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Date: November 15, 2004

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Can you imagine what Jamaica would be today if Hurricane Ivan suddenly came upon us with absolutely no advanced warning? A disaster all of us would say, and why not? We all like to make decisions based on information that is accurate, reliable and timely. And without advanced notice we would have been woefully under-prepared for that woeful event.

Investors, shareholders, and all stakeholders in our financial markets are no different. They need information such as we should find in audited financial statements to support their investment decisions. Financial statements though are cold, detailed, hard statements of facts and opinions that often require more technical ability to be able read and digest than the average person possesses. As stakeholders in the company these persons need to bridge the gap between what they understand and what the financials are saying. This can be done by the Board of Directors of the company supplementing their periodic and annual financial statements, with commentaries, statements, and through press releases and investor briefings, provide additional information that help the shareholders and the public to better appreciate those statements and to get a true state of the company's present and likely future financial health. Such communication will cover the company's performance or significant developments that are impacting or will impact on its financial position. This is Public Disclosure? And what is Transparency?

Transparency has to do more with the processes through which the company conducts its affairs, how the company manages certain risks, the governance policies of the Board.

Transparency also includes information on how the company deals with issues such as conflicts of interest, and other matters having to do with its customers and staff that, though not reported in the company's balance sheet, are important to its functioning and success. The opening of these matters to public scrutiny fosters trust and confidence.

To the extent that such disclosures go beyond the statutory minimum requirements, they are voluntary on the part of the Board and help to achieve the objectives of transparency. Corporate Disclosure is generally of two types:

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(a) Disclosure required by bodies external to the reporting entity. (e.g. Regulators, FSC, JSE, BOJ, and others – ICAJ. Here I include the JSE as a regulatory body as it is a self regulatory body for the equities market.)

(b) **Voluntary Disclosure** by the Board of financial, economic data, and other statistics or facts, that are intended to enhance their audiences' appreciation of an entity's current performance and likely future performance. This is usually referred to as Management's Discussion and Analysis (MD&A).

At this point, let me say that my presentation is focused on:

- (a) Licensed Securities Dealers, Insurance Companies, Pension Fund Managers, and other licensees of the Securities Act
- (b) Companies listed on the Jamaica Stock Exchange
- (c) Banks, Merchant Banks, Building Societies, and other Licensed Deposit taking institutions such as Credit Unions

The reason for focusing on the first three groups should be obvious. Licensed securities dealers, for example, at December 31, 2003 had some \$360 bn of assets under management. This has since grown to \$447 bn at September 30, 2004, as they continue to grow faster than commercial banks and other deposit taking institutions.

By and large, all three groups are custodians of people's wealth in one or more of the forms below to the tune of hundreds of billions of dollars.

- Securities Dealers at September 30, 2004 - \$447 bn.
- Market Capitalisation of Listed Companies at October 31, 2004 - \$814bn.
- Total Deposits at September 30 2004 - \$320 bn.

At the same time though, all of us present are affected by their activities, whether as investors in our own right, shareholders, prospective shareholders, regulators, or members of pension funds etc., whose assets are managed by, or partly invested in one or more of these entities. Further, some of these entities are not publicly listed and so **are required to send information to their regulators only** but the regulators are not allowed to share that information with the public. They therefore have a duty to be transparent in their operations and to provide us with sufficient voluntary disclosure that will help us to justify our investment decisions involving them.

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Why this concern about Voluntary Disclosure by these entities?

We rightly ask for such information because the financial disasters at Enron, WorldCom brought an end to the days when investors and all other stakeholders in the market, blindly accepted the reports out of corporate board rooms. The conduct of many Boards and senior executives has significantly eroded public trust and investor confidence in major capital markets. In Jamaica, we too experienced a weakening of public trust and investor confidence in our market as an outcome of the financial melt down of the second half of the nineties. Today, we are in the information age, globalization is gradually eliminating the boundaries between markets, and all countries are looking beyond their borders for new investors. Companies are also vigorously seeking ways to enhance shareholder value.

With the approaching Caribbean Single Market and Economy (CSME), we should find more intra-regional investments and so investors in one Caricom state will need more than just the bare minimum information in order to evaluate such prospective investments. Earlier this year a Caribbean Rating Agency was formed in Trinidad. The

agency will focus on rating sovereign and private sector debt issues in our region. The benefits of such a rating agency will be to investors and users of capital in the region, because a credible rating, based on objective evaluation and analysis will lead to companies that are rated being able to raise capital, whether debt or equity, at rates that are commensurate with their credit worthiness.

