term shareholder returns can increase, as society, in general, is better served. Establishing purpose is not an abstract exercise; it has proven to be essential for guiding decision-making and for establishing priorities. London Business School Professor Alex Edmans has noted that as virtually all of the major decisions a company makes involve trade-offs, one of the main benefits of having a strong purpose is to guide these trade-offs. The purpose must not only be explicitly defined, however - it must also be implemented. Shareholders must understand the organization's purpose, and be able to identify the metrics (both quantitative and qualitative) related to delivering on it.

Some of these metrics incorporate the traditional concepts behind corporate social responsibility (CSR), such as maintaining positive working conditions and employee satisfaction, cultivating workforce diversity, and focusing on client satisfaction and product quality. But purpose can go well beyond CSR - one example is the clothing company Patagonia, which states that its reason for being is to help protect life on Earth. This is (presumably) understood by its investors, and implemented by designing, producing, and selling products in the most environmentally sustainable way possible, and by building its supply chains and customer service around the circular economy ideas of repairing, reusing, and recycling. Responsible corporations create value for society and are motivated by the desire to do so. Survey results published by researchers at Stanford Graduate School of Business in 2018 showed that 65% of Americans believe CEOs at large companies should use their positions to address broad social, political, and environmental issues. That is to say, most Americans realize that corporations need to be committed to providing solutions and value to everyone - and that businesses have a responsibility to society.



Cultivating Trust

APPENDIX 1

Responsible corporate governance can create a culture of mutual trust

Trust is crucial for the long-term success of companies - especially at the board level. Genuine trust is underpinned by personal integrity, and by putting the interests of the organization (and of society) above those of individuals. Boards need to be able to trust that management will bring full transparency into the boardroom, and that will only happen thanks to shared integrity. There is a strong sense of pessimism about leadership in both the private and public sectors, and anxiety related to job security is high - due to a general lack of training and increasing automation, and not least due to the global pandemic. This threatens to fuel the growth of nationalist and protectionist movements. According to the Pew Research Center, as of 2019 only about one-third of adult Americans had a great deal or fair amount of confidence in elected officials to act in the public's best interests, and less than half said the same about business leaders (attitudes were far more positive when it came to the medical professionals now grappling with COVID-19). In addition to the general public, employees increasingly expect their employers to do the right thing and take action on issues related to inequality, the environment, and climate change.

As people lose faith in their political leaders, it appears that they have higher expectations for CEOs. According to the 2019 Edelman Trust Barometer, more than three-quarters of the general population, or 76%, want CEOs to take the lead on necessary social and economic change rather than waiting for governments to act. While organizations must comply with legislation and regulation on everything from taxes to consumer protection, competition, corruption, and environmental protection, they can also be positively influenced in terms of corporate governance and trust by industry self-regulation and voluntary practices - such as a code of conduct. Most cases of fraud and breach of trust among stakeholders can be traced to corporate governance failures, and so corporate leaders have the ultimate responsibility for creating an organizational culture that supports trust - and ensures that management and employees embody and act on the stated values and mission of their organization. Particular areas of increased social expectations that require the attention of boards of directors include diversity (including gender diversity), transparency, equal opportunity, and eliminating all forms of harassment.

Regulation and Corporate Adaptation

APPENDIX 1

Shifts in regulation can have profound corporate governance implications

A wide variety of legal and regulatory environments have been constructed around the world; the OECD Corporate Governance Factbook contains information about nearly 50 different national institutional, legal, and regulatory frameworks. Some institutional and legal settings have proven to be more conducive to effective corporate governance than others. Enhancing governance reform in the many places where it is lacking is a potential source of value creation both for individual companies and broader economies. One example of legal governance reform is 2002's Sarbanes-Oxley Act in the US, which expanded disclosure and auditing requirements and the responsibilities of the boards at all publicly-traded companies. Sarbanes-Oxley triggered similar reforms around the world: Australia in 2004, India in 2005, and Japan in 2006. Since then, other important reforms have been put in place - such as the Dodd-Frank Act enacted in 2010, in response to the banking industry excesses that resulted in the financial crisis, and the Jumpstart Our Business Startups, or JOBS Act, which was designed to facilitate the funding of small businesses in the US by exempting them from certain regulatory requirements.

The right mix of legislation, regulation, and self-regulation depends on a country's specific circumstances, history, and culture. The corporate governance structures developed in response typically cover the ownership of publicly-listed companies and stock exchanges, shareholder rights and responsibilities, takeover rules, board structures and composition, and information disclosure. Technological progress has created situations where regulatory needs are not necessarily black and white. Services like Uber and Lyft, for example, have made it unclear if drivers should be treated like regular employees or contractors under the law. Legislation passed in California in 2019 requires these ride-sharing platforms to treat drivers in that state as employees when it comes to wage and benefit protections, creating uncertainty about the financial prospects of the broader "gig economy" amid the possibility that other states and countries might follow suit. This shift could impact many boards and the ways they approach compliance, risk management, and corporate strategy. Other areas of technological development with significant corporate governance implications include artificial intelligence, blockchain, the Internet of Things, and biotechnology - all of which are likely to trigger new regulations and corporate governance needs.

Corporate Risk Management

APPENDIX 1

For boards, the volatility of risk scenarios is only increasing

Every organization is confronted with some type of risk - operational, financial, technological, environmental, regulatory - which can have devastating consequences. Effective corporate governance requires continuous and systematic management of all types of risk, both current and anticipated. First, risks must be prioritized, and here the board of directors can play a key role by deciding in what priority they should be addressed, what is to be deemed simply unacceptable, and how they should be addressed from a structural perspective. For example, evidence gathered from the 2007 global financial meltdown indicates that banks with boards that had identified a need to establish a separate risk management committee managed the crisis better than those with integrated committees. The benefits of this type of separation have become only more evident as fiduciary duties have come to include oversight of a broad range of matters, including compliance with international accounting rules and stability measures that require banks to set aside capital in case of potential losses. Implementing a robust risk management system requires the integration of different parts of an organization, including the board's risk committee, internal auditing, finance, legal, and operations.

