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An overview of corporate governance practices in Iran: A quantitative survey of listed companies in Tehran Stock Exchange

Ghorban B. Adabi^a

Seyed Rouhollah Hosseini Moghaddam^b

Ali Fouladi^c

Navajyoti Samanta^d

Abstract

There are two major ways of determining the corporate governance practices of a country – one by undertaking a country level macro analysis of corporate governance rules and regulations focusing on the presence or absence of a particular corporate governance factor, the other is by undertaking a firm level micro analysis, focusing on implementation of corporate governance regulations. In this research paper we have quantified the corporate governance compliance of public companies listed in Tehran Stock Exchange (TSE), to determine the overall corporate governance climate in Iran. We created a questionnaire comprising of 91 variables reflecting the Iran Business Code, and TSE's regulations (both of which were based on the OECD Principles of Corporate Governance). The variables were divided into four broad categories: shareholders rights, board responsibilities and structure, audit committee, and disclosures. We applied this questionnaire to 310 listed companies in TSE in 2013. The survey used publicly available information to gain a neutral view of the firms' corporate governance practices. Based on the survey we created a 100 point corporate governance compliance index, the TSE Corporate Governance ratings (TSECGR). We found that the highest compliance is in the category of audit committees, while weak compliance appears in the board responsibility and structure. The average score of all listed companies was 51 out of 100, and the Monetary Intermediation sector, Pharmaceutical & Medicinal Products sector and Financial Leasing sector had the highest rate. The findings of this paper provide an opportunity for setting a benchmark corporate governance index for firms listed in TSE, provides a survey of firm level corporate governance compliance in Iran, and we hope will act as a valuable decision making tool for both investors and managers.

Key Words: *Corporate Governance, corporate governance index, Tehran Stock Exchange, TSE Corporate Governance ratings (TSECGR)*

a. Expert, Listed companies affairs Dept. Tehran Stock Exchange

b. Doctoral Student, Economic science, Islamic Azad university, Iran

c. Expert, Listed companies affairs Dept. Tehran Stock Exchange

d. Doctoral student, School of Law, University of Sheffield, corresponding author, email: navajyoti86@gmail.com

I. Introduction

Since the 1990s, several corporate scandals such as Enron, Worldcom, Satyam, Parmalat etc. led to the questioning of the credibility and financial stability of even the largest of companies, shaking investor confidence around the world. Corporate governance thus became a crucial tool to tackle managerial overreach, making managers more accountable, and ensuring stakeholder, especially shareholder, confidence. Corporate governance has been variously described as ‘the system by which companies are directed and controlled’,¹ ‘determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations’,² economic and legal institutions that deal with ‘the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.’³ The OECD Principles of Corporate Governance defines it as ‘set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.’⁴

In recent years corporate governance reforms have become the fulcrum of corporate sector development in the world, especially in the emerging markets. As companies in emerging and frontier markets begin to seek foreign capital and as international investors start acquiring stakes in these markets, corporate governance structures provide a cushion of familiarity for foreign investors and a badge of stability for domestic investors. To this extent, a large number of governance reforms have taken place in Iran, beginning with the implementation of New Securities Market Law of 2007,

¹ Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury Report) (1992) para 2.5

² Catherine M. Daily et al., ‘Corporate Governance: Decades of Dialogue and Data’ (2003) 28 (3) *Academy of Management Review* 371.

³ Andrei Shleifer and Robert W. Vishny, ‘A Survey of Corporate Governance’ (1997) 52 (2) *The Journal of Finance* 737.

⁴ The Organisation for Economic Co-operation and Development, *OECD Principles of Corporate Governance* (2004) 11 <<http://www.oecd.org/dataoecd/32/18/31557724.pdf>>; See generally Navajyoti Samanta, ‘Judging the remedy: An analysis of the methods employed to solve corporate governance problems’ (2012) 7 *NALSAR Student Law Review* 91-114

continuing with the new listing, disclosure and disciplinary requirements and internal control bylaw.

It is predicted that these reforms are likely to lead to better governance of listed companies.