What are the existing “statutory” disclosure requirements for these entities?

In 2002 the Institute of Chartered Accountants of Jamaica (ICAJ) agreed for the implementation of International Accounting Standards, since renamed International Financial Reporting Standards, to replace the previous Jamaican GAAP under which local entities did their accounting and reporting.

Over and above the disclosure requirements of IFRS, the regulatory bodies also impose the following disclosure requirements on the **listed companies** and licensed financial institutions:

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- FSC (Securities Act and Related Regulations, and FSC Guidelines FSC)

Their licensees must include an MD&A of their operating results as a part of certain periodic prudential returns filed with the FSC,

- **JSE:** The JSE Rule 407 requires listed companies to include in their annual and periodic reports “Any supplementary information **which in the opinion of the Directors** is necessary for a reasonable appreciation of the results of the quarter/year”.

- **BOJ:** That licensees under their supervision publish their audited financial statements in a local newspaper within 90 days after their year end. BOJ also publishes certain statutory returns of their licensees at quarterly intervals. It is clear from the foregoing that, external bodies, namely the JSE, FSC, and the BOJ rely to a great extent on the requirements of IFRS for guiding the public disclosure of their licensees or members. But what is the IFRS standard for disclosure and transparency? I read IFRS 1.8 and 1.9 of 2002 which remain the unchanged to date.

These two sections read like this: “Enterprises are encouraged to present, outside the financial statements, a financial review by management which describes and explains the main features of the enterprise’s financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of:

- the main factors and influences determining performance,
- changes in the environment in which enterprise operates,
- the enterprise’s response to those changes and their effects,
- the enterprise’s policy for investment to maintain and enhance performance, including its dividend policy.
- The enterprise’s sources of funding, the policy on gearing and its risk management policies;
- the strengths and resources of the enterprise whose value is not reflected in

the balance sheet under International Accounting Standards.

- additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are

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significant and when employees are considered to be an important user group.

- Enterprises are encouraged to present such additional statements if management believes they will assist users in making economic decisions.”

Here is an example, of voluntary how disclosure provides additional information for the market. IFRS requires companies to make provisions for their non-performing assets. But there is no obligation on the part of these institutions, say a bank or a securities dealer, to disclose the actual level of its non-performing assets. So unless the company voluntarily discloses that information, there would be no indication of the trend in the quality of these assets. Is that not a very important indicator of credit quality that shareholders and other potential investors/creditors would want to know? I would think so. What do you think?

Now some of us may say that some of these institutions are already required by the FSC to provide them with the necessary MD&A. (Perhaps we could hear from Mr. Wynter later whether this has improved since the last time I heard him speak on the subject some 10 months ago). Whatever the case may be, it should be remembered that:

a regulator is not able to place in the public domain the reports and other disclosures from their regulatees, and a regulator can only act when the situation has already reached or is close to danger zone.

And just as none of us would wait for a regulator to make investment decisions for us or tell us what to do when a hurricane is coming, we must demand that our companies do what the rest of the world is doing and improve the quality of their voluntary disclosure, in both the interim and annual reports. So here is a question for those institutions who may think that disclosure to the regulators is sufficient. Why are you not willing to share some of this critical information with your shareholders, and the investing public at large?

What is the Global Trend on Voluntary Disclosure?

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Where is the rest of the world on this critical matter of voluntary disclosure? Particularly since the financial and accounting scandals of many other prominent US corporations, US legislators and regulators have moved swiftly toward improving corporate governance, including the financial reporting requirements of public companies. One such piece of legislation is the Sarbanes-Oxley Act which was passed in the US in 2002.

The legislation is wide ranging and established new or enhanced standards for all United

States Public Company Boards, Managements and Public Accounting firms. The Sarbanes –Oxley law contains 11 sections ranging from Corporate Board reporting, **interim and annual including MD&A**, to criminal penalties for breaches. It also empowers the Security and Exchange Commission of the US to implement rulings on requirements to comply with the law.

While these are legislated standards, the spirit of the legislation is what ought to motivate Boards to lead the way in disseminating critical information to their shareholders and the public. After all, who knows the key drivers of a business than its board? Who knows better what the market needs than the board? Who needs the information more than those who have entrusted you with their wealth in one form or another?

Consistent with this trend, PWC Malaysia’s November 2002 Newsletter said “while Malaysia had a robust framework both in corporate reporting and corporate governance, **stakeholders and the markets demanded greater transparency**”.

Is that not something we here should be saying as well? What do you think?