Increasingly complex and rapidly changing economic, environmental, social, and technological conditions have multiplied potential risk scenarios. Worsening climate change, geopolitical tensions, trade wars, and social upheaval like the protests that spread in Hong Kong in 2019 require corporate governance that is proactive when it comes to identifying risks and addressing them. Determining an appropriate board structure and approach to risk management will depend upon both a company's industry and the stage of its life cycle; risk exposure is very different for financial institutions than it is for petrochemical firms. Even within the financial sector, different approaches are required - from insurers exposed to extreme weather events related to climate change to retail banks making loans to small businesses during volatile periods. Organizations are dealing with complexity and litigiousness like never before, forcing their boards to assess current and past organizational exposure. Still, there are some strategic advantages to taking risks; after all, achieving sustained growth requires some degree of risk-taking. Incorporating risk management into corporate strategy is therefore crucial.

Long-Term Vision, Short-Term Needs

APPENDIX 1

Balancing short- and long-term pressures is one of the most difficult business leadership challenges

There is a commonly-held view that investors pursue short-term profit at the expense of long-term value. According to the results of a survey published by the Rock Center for Corporate Governance at Stanford University in 2019, 70% of CEOs and CFOs at S&P 1500 Index companies were facing pressure to maximize short-term returns at the expense of long-term growth. When firms focus on the short term, it often translates into lower investment in the long-term sustainability of a company at the expense of other stakeholders. Management has to be able to both articulate a long-term strategy and deliver sufficient short-term returns in order to ensure support and continued investment. Consistent metrics for measuring the success of long-term strategies are important. Corporate governance can play an important role in this regard by implementing incentives and pay aligned with these long-term metrics. Another means to tilt the balance towards a longer-term approach has been the increased adoption of Environment, Social, and Governance (ESG) criteria in corporate strategies and investment decisions - which can draw the attention of shareholders zeroing in on firms with a longer-term, socially-conscious approach.

According to a white paper published by the World Economic Forum in 2019, quarterly reporting requirements are not the sole reason for short-termism - though corporate leaders describe them as a "necessary evil." According to the white paper, these leaders must become better storytellers about their companies, by framing each quarter as a step in a longer-term story. Management and their boards must engage in constant conversation about how the company will grow, and the risks it will take to get there. Leaders of global companies have been signing a World Economic Forum compact for responsive and responsible leadership, committing them to ensure that their boards oversee the definition and implementation of corporate strategies that pursue sustainable long-term value creation, to encourage the periodic review of corporate governance, long-term objectives and strategies at the board level, to promote meaningful engagement between the board, investors, and other stakeholders that builds mutual trust and promotes the highest possible standards of corporate conduct, and to implement policies, practices, and long-term strategies aimed at cultivating sustainable growth for the benefit of all stakeholders.

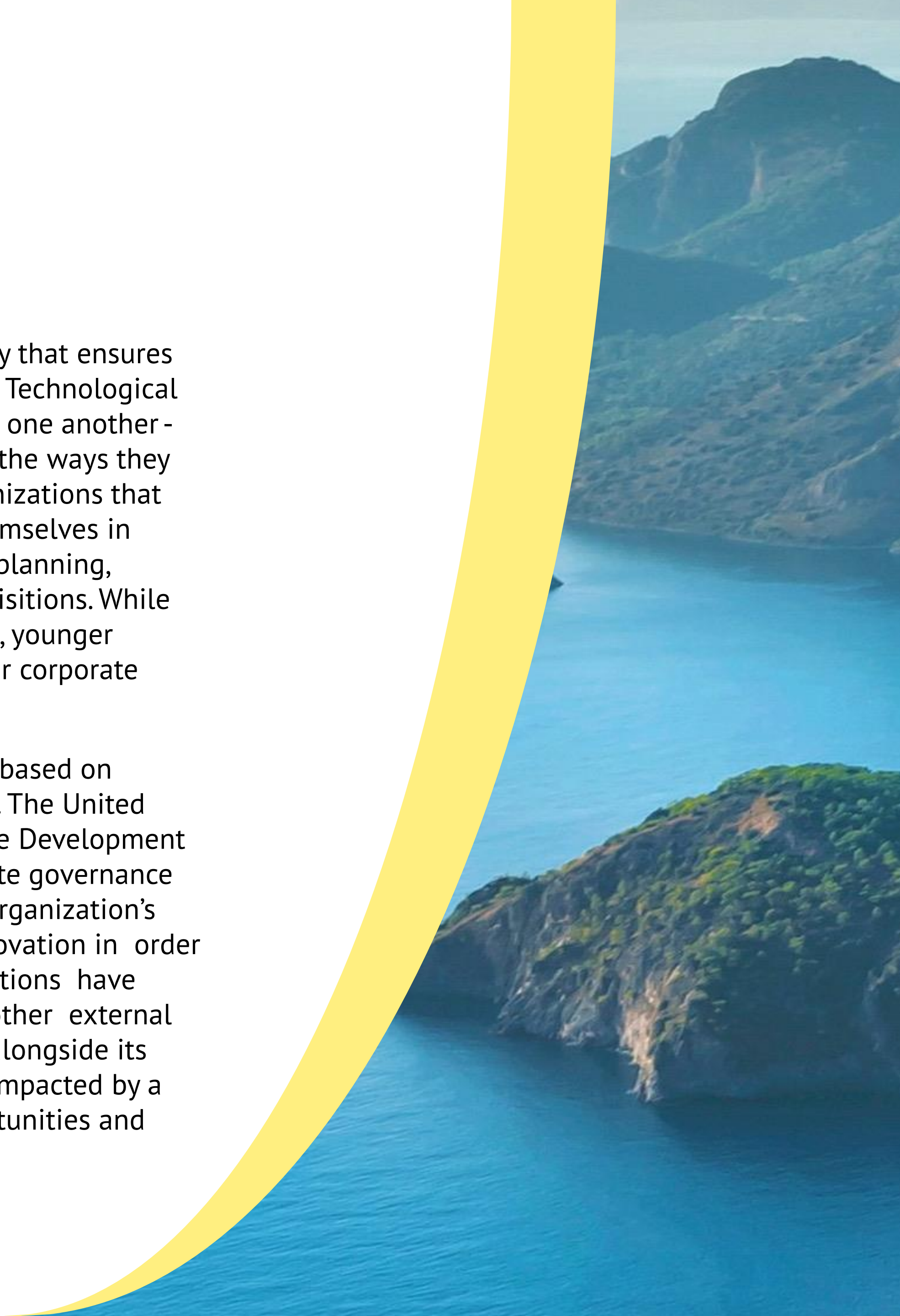
Governing Disruption

APPENDIX 1

Organizations must be able to evolve and adapt, as the COVID-19 crisis has illustrated