However we need a mechanism to analyse and compare if indeed corporate governance regulations have been implemented and if they have had any positive impact on the companies' profitability and valuation. To do so the first thing we need is to quantify the corporate governance implementation at firm level.⁵ Quantifying the state of corporate governance of companies on a jurisdiction neutral basis is not easy. It is mainly due to the difficulty in agreeing to an acceptable functional definition of corporate governance and the inherent information asymmetry in emerging markets. Quantifying this risk has posed a serious challenge to investors and has been one of the barriers to investment to frontier markets. Producing a sui generis solution aimed at global investment community has been the main driver behind the creation of the TSE Corporate Governance ratings (TSECGR).

The meaning of corporate governance varies according to the perspective of the person seeking to define it. From a shareholder primacy agency perspective 'scholars classify these arrangements into internal and external mechanism. With internal mechanisms, the ownership structure of the firm, the board of directors, the auditor and audit committee, other committees of the board like nomination committee, and remuneration committee acquire special significance. Within external mechanisms, the market for corporate control and product market competition play a significant role in improving corporate governance. The internal and external mechanisms in turn are shaped by the overall legal and institutional structures of the country.'⁶

In such a multi variate process it is difficult to estimate the true nature and application of corporate governance in a particular company. Therefore a quantitative Corporate Governance index based on a neutral publicly available dataset would allow for an easy comparison between the companies and

⁵ See generally FTSE Research, 'FTSE ISS Corporate Governance Rating and Index Series - Measuring the Impact of Corporate Governance on Global Portfolios' (2005), available at < <http://www.bolagsstyrning.se/media/8653/2005-12-15%20corporate%20governance%20rating%20bilaga%201.pdf> >. See also Peter Cornelius, 'Good corporate practices in poor governance systems: Some evidence from the global competitiveness report' (2005) 5 (3) Corporate Governance 12.

⁶ Jayati Sarkar and Subrata Sarkar, 'A Corporate Governance Index for Large Listed Companies in India' (2012) Indira Gandhi Institute of Development Research, available at <<http://www.igidr.ac.in/pdf/publication/WP-2012-009.pdf>>

sectors. Such a rating would be highly useful to a wide range of participants in the capital market and would ultimately help in the development of the financial market.⁷ First to analyse the corporate governance practice of a particular company and compare it with other companies, thereby helping both domestic and international investors to invest in well governed companies. This focus on understanding the future risks and volatility through corporate governance has led many investors to seek more information on the quality of Governance practices at specific companies. It is becoming more common for investors to consider governance issues when making investment decisions.⁸ The index will also lead to investor pressure on incumbent managers to increase corporate governance compliance and enhance accountability; second to contrast the corporate governance practice between different sectors thereby help policy makers and market regulators to judge how the corporate governance reforms are working and thereby advise on which sector to focus attention on in order to improve overall corporate governance practices. Finally, above all, the extensive database that is created in the process of creating the rating, will provide valuable information for conducting research in various fields of governance and can be a base for launching CG indices in capital markets

In response to these interests, this research paper offers corporate governance ratings which evaluate governance practices of TSE's listed companies. As posited by International Finance Corporation (IFC) 'Corporate governance indices (CGIs) can also raise a country's overall corporate governance standards and can offer companies possible financial and investment benefits from making governance improvements. With these goals in mind, an increasing number of stock exchanges have set up CGIs in the past decade, sometimes as part of a broader environmental, social, and governance

⁷ *ibid.* Potential users of these ratings include institutional investors, fund managers, smaller investors, executive search firms, accounting firms, compensation and governance consultancy firms, insurers offering directors' and officers' liability insurance, rated companies and academics. See Annalisa Barrett et al., 'Corporate governance ratings' <http://www.directorsforum.org/resources/related_articles/corp_gov_ratings3-05.pdf>

⁸ See generally Annalisa Barrett (n 7); see also Yan Wu and Flora Niu, 2009, Earnings Misreporting, the Sarbanes-Oxley Act and Changes in CEO Compensation. <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1324144>

(ESG) initiative.’⁹ Being a late entrant to the global financial market it is imperative for Iran to assuage investor concerns by adopting and implementing internationally recognized corporate governance practices.

The paper is organized as follows: Section 2 covers the literature in corporate governance rating, Section 3 deals with the methodology surrounding the construction of the rating and Section 4 includes the results and analysis.