In that same release Robert Eccles, Pricewaterhousecoopers senior fellow, and a former Harvard professor, proposed a three-tier model of corporate transparency. The three tiers included:

company-specific information,
industry-based standards, and
globally accepted accounting standards (global GAAP) which are principlesbased rather than rules-based, the same as IFRS used by Jamaica.

A look at Canada also showed that that they too are on a continuous improvement programme of Voluntary Disclosure. For example I took a look at the 2003 annual report for The Bank of Nova Scotia, Toronto.

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Here are some highlights of some Voluntary Disclosures in the report

Comparison of Results with Targets for 2003

Outline of Targets for 2004 (p1)

There was brief commentary on three key financial results (p3)

Earnings Strength from Diversification,

Dividend Growth, and

Returns to Shareholders

Results of customer and staff satisfaction, based on surveys by independent parties (p 5 and 6)

Economic Outlook

Update on Corporate Governance (p22) and (p122-32) and where the bank stands on compliance with Sarbanes-Oxley.

A further MD&A of 27 pages out of a total 132 pages

If you wish to look at that report you may visit www.scotiabank.com

Voluntary Disclosure by Jamaican Financial Sector and Listed Companies.

A look at the Jamaican scenario shows that there is considerable improvement in the quality of the financial statements issued by listed companies, particularly over the last year, with the adoption of IFRS locally. However there is still room for improvement in the area of Voluntary Disclosure as there are still wide swings in many companies' results, especially between the year-end audited and interim unaudited results, without any satisfactory board comments.

In one case under two years ago, I saw a company report full year audited profits that when you extrapolated the final quarter's profit, it was greater than twice the total profit it reported for the first nine months of the same year in its interim reports. There was no explanation as to what gave rise to this phenomenal spike in profits and whether the shareholders were to expect the same stellar performance in the coming quarters. The performance was not repeated in the following year and guess what? no explanation was given either.

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In other markets this would not have been tolerated by, say, financial analysts who, having done some earlier forecasting of the company's earnings, would now find themselves way-off base. They were also left clueless as to what to forecast for the future. They should therefore have been pressing the Board's for an explanation so that they (the analysts) could validate their own reputations.

On the good side, I saw a positive attitude to public disclosure in the reports of the top four companies in market capitalization on the JSE. For example, although not obliged by IFRS or BOJ to report the level of and movement in its Non-performing Assets, The Scotiabank Jamaica Board provided such information as well as its benchmark standard for measuring its operating efficiency or productivity ratio that is the cost of raising each dollar of revenue expressed as in percentage terms. Scotiabank further commented on their continued success in transferring more of its transactions from its banking halls to electronic and internet banking. If you have a feel for retail banking, you will appreciate that 800,000 transactions per month at ATMs represents a significant cost saving for a bank.

Other 2003 reports that showed good Board attitude to voluntary disclosure of vital operating and governance issues are Grace Kennedy, NCB, Carib Cement and to a lesser extent JMMB. Grace went as far as stating its expected profit growth and revised that as circumstances change. How did this impact Grace's share price? May be we can hear from Mr. Orane or from some of our analysts on this during our discussion.

I am not saying there are not other good ones because I did not see them all. Sadly though, the annual report of one company in which I happen to own a few shares was appalling, there was virtually nothing but the bare financials. I should hope that other shareholders and other stakeholders will join me in giving that company a wake up call regarding the lack of information.

Analysts, this is also another call to action for you. Surely you as analysts, are important functionaries in the market and you ought to be interpreting the statements and place this in the public viewing to assist the market in making informed decisions. However, in my previous corporate life, many analysts would call me and some of my colleagues for information that would place them in a preferred position over others who were not privy to such information. Of course I did not comply because one of the hallmarks of responsible governance and reporting is that as far as it is feasible the Board and

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Management should try to send sensitive information to all parties in the market at the same time so that no one group receives an advantage over the other. So analysts if you feel that there is information that you would like to have then by all means use the forum of the annual meetings or periodic investor briefings to lobby for better information for the public at large.

This leads to me to ask whether we should call for regulation of the reporting and disclosure requirements of listed and licensed institutions.

Should the Disclosure and Reporting Requirements of Our Listed Companies be Regulated?

Some of the pros from the perspective of the users of the information, are:

- Standardization of the information provided to the market

- More timely reports

- The opportunity for investors to have a higher quality information on which to base their decisions.

Some pros for the company itself are:

- Greater levels of transparency may result in investors placing a higher premium on the company's shares.