A board of directors has the responsibility to drive the continuous reinvention of an organization - in a way that ensures it is fit for purpose relative to shifting customer demands, social expectations, and unexpected calamities. Technological innovation at the core of the Fourth Industrial Revolution is changing the way we live, work, and relate to one another - and forcing the decision-makers guiding organizations to rethink how they can create value and reinvent the ways they function. As the global economy weathers the impact of the COVID-19 pandemic, for example, many organizations that had previously focused on maximizing resilience through technologies like cloud computing may find themselves in better shape than others. Innovation impacts many of a board's core responsibilities, including long-term planning, fostering a corporate culture, executive compensation, setting strategy, and making investments and acquisitions. While established incumbents are at risk of lacking sensitivity to evolving technology needs and responsibilities, younger players need the financial resources and data enjoyed by their older counterparts - and each can gear their corporate governance efforts towards sharing resources in a way that creates value.

New collaborative models may require entirely new corporate governance approaches that are much less based on traditional vertical control and siloed mechanisms - while still maintaining accountability to shareholders. The United Nations has emphasized the critical potential for breakthrough innovation to help achieve the Sustainable Development Goals, which are designed to enable a more sustainable global economy by 2030. It is a matter of corporate governance to consider how this innovation can both enable sustainable economic growth and help fulfill a specific organization's purpose. In terms of investor stewardship, for example, shareholders must be engaged on the topic of innovation in order to better understand long-term prospects both for the business and for society as a whole. Some organizations have specific board committees dedicated to technology and innovation, while others bring on consultants or other external advisors. Boards at the most forward-looking companies consider the long-term prospects of a business alongside its internal capabilities - essentially looking into the future in order to assess whether a company might be impacted by a paradigm shift in technology and business models or a global crisis and whether there are related opportunities and risks.



APPENDIX 2

Description of key areas of corporate governance assessment

Structure and functioning of the board

APPENDIX 2

Joint Stock Companies are organised under a two-tier board system, where the general shareholders' meeting ("GSM") has the exclusive power to appoint and dismiss members of the supervisory board (also hereinafter referred to as the "board"). By law, the GSM also has the authority to appoint, dismiss and set remuneration of the executive body – being either a management board headed by the Chief Executive Officer ("CEO") or solely the CEO – unless this authority is explicitly delegated to the supervisory board under the charter or by a GSM decision. In banks, the executive body is always appointed by the supervisory board. The CEO, the management board's members and the company's employees cannot be members of the supervisory board. The supervisory board has limited authority over deciding on the strategy and budget. By law, the minimum number of board members varies between seven and nine, depending on the number of shareholders. Gender diversity on the boards appears to be limited.

The legislation does not provide any guidance as regards professional qualifications of supervisory board members and companies provide very limited disclosure on skills, experience and expertise of board members. There is no regulatory requirement for appointment of independent directors even for banks, although the CG Code recommends companies to have at least one independent director and an overall number of independent directors representing at least 15% of the board. This recommendation does not seem to be implemented consistently in practice, however. At the same time, there is no regulatory requirement for the establishment of board committees, including the audit committee. The CG Code only mentions the possibility to establish committees, which pursuant to the Code may comprise management board members, employees or outside members, contrary to international best practice guidance. There is no practice of board evaluation, instead the CG Code encourages annual external evaluation of corporate governance. The Law on Joint Stock Companies provides for a position of a corporate secretary and the CG Code recommends it as well. However, the functions of the corporate secretary seem to be mainly administrative. The law provides board members with liability and fiduciary duties, but there is no obligation to act in good faith or follow prudent business judgement.