II. LITERATURE REVIEW

The majority of the definitions employed by corporate practitioners relate corporate governance to “control” of the company.¹⁰ As V Ramlal posits, all the definitions have some ‘common features:

- (1) Corporate Governance is concerned with monitoring the activities of the firm;
 - (2) Corporate Governance must control the firm’s activities while monitoring them, and
 - (3) Corporate Governance must protect shareholders.
- Another important component in Corporate Governance, that comes out of the definitions, is the importance of board of directors and of monitoring this board.’¹¹

As per IFC a policy to encourage corporations to apply ever higher standards of corporate governance improves the overall corporate governance environment of the country. IFC gives the example of some stock exchanges which use corporate governance indices to improve compliance with a code of corporate governance. This index helps companies to distinguish themselves with a label of governance excellence. The higher rated companies can then expect to increase their access

⁹ International Finance Corporation, ‘Raising the Bar on Corporate Governance: A Study of Eight Stock Exchange Indices’ (2013), available at http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/publication/s/guidelines_reviews+and+case+studies/raising+the+bar+on+corporate+governance >

¹⁰ See generally OECD Principles of Corporate Governance (2004)

¹¹ Varuna L. Ramlal, 2009, A Framework for the Construction of a Corporate Governance Index for Trinidad & Tobago. Available at sta.uwi.edu/conferences/.../V%20ramlal.pdf

to capital, particularly that of foreign investors. Such corporate governance information is highly valued especially for emerging-market companies.

IFC states that there are three objectives which motivate stock exchanges to launch corporate governance or ESG rating and indices:

1. To supply the legal and regulatory corporate governance framework and thus raise the country's overall corporate governance environment
2. To give companies an opportunity to differentiate them in the market
3. To tap into a growing pool of money committed to good governance and sustainability.¹²

It is imperative for economy and the firms operating in it to have a robust and unbiased legal framework with unimpeachable rule of law. Furthermore the firms should also realize that their performance can be measured and that information can be disclosed to shareholders and to other stakeholders. Hence for any study that seeks to link firm performance with corporate governance model must study firms listed on the stock exchange in that economy. This is because listed firms are required by listing regulations (which generally are gold plated corporate governance law) to report certain aspects of their performance and daily activities to their shareholders.¹³ In Iran, the Business code and TSE's rules require the listed firms to disclose: their Balance Sheet, Profit & Loss Account (periodically and annually), full name & description, registered address, registrar's address, names and addresses of all the company directors, date of incorporation and a brief history of operations, structure of authorized and issued capital, recent capital history, dividend history, and special conditions related to company share transfers.¹⁴

Locally, In Iran, Securities and Exchanges Organization (SEO) has issued an Internal Control Guideline and a draft of corporate governance guideline, first in May 2012. Even though the Corporate Governance guideline is meant to be just a guide for Corporate Governance procedures, firms are required to satisfy the criteria of having at least 20% independent directors. Firms listing on

¹² IFC (n 9)

¹³ See generally Ramlal (n 11)

¹⁴ *ibid*

TSE are required to disclose enough information to allow the public to make a proper judgment about their state of affairs before making an investment.¹⁵

The legislation and guides listed above all outline the responsibilities of the board, the structure of the board – including the number of independent directors, shareholder rights, the level of required disclosure, what is expected of the audit committee and the audit process. Therefore, these can be considered as the main aspect of Corporate Governance.

Corporate governance ratings and indices have been developed by many companies and researchers. However, the majority of these are relevant only to developed economies. However of late researchers from several developing and emerging economies have devised ratings and indices relevant to their countries. Below we briefly discuss the methods followed by some of such researchers.¹⁶

According to Ananchotikul the major aspects of corporate governance are: board structure, board responsibility, conflict of interest, shareholder rights, disclosure & transparency. She constructs a firm level corporate governance index for firms in Thailand which uses information available from public sources such as company disclosure reports, annual reports, company websites, and stock exchange of Thailand databases. Around 87 criteria are analyzed in her survey. The values for Ananchotikul's index range from 0 to 100 where 100 is the perfect corporate governance score and 0, the worst. The index uses only publicly available information. Ananchotikul uses a weighted average of the sub-indices to create a composite corporate governance Index. The weights assigned are as follows: board structure – 20%, conflict of interest – 25%, board responsibility – 20%, shareholder rights – 10%, disclosure & transparency – 25%.¹⁷

