

Brussels, 6 March 2006

Corporate governance: European Forum clarifies 'comply or explain' principle and issues annual report

The European Corporate Governance Forum, which examines best practices in Member States in the field of corporate governance, has issued a public statement clarifying the 'comply or explain' principle, which obliges companies to justify any deviation from corporate governance codes. The Forum has also issued a report detailing its activities in 2005 and its plans for future activities, such as an exchange with bodies monitoring the application of national corporate governance codes and further work to examine the "one share one vote" concept.

Internal Market and Services Commissioner Charlie McCreevy said: *"The principle of 'comply or explain' is a central element of EU corporate governance. So it is important to have a common understanding of the principle's scope and of the conditions that need to be put in place for it to work effectively. I welcome the Forum's findings, which will help everyone to approach these questions in the right way. What's more, the Forum's future activities as set out in its annual report will address some of the key questions in corporate governance today."*

'Comply or explain' principle

The 'comply or explain' principle forms the basis of the European code-based approach to corporate governance. It provides for more flexible and effective market-led regulation. However, there is agreement that 'comply or explain' can work only if its surrounding regulatory framework ensures that companies respect the obligation to give reasons for deviations from the applicable corporate governance codes.

The Forum has therefore undertaken to define in more detail the advantages and the limits of the 'comply or explain' principle from a European perspective. As a first step it has now adopted a common statement on the basic principles that guide the system of 'comply or explain'.

Annual report 2005

In its annual report the Forum sets out the activities it undertook in 2005, including discussions on the following: recent developments in the Member States in the field of corporate governance; the "comply-or-explain" principle; the role and the rights of shareholders in the company; and rules on internal control and risk management mechanisms.

The Forum states in its report that in 2006 its work on the role and rights of shareholders will continue, and that in particular it intends to examine in more detail the "one share one vote" concept.

On internal control the Forum concludes that for the moment there appears to be no need for further concrete steps. However, it will continue to review whether the current approach is sufficient for ensuring that internal controls within the EU meet best practice standards.

The Forum's statement on the 'comply or explain' principle and its 2005 annual report are available at:

http://europa.eu.int/comm/internal_market/company/ecgforum/index_en.htm