Transparency and Disclosure

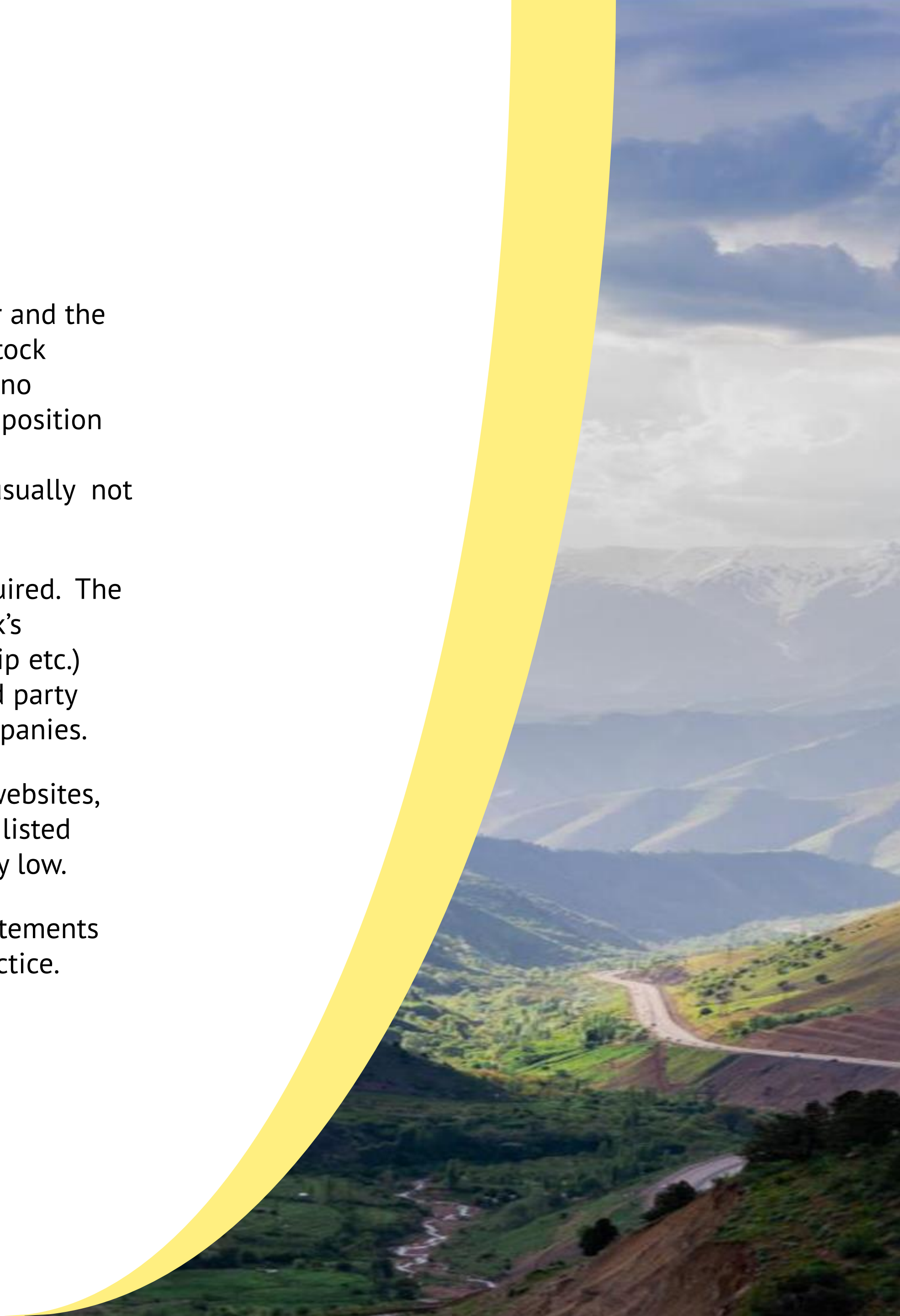
APPENDIX 2

Joint Stock companies are required by law to disclose their annual reports on the website of the regulator and the company's own website. Listed companies are required to disclose annual reports on the website of the stock exchange. Annual reports should include financial and some non-financial information. However, there is no guidance on information disclosure and the law does not provide for an adequate level of detail. The composition of the joint stock company's supervisory board and executive body must be disclosed upon election, but qualification of board members, composition of board committees, and frequency of board meetings are usually not disclosed.

The GSM decisions must be disclosed as "material events" filings, but disclosure of full minutes is not required. The Regulation on Corporate Governance in Commercial Banks requires disclosure of the structure of the bank's governing bodies (composition, qualification and experience, authority, obligations, committee membership etc.) and the bank's ownership structure, bank's or bank's group organization structure, code of ethics, affiliated party transactions, etc. The quality of disclosure by banks is not significantly better than those of the other companies.

The website of Single Portal of Corporate Information (http://openinfo.uz/en), which is part of regulator websites, discloses prospectuses, quarterly and annual reports, essential facts, and other official announcements of listed companies. Joint stock companies are liable for non-disclosure and misinformation, however, fines are very low.

With reference to financial disclosure, all joint stock companies are required to prepare their financial statements in line with International Financial Reporting Standards, but it has not yet been fully implemented in practice.



Internal Control

APPENDIX 2

The internal control framework is not well developed. "Premium"-listed companies are obliged to create an internal audit function, and for all banks, this is a legal requirement too. For other joint stock companies, the CG Code recommends establishing an internal audit function.

All joint stock companies are required to have an external audit. External auditors are required to be independent; however, it is not clear who is in charge of undertaking the "independence test". External auditors are allowed to perform non-audit services. External audit companies must be rotated every three years.

The law does not present a requirement that listed companies create board-level audit committees that would specifically be charged with audit oversight. Related party transactions and conflicts of interest are regulated by law; however, it is not clear how the law is implemented and enforced in practice. At the moment, it appears that there is no comprehensive regulation or guidance on the whistleblower function.