Sarkar and Sarkar constructed a corporate governance panel index for '500 large listed Indian firms for the period from 2003 to 2008. The index construction uses information on four important

¹⁵ *ibid*

¹⁶ *ibid*

¹⁷ Nasha Ananchotikul. 'Does Foreign Direct Investment Really Improve Corporate Governance? Evidence from Thailand.' (2008) Bank of Thailand Discussion Paper DP/03/2008 as also referred to in Ramlal (n 11)

corporate governance mechanisms: the board of directors, the ownership structure, the audit committee, and the external auditor. The construction of the index for six years allows an examination of the evolution of corporate governance in India in a period when there have been a large number of corporate governance reforms. The analysis documents a rising trend in the level of the corporate governance index of Indian companies. There is a strong association between the corporate governance index and the market performance of companies, where companies with better corporate governance structures earn substantially higher rates of return in the market. This analysis shows that Indian markets tend to reward companies that carry out governance reforms.’¹⁸

International Finance Corporation (IFC) examined the corporate governance performance of ‘100 listed companies in the Hanoi Stock Exchange (HNX) and the Ho Chi Minh Stock Exchange (HOSE) at January 2011.’¹⁹ Collectively these companies represented more than 80% of the total market capitalization in Vietnam. The research found that were negative trends in the overall scores and in each separate area in 2011 against 2010 results. The scorecard was based on standards set out in the OECD Principles of Corporate Governance 2004 which encompass five categories for assessment:

Rights of shareholders (Scorecard weighting - 15%)

Equitable treatment of shareholders (Scorecard weighting - 20%)

Role of stakeholders (Scorecard weighting – 5%)

Disclosure and transparency – (Scorecard weighting – 30%)

Responsibilities of the board (Scorecard weighting – 30%)

Spanos et al.²⁰ attempted to quantify the compliance of Greek large capitalization companies with international best practices. The methodology consisted of creation of a questionnaire reflecting the Greek corporate governance code (which replicates the OECD Principles). The questionnaire focused

¹⁸ Sarkar and Sarkar (n 6)

¹⁹ IFC, ‘Corporate Governance Scorecard for Vietnam’ (2012) available at <http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/east+asia+and+the+pacifc/publications/corporate+governance+scorecard+for+vietnam+2012>.

²⁰ Loukas Spanos, Lena Tspouri and Manolis Xanthakis, ‘Corporate governance rating in a small open capital market: Methodology and applications in the Greek market’ (2006) The IUP Journal of Corporate Governance and University of Athens Economics Working Paper available at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=667623>

on (i) the rights and obligations of shareholders, (ii) transparency, disclosure of information and auditing, (iii) the board of directors, (iv) executive management, and (v) corporate governance commitment, the role of stakeholders and corporate social responsibility. Then, they constructed a rating system based on the corporate governance indicators and applied it for the years 2001 and 2003. The total rating results for the years 2001 and 2003 demonstrated a relatively satisfactory improvement. The highest compliance is in the category of shareholder rights, while weak compliance appears in the last category, which incorporates commitment to corporate governance, CSR and the relations with shareholders.

The Thai Institute of Directors Association in collaboration with the Stock Exchange of Thailand (SET) and the Office of the Securities and Exchange Commission (SEC, Thailand) have published the Corporate Governance Report of Thai Listed Companies (CGR) to promote the internationally accepted corporate governance standards. The Report assessed 513 sample companies listed in the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MA).

The CGR assessment framework and criteria cover five corporate governance categories for a total of 148 questions as follows:

- A) Rights of Shareholders (24 questions).
- B) Equitable Treatment of Shareholders (16 questions).
- C) Role of Stakeholders (18 questions).
- D) Disclosure and Transparency (36 questions).
- E) Board Responsibilities (54 questions).