- The company itself can grow by leveraging the higher share price to make new acquisitions.

Some cons from the company's perspective are:

- The cost in management time and other resources could be prohibitive.

There may be no benefit to the company if it had no intention to raise new capital, or to grow by mergers or acquisition.

While there may be some merit in each of these, if Boards take the broader view that they themselves are transitory while stakeholders and the companies are enduring, they may favour serving the interests of the latter; companies that are not growing may just be dying .

For those advocating regulation, it is not a panacea for robust voluntary disclosure. Why so? The factors that impact a company's performance are quite dynamic and I would submit that the Board is in the best position at any time to know what the company's key success drivers are. Hence, their sincere and earnest voluntary disclosure and transparency in the spirit of IFRS can be even more effective and informative to the

market than what regulators may require.

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After all, in all probability regulations would always be trailing behind best practices developed in the market and if Boards adopt such practices, all concerns will be satisfied, with or without regulations. For those considering the cost of greater disclosure and transparency, they could look at the best practice here and elsewhere. Locally many public companies post their financials and other important releases on their website. This medium is usually the most cost effective way of **disseminating** information. The internet can also be used to provide information on significant upcoming events - board meetings, dividend declarations, special acquisitions, and significant management changes. In this way the market knows what to expect and when to expect it.

Before we leave this aspect of disclosure though, we ought to recognize the difference between **disclosure** and **dissemination**. We may **disclose** a wealth of information in periodic or annual reports or press releases. But, for the most part, it is only the shareholders that are in possession of the annual report, which some times comes out up to six months after year-end, and some un-audited abridged interim financials. Here is where dissemination comes in. It means supplying or making available the disclosures to those who need it. So if you do not have a web site, you should consider getting one as it can most effectively disseminate the information for you. In the more developed markets companies post their Corporate Disclosure and Communication Dissemination Policies on their website so that all may have it available.

Now then **what are the benefits of voluntary disclosure and transparency why we need to give it this attention?**

International Studies Show Corporate Transparency Enhances Share Price up to 25%

As mentioned earlier, Corporate Transparency and Voluntary Disclosure allow markets to make informed decisions to invest or continue investing in companies, but it also:

- Guarantees market confidence in the Board and rest of entity.

- Enhances shareholder value.

On this latter point, the PWC newsletter quoted earlier also observed “Based on several international studies, the market accords a premium of between 7% and 25% to the share price of such companies compared to its peers in the same industry and with similar

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financial performance”. Among the companies who reportedly had such an experience were Microsoft, General Electric, and British Petroleum.

In a market like ours in Jamaica where the average price to earnings ratio is 12:1,

investors are holding or mulishly buying into the future earnings of these listed companies. They have entrusted licensed financial institutions with hundreds of billions of dollars by way of deposits and or investments. They deserve timely, reliable, and meaningful information to support or continue supporting those decisions; a lack of legislation should not prohibit that.

Is continuous disclosure too high a hurdle for the Jamaican market?

What do you think? What are the considerations?

Cost? Well I should think cost is not that monumental because the companies already have the information. Every company must know what makes it tick otherwise it may not be ticking for much longer and must be looking at those levers at least on a quarterly basis.

Loss of competitive advantage? Jamaica, even Caricom, is a small market and it is not difficult to replicate concepts, products and services because people move around and take their intellectual skills with them so that in a short time every one is doing the same.

In the end it boils down to he who reaps the greatest success is he does it better in the eyes of the user of that good or service?

Again I would like to return to our hurricane analogy; what if there was no continuous update on the weather situation and the direction of the hurricane? Would you have done as well as you did? Hardly likely. Investors need continuous disclosure to ensure they are relying on current information. Instead of seeing it as a hurdle, consider it a spring board to take our capital market to even greater heights. Given that we are seeing improvements in our reporting framework, particularly with IFRS in the last year is this a case of “too little too late”?

I do not think so. True we may have been better off if we had this regime before. But in the long run it is people of integrity that complements all legislation or moral suasion in reaching desired objectives. Let us now as Boards, CEOs or wherever else we fall in the supply chain of the elements that make for good governance, robust voluntary disclosure,

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and timely reporting, remember that a transparent and efficient market is always underpinned by timely, reliable, accurate, information which help users to make intelligent decisions.

In closing let me say that the deepening of our capital market is a critical success factor for our economic future and that of our Caricom neighbours.

Good corporate governance, of which voluntary disclosure and transparency are key elements, is one of the cornerstones of such development.

Companies who provide investors with timely relevant information will be justly rewarded.