Rights of Shareholders

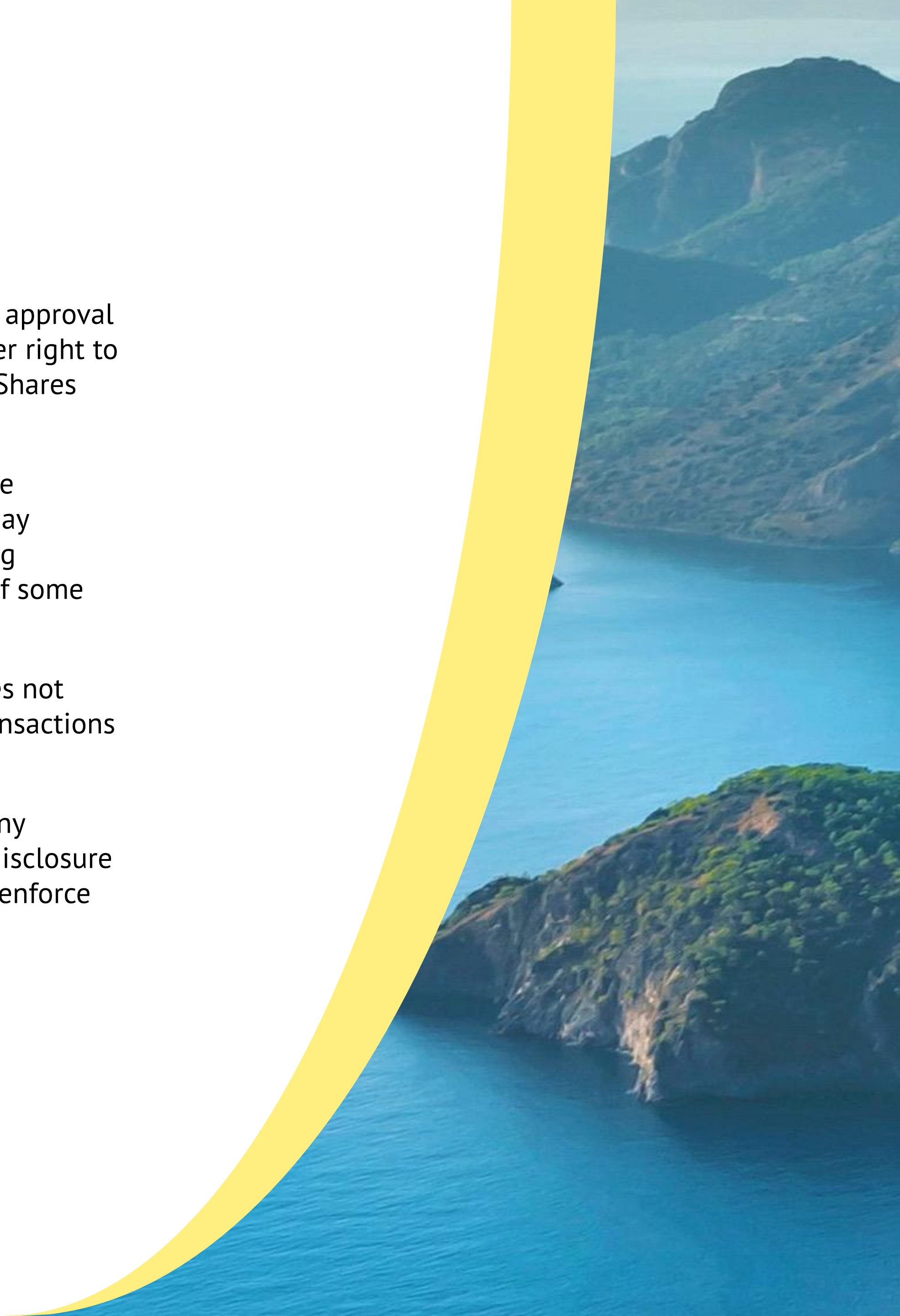
APPENDIX 2

Basic shareholder rights seem to be regulated by law and major corporate changes require supermajority approval at the GSM. Shareholders representing 5% of the capital may call a GSM, but there is no clear shareholder right to ask questions at the meeting. Cumulative voting must be used when shareholders elect board members. Shares provide equal rights to shareholders and registration of shareholding is required by law.

Shareholders have the right to access corporate documentation and most companies provide at least some information on their websites and/or on the website of Tashkent Stock Exchange. Joint stock companies may establish a minority shareholders committee as a forum of minority representatives tasked with addressing shareholder grievances and communicating them to the supervisory board and management. Disclosure of some non-financial information is required by law but lacks quality in practice.

Significant share acquisitions must be pre-approved by the anti-monopoly authority, however, the law does not provide for “mandatory” or ”voluntary bid” rules and disclosure of the major shareholder. Related party transactions and conflicts of interest are regulated by law.

Some doubts exist as regards the enforcement of insider trading legislation since it was difficult to find any information on how many cases have been investigated and closed. The law does not restrict or impose disclosure on directors’ dealings with the company’s shares. Shareholders are provided with judicial mechanisms to enforce their rights, but we are not aware of any case law.



Stakeholders and Institutions

APPENDIX 2

The institutional framework supporting good corporate governance needs improvement. The CG Code, approved in 2015, lacks a proper implementation mechanism and seems to be outdated in terms of the standards that it presents.

Some of the international audit, law, and rating firms are present in Uzbekistan and undoubtedly provide some contribution to enhancing corporate governance. However, the stock exchange and the regulator do not seem to be very active in promoting good corporate governance or in monitoring companies' corporate governance practices. The role of the State Asset Management in promoting good corporate governance is difficult to assess in practice, as we could not find any major action, apart from the issuance of the CG Code. Rulings of regulatory agencies are documented, publicly available, and easily accessible, but case law collections seem to be hardly accessible.

Inconsistencies between different laws and regulations are reported. Indicators by international organizations clearly point out how corruption is a perceived concern.

APPENDIX 3

Corporate governance legislation in Uzbekistan

Corporate Governance Legislation: General

APPENDIX 3

LRU–370	About joint stock companies and protection of shareholders' rights
LRU–387	About the securities market
DP–4720	On measures to introduce modern methods of corporate governance in joint-stock companies
PD–207	On the introduction of criteria for evaluating the effectiveness of joint-stock companies and other economic entities with a state share
DCM–176	On measures to further improve the corporate governance system in joint-stock companies
DP–6096	On measures to accelerate the reform of enterprises with the participation of the state and the privatization of state assets
PD–4611	On additional measures for the transition to international financial reporting standards
DP–6207	On measures for further development of the capital market
DCM–166	On approval of the strategy of management and reform of enterprises with state participation for 2021-2025
DCM–619	On amendments and additions, as well as the invalidation of some decisions of the Government of the Republic of Uzbekistan in connection with the adoption of the Strategy of Management and Reform of Enterprises with state Participation for 2021-2025
LRU–814	On amendments and additions to some legislative acts of the Republic of Uzbekistan in connection with further improvement of the corporate governance system
PD–83	On measures to accelerate the processes of reforming enterprises with the participation of the state
SAMA	Corporate Governance Code
SAMA	Methodological recommendations on compliance with certain provisions of the Corporate Governance Code

Corporate Governance Legislation: Indirect

APPENDIX 3

DR–5992	The Strategy of reforming the banking system of the Republic of Uzbekistan for 2020 – 2025
PD–101	Measures for the effective organization of the activities of the Agency for the Management of State Assets
LRU–580	About banks and banking activities
DR–101	The next reforms to create conditions for stable economic growth by improving the business environment and private sector development
LRU–419	Combating corruption
DR–5729	Measures to further improve the anti-corruption system in the Republic of Uzbekistan
DR–6013	Additional measures to improve the anti-corruption system in the Republic of Uzbekistan
PD–4477	About the approval of the strategy for the transition of the Republic of Uzbekistan to a "green" economy for the period 2019 – 2030
RCM–83	Additional measures to accelerate the implementation of national goals and objectives in the field of sustainable development for the period up to 2030
DR–60	The Development Strategy of New Uzbekistan for 2022-2026

Check yourself

APPENDIX 3

The table shows the regulatory requirements for mandatory disclosure of information on the corporate website of the joint-stock company. You can check your website for compliance with the current legislation.

Required disclosures	Check yourself	RCM–176	LRU–370	CGC	Required disclosures	Check yourself	RCM–176	LRU–370
General information	✓	ch. II, p.3, sp. 1 ch. II, p.3, sp. 2 ch. II, p.3, sp. 4 ch. II, p.3, sp. 15			Affiliated	✓	ch. II, p.3, sp.8	p. 106, p.4 p. 105, p. 3
Ownership Structure	✓			ch. II, p. 12, sp. 4	Reporting	✓	ch. II, p.3, sp.13 ch. II, p.3, sp.17 ch. II, p.3, sp.19	p. 102, p. 5
Business plan and strategy	✓	ch. II, p.3, sp. 2 ch. II, p.3, sp. 3	p. 3, p. 9		Purchases and contests	✓	ch. II, p.3, sp. 16	
Contact information	✓	ch. II, p.3, sp. 4		ch. IV, p. 20, sp. 1	Payment of dividends	✓	ch. II, p.3, sp.18	p. 55
Company management	✓	ch. II, p.3, sp. 5 ch. II, p.3, sp. 7	p. 62 p. 72, p. 4	ch. II, p. 12, sp. 4	Acquisition of shares	✓	ch. II, p.3, sp.20	p. 37, p. 7
General Meeting of Shareholders	✓	ch. II, p.3, sp.12 ch. II, p.3, sp.11			Vacancies	✓	ch. II, p.3, sp. 6	
Corporate Governance Code	✓	ch. II, p.3, sp. 9		ch. I, p. 8 ch. X, p. 38	Public events	✓	ch. II, p.3, sp. 14	
Essential facts	✓	ch. II, p.3, sp. 10			Specifying the source	✓	ch. II, p.3, sp. 21	

Check yourself

APPENDIX 3

The table shows some mandatory and recommended documents for development in the field of corporate governance. You can check which documents should be developed to improve the efficiency of the company.

Document	Check yourself	Document	Check yourself
Corporate Governance Code	✓	Regulation on the Dividend Policy	✓
Regulations on the General Meeting of Shareholders	✓	Regulation on reporting requirements of management and control bodies	✓
Regulations on the Supervisory Board	✓	Regulations on payment of remuneration to members of the National Assembly and IO	✓
Regulations on the Executive body	✓	Regulations on the Internal Audit Service	✓
Sustainable Development Policy/ESG Policy	✓	Anti-corruption policy	✓
Regulation on the procedure for actions in case of a conflict of interests	✓	The procedure for concluding large contracts	✓
Regulation on the Risk Management and Internal Control system	✓	Code of Business Ethics	✓
Regulation on Information Policy	✓	Rules of ethical behavior	✓
Compliance Service Regulations	✓		

APPENDIX 4

Key takeaways from SAMA's report
on the performance of its SOE portfolio

APPENDIX 4

In August 2023, UzSAMA published its 2022 annual report on its activities in August 2023.

Chapter II of the report is devoted to information on the current status of implementation of the **"Strategy for the Management and Reform of State-Owned Enterprises for 2021-2025"** (the Strategy).

Chapter IV describes the main **results of the implementation of modern corporate governance methods** in state-owned enterprises.

Further you can briefly familiarize yourself with the main results of the Strategy implementation and introduction of corporate governance.

Strategy areas	Results
Improvement of the regulatory framework for the management and reform of State-owned enterprises	• The LRU "On amendments and additions to some legislative documents of the Republic of Uzbekistan" was developed and adopted, according to which the special right of the state to the "Golden Share" was abolished, the obligation to create audit commissions was abolished, and the term of office of members of the executive body and supervisory board was extended to three years: • The LRU "On State Property Management" was developed and adopted, providing for the separation of responsibilities of the owner and regulator, maintenance of the register of state-owned enterprises, and the responsibility of members of the supervisory board; • Developed draft LRU "On Privatization" (the draft is under consideration by the Legislative Chamber of Oliy Majlis), which defines the procedure for privatization, post-privatization monitoring, as well as rules regulating transparency and accountability of privatization processes; • The Order of the Cabinet of Ministers "On Measures to Improve the Procedure for Forming Candidates to the Supervisory Boards of State-Owned Enterprises" was developed and adopted;
Sharp reduction of state-owned enterprises	In 2010-2019, state assets worth 1.2 trillion soums were sold, and in 2022 this figure reached 11.3 trillion soums. That is, 10 times more results were achieved in the last year than were made in ten years. As a result, by now the number of state-owned enterprises has decreased by 40 percent;
Transfer of state-owned enterprises to full-fledged market mechanisms	• A draft Order of the Cabinet of Ministers "On Measures to Introduce Modern Market Approaches to Financing Non-Commercial Purposes of State-Owned Enterprises" has been developed; • Approved a plan of measures to eliminate existing monopolies by involving the private sector in 13 activities and abolishing exclusive rights; • The Law "On State Property Management" includes a provision prohibiting the performance by one state body of both ownership and regulatory functions in state-owned enterprises;

APPENDIX 4

Strategy areas	Results
Implementation of modern methods of corporate governance	• The Order of the Cabinet of Ministers "On Measures to Improve the Procedure for Forming Candidates to the Supervisory Board of State-Owned Enterprises" was adopted; • A special web portal (www.cns.davaktiv.uz) was launched to announce contests for nominating candidates to the Supervisory Board; • Developed and submitted to the Ministry of Justice a draft procedure for the selection of candidates for managerial positions in state-owned enterprises; • Association of Independent Members of Supervisory Boards of Uzbekistan established and registered with the Ministry of Justice; • In 76 participating economic companies with supervisory boards, 97 independent members were elected. It is also planned to recruit 79 independent members with international experience to the supervisory boards of 38 state-owned enterprises; • A methodology for assessing the corporate governance system, including the activities of the Supervisory Board (scorecard), has been developed and applied in 20 business entities; • In 121 state-owned enterprises, 480 committees have been established under the Supervisory Board in the relevant areas, including 120 audit committees (Strategy and Investment Committee, Audit Committee, Nomination and Remuneration Committee, Anti-Corruption and Ethics Committee); • A set of documents on the risk management system based on the "three lines of defense" approach at state-owned enterprises was developed; • An international consortium of experts developed a standard Code of Ethics for state-owned enterprises and sent it to large state-owned enterprises for implementation;
Implementing transparency and disclosure practices	• For the first time, the website and social media of UzSAMA published information on state-owned enterprises with the highest net profit (Top 20) and the largest losses (Top 10) in 2022; • Transparency requirements have been introduced in the Law "On State Property Management". In particular, subjects of state property management must publish in the mass media and on their official websites a report on the efficiency of state property management, as well as on the costs associated with ensuring the integrity and safety of state property.

Implementation of modern methods of corporate governance :

APPENDIX 4

Criteria	Results
Results of corporate governance system assessment	• Developed a Corporate Governance Code based on OECD principles and implemented in joint stock companies' practices; • A questionnaire was developed to assess the state of effective implementation of the corporate governance system in joint-stock companies with state participation, which provides for passing the questionnaire at least once a year; • In the reporting year, the corporate governance system was assessed in 144 joint-stock companies where the provisions of the Corporate Governance Code have been implemented. Based on the results of the assessment, the corporate governance system in 45 joint-stock companies was rated "high", in 84 joint-stock companies "satisfactory" and in 15 joint-stock companies "low";
Status of websites of state-owned enterprises	• Of the large enterprises operating in the republic (list of enterprises in Annex 1,2 to PP-6096) 38 (except for liquidated, reorganized and sold) have official websites (94.7 percent), 2 were found to be at the stage of development; • Based on information posted by businesses with websites, 22 of them (10 in 2021) were rated "good", 8 (16) were rated "satisfactory" and 6 (14) were rated "unsatisfactory";

Internal Audit Committees, Compliance Service and Supervisory Boards	• As of December 1, 2022, the organization of an internal audit service is abolished for the following organizations:
	    • limited liability companies, except for limited liability companies, the book value of which is more than one hundred thousand times the amount of the basic calculation, with the state share of 50 percent or more, as well as credit organizations;
	    • joint stock companies and state unitary enterprises, the book value of which is less than one hundred thousand times the amount of the basic calculation, and the state's share is less than 50 percent.
	• 188 out of 857 state-owned enterprises (22 percent), where internal audit is to be introduced by the end of 2022, have established an internal audit service;
	• Compliance service is implemented in 44 (29.3%) out of 150 joint-stock companies with state participation;
	• Supervisory boards in 131 state-owned enterprises have 523 committees, including 131 audit committees, 131 strategy and investment committees, 132 nomination and remuneration committees and 129 anti-corruption and ethics committees;

The procedure for selecting candidates to the supervisory board of state-owned enterprises:

APPENDIX 4

Stage	Subject	Action	Deadline
1	State enterprise, authorized state body, candidate selection commission	Formation of the list of vacant membership positions available in the Supervisory Board, as well as those identified after review of the current composition, and its approval, specifying the qualification requirements for candidates and methods of recruiting candidates	Within 10 working days
2	Selection committee	Publication of the list of approved membership vacancies together with the requirements and criteria specified for these vacancies on a dedicated web portal	Within 2 working days
3	Selection committee	Searching for candidates for vacant membership positions on a list where the search is conducted in one of the following ways: • placing advertisements through a special web portal; • by engaging consulting companies specialized in the search for candidates;	Within 30 working days/contract
4	Selection committee	Formation of the list of admitted candidates and formation of information (documents) to be placed on a special web portal on the basis of established criteria	Within 5 working days
5	Selection committee	Shortlisting of candidates with the highest score of no more than 3 for each membership position	Within 5 working days
6	Selection committee	Conducting interviews with candidates as required	Within 3 working days
7	Selection committee	From the shortlist of candidates with the highest number of points, a decision shall be made to select the most suitable candidate for each member of the supervisory board and submit him to the competent state body.	Within 5 working days
8	Authorized state body	Submission of candidate proposals to enterprises for a decision on election	Within 2 working days
9	Authorized state body	Adoption of corporate resolutions on the election of candidates to the supervisory board within the deadline, according to the articles of association of the company	According to law/statute
10	Authorized state body	Publication of the list of selected candidates on a special portal	Within 2 working days

APPENDIX 5

Boards' routine which makes them effective

Effective Corporate Governance Practices (1/2)

APPENDIX 5

The eight key effective corporate governance practices by PwC:

Governance Frameworks

Governance frameworks can often be overlooked, however, they are the bedrock of how a company is governed and should be designed so as to ensure:

- effective boards;
- transparency around roles and responsibilities;
- Accountability to, and engagement with, stakeholders;
- driving sustainable business practices.

Policies in line with law and regulations

Policies are important because they address pertinent issues, such as rules for day-to-day operations. They ensure compliance with laws that reflect the culture of the organization, give guidance for decision-making, risk appetite and streamline internal processes.These policies should be current and in line with regulations as well as with the goals and strategy of the organization. Additionally, these should be made easily available to ensure that everyone understands the way things should be done and how they are expected to behave.

Governance Documentation

It is imperative that governance documentation is accurate and kept up to date. These documents establish the rules by which the business is governed, set out the rights and obligations of the shareholders/ owners, and provide evidence for regulators/ stakeholders of the governance processes/procedures in place.

Documenting processes and procedures

It is important that governance procedures are adequately documented. Often a company has good corporate governance practices, however, have gaps in terms of documenting the actual processes/procedures in place.

Source: The eight key effective corporate governance practices | PwC.

Effective Corporate Governance Practices (2/2)

APPENDIX 5

Effective board reporting

Boards perform best when they receive good quality reports that contain sufficient information for them to make well-informed decisions and to develop strategies for the short and long-term growth of the organization. The challenges for management in preparing fit-for-purpose reports for the board include the following:

- time-consuming and inefficient processes;
- inconsistent styles;
- difficulty in ascertaining the purpose required from the board.

Training and board evaluations

Directors need to ensure they keep up to date with regulations and legislation, which can prove challenging. Additionally, increased responsibility and expanding regulatory demands mean higher expectations for board performance. The following are common issues identified in the board evaluation:

- board not spending enough time on strategy and the longer-term plans of the company;
- board not have a strong mix of skills, knowledge, experience, and diversity;
- information not being supplied to the board in a timely manner and/or not of an adequate standard;
- board members not having sufficient time to commit to the company to discharge their responsibilities effectively;
- directors not obtaining any formal induction training and/or ongoing training;
- corporate governance documentation either not being in place and/or not accurately reflecting the actual processes.

Subsidiary governance policies

business structures, as corporations operate across multiple jurisdictions and business areas. To ensure that corporate governance principles are cascaded, consistently and effectively down to its subsidiaries and that subsidiary boards are aware of their responsibilities, it is important that such organizations:

- Establish a subsidiary governance
- framework/policy;
- set out rules in relation to the oversight of the subsidiaries which respect the sanctity of subsidiaries and their decision-making;
- provide guidance to the subsidiary boards on their roles and responsibilities, and reporting requirements to the parent company.

Agenda and minutes

It is imperative that the board deals with the most pressing/important strategic matters at meetings, therefore, we find that grouping items together under headings and putting routine items together for simultaneous approval by the board will ensure that agenda time can be best utilized during the meeting.

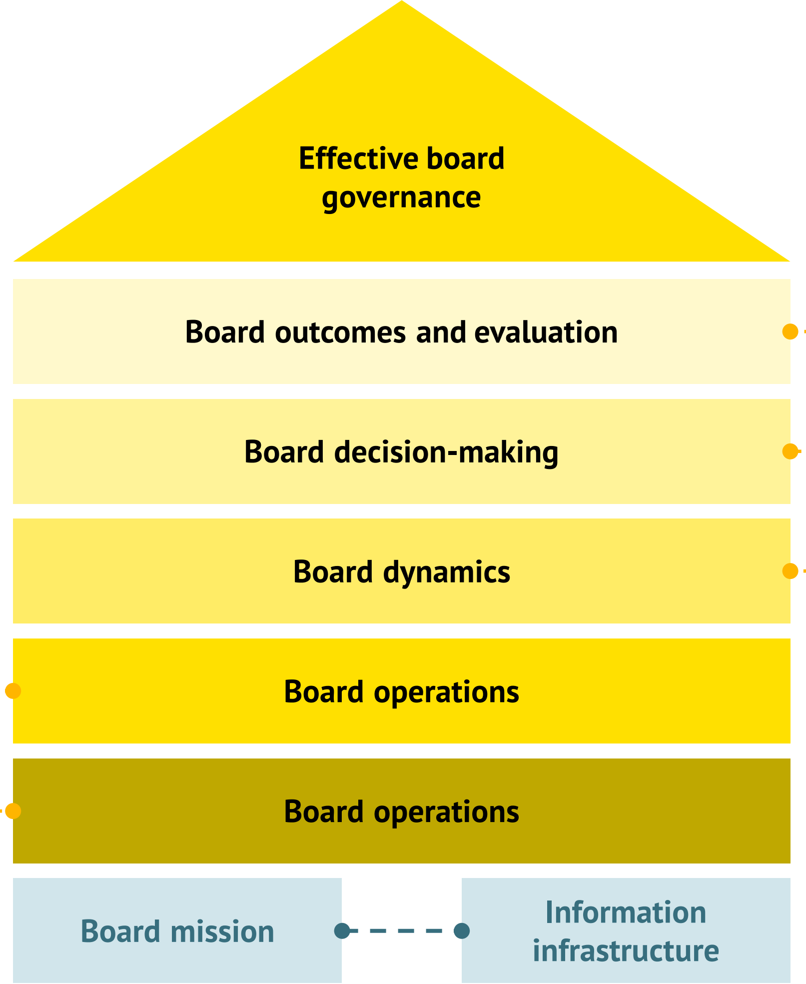
Source: PwC, The eight key effective corporate governance practices

Framework for Achieving Good Governance

APPENDIX 5

- Board and committee meeting schedules and core agendas are formalized for the upcoming 1-2 years
- Board meetings are focused on deliberation, do not run over time, and agenda items are not deferred
- Board members do not suffer surprises at board or committee meetings
- Executive sessions of the independent directors are reasonably planned and appropriately documented
- All directors attend a vast majority of their board or committee meetings
- The board calendar includes a two-day offsite for strategy, long-term value and related matters
- Board orientation is carefully tailored to the needs of the company and the board

- The board maintains a detailed board skills matrix for internal use in assessing board size and composition
- The board's corporate governance guidelines and committee charters clearly allocate roles and responsibilities
- Board members periodically move across different committees
- Committee chairs regularly collaborate on the most effective ways to oversee overarching board responsibilities
- Board and committee oversight responsibilities are periodically revisited
- Committee chairs report to the board when they need additional resources



- The board, its committees, and each director conduct a self-evaluation annually
- The self-evaluation process results in the identification of concrete actions the board agrees to take
- The board's collective competencies map to the company's strategic and technical needs
- The company's disclosures around the board evaluation process enhance trust in the company's board

- The board and management maintain a delegated authority matrix
- The board maintains a checklist of approval requirements
- The board chair ensures appropriate transparency around director voting
- The board does not make decisions without considering the quality of the information, timing, and risks and rewards

- Director participation at meetings is even
- If interviewed, each director would state that all members demonstrate respect and trust
- There are no "camps" or "factions" among board
- members or among board members and management
- Directors say something when they see something, and the board takes appropriate action
- The board engages in informal ways to enhance trust and build personal connections

Source: EY, How to achieve enduring board effectiveness

Increasing the Long-Term Impact of Board's

APPENDIX 5

McKinsey & Company

Directors are spending more time on their work, yet few say their boards are better at creating long- term value. McKinsey recommends the following 5 ways to make changes in board operating models and do it effectively:

1 Seek company information more proactively

This practice enhances a board's potential impact by increasing board members' familiarity with the organization's overall context and the particular situation at hand and also signals to the management team that the directors are making the effort to learn and contribute as much as possible. The board members who do seek additional information are better prepared to participate actively in discussions, ask good questions, and review the management team's proposals more constructively and critically.

2 Invest time in onboarding

Focused onboarding processes help board members learn quickly, so they can make effective contributions sooner rather than later. For example, a director with little prior knowledge of the sector would benefit from receiving an in-depth industry perspective as well as current information on the company's strategic direction, a summary of important board discussions from the past two years, and a personal introduction to key stakeholders, including the management team, all other board directors, and major shareholders.

3 Increase the cadence of board evaluations

While an annual performance evaluation is recommended for boards in most jurisdictions, in our experience, few board members actually engage in regular, formal evaluations—whether individually or collectively. According to the survey, the highest- impact boards are more likely than other boards to regularly examine their performance and have increasingly engaged in formal evaluations since 2019. It's best if boards conduct a more in-depth evaluation of their overall team performance at least once per year—for example, through interviews with all directors—and complement this effort with regular feedback sessions after every meeting.

4 Create space for non-executive voices

Giving independent directors the opportunity to discuss board topics among themselves increases accountability for both the board and the organization as a whole. If, at every board meeting, independent directors are given time to talk only to one another—with no company executives in the room—they can have more candid discussions about topics that would be difficult to address otherwise.

5 Appoint a chair who can facilitate effectively

Board meetings can be stressful, particularly if an organization is not performing well, and the stakes of these discussions are often high. The board chair plays a critical role in ensuring that meetings are both efficient and effective. To do so, the chair must create a clear agenda that balances fiduciary and strategic topics, encourage all board directors to voice their opinions, and effectively synthesize and summarize different perspectives to form a good basis for decision-making.

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We hope that this guide was useful to you!