The average score of the 513 sample companies in 2012 was 77 percent which was equivalent to that of the CGR 2011. Based on the ranking standards of the National Committee on Corporate Governance, 78 percent of Thai listed companies received a score higher than 70 percent level. Fifty-

nine companies (12% of surveyed companies) score at 90 percent or above, earning an ‘Excellent’ level of recognition.²¹

Overall, based on the reports and studies above, we can summarise that the corporate governance indices have some common themes: shareholder rights are important in all cases, and the other major focus is on the board of directors of the firm. This is shown in two ways – the emphasis on responsibilities of the board of directors, and the emphasis on the structure of the board. Transparency is also very important to a good corporate governance system since transparency inspires shareholder confidence in the firm. Another major element of corporate governance is that of the audit committee’s performance. Therefore the four broad thrusts of our questionnaire are in shareholders’ rights, board responsibilities and structure, audit committee and disclosures.

IV. Company Evaluation and Methodology

As outlined in the introduction, shareholder primacy corporate governance generally covers a number of internal and external mechanisms that reduce agency cost within a corporation and thereby leads to an increase in firm value. We consider four important governance mechanisms to calculate the overall rate of corporate governance of a company, namely shareholders’ rights, board responsibilities and structure, audit committee and disclosures. We look at a total of 91 individual factors across four categories. The main rules and regulations that we consider for constructing the rating questionnaire are as follow: Iran business code, TSE listing rule, TSE disciplinary rule, TSE disclosure rule and other related rules that ratified by Securities and Exchanges Organization (SEO). A copy of the questionnaire is provided in Appendix 3.

The information selected to assess companies and the methodologies employed are critical factors for the integrity of any index, particularly for corporate governance indices that are, at times, based on

²¹ Thai Institute of Directors Association, ‘Corporate Governance Report of Thai Listed Companies’ (2012) available at <http://www.thai-iod.com/imgUpload/file/CGR%202012/report%202013_250656%20Final.pdf>

qualitative considerations. Assessment of companies under the four categories is based predominantly on publicly available information comprising primarily of annual reports, company bylaws, security filings, and listed firm's website. The evaluation of corporate governance has been done by a team of TSE's experts, thereby ensuring a similar quality and inter rater reliability.

One of the most common concerns in the evaluation process is the conflict of interest that may arise between company and evaluator. To avoid such conflicts, evaluation against governance or ESG criteria has been done by TSE.

All indices studied rely on publicly available information, benchmark criteria are determined by the stock exchange, and rating methodology is set by the stock exchanges. We have streamlined the CG questionnaire, revamped our scoring and combined this with corporate social responsibility (CSR) in the overall score. In all, we scored 310 TSE's listed companies. 'The assessment based on this survey is therefore likely to minimize any bias that may be introduced by the subjective judgments of individuals who evaluate corporate governance practices. The survey questions include both factual information and opinions. Opinions are often essential to a better understanding of the actual workings of certain corporate governance mechanisms. Another advantage of a large sample questionnaire survey is that it permits a quantitative investigation of the association between corporate governance practices and firm performance. Using the same dataset, this study also investigates the determinants of the quality of corporate governance practices at the corporate level.'²²

The Corporate Governance Index will be constructed for the firms listed in TSE. The CG rating runs from 0 to 100 where higher values indicate better corporate governance. The questions used to construct the index, were formulated using the Corporate Governance Draft Guide issued by the SEO (2011), the TSE Rules and Regulations. These rules and the corporate governance guide spell out the structural changes that firms should undergo so that its corporate governance ratings improve. These

²² See Joseph Gawer, 'Corporate Governance Scores and Long Term Performance' (2012) available at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2084896>

rating are then used to construct the corporate governance index so that all the stakeholders may determine the standing of the firm's corporate governance not only in comparison to each other but also in the absolute standard set by the regulators.²³ However, a problem with using such survey is the inaccurate information and a poor response rate exists. Such poor response rate hinders creation of a qualitatively robust index. For these reasons, the CG rating is constructed using only information from public sources.

As stated earlier the TSECGR will be constructed using 91 questions for all listed firms. A distinction is not made among different industries. The most questions are stated for answer in the Yes/No form where the answer 'Yes' is given a value 10, and the answer 'No', zero. But, a few questions are answered at a range of Zero to 10.

The scorecard instrument categories and sequence have been developed based on international standards as set out in the OECD Principles of Corporate Governance and local regulation which encompass four key areas/categories for assessment. We closely follow the model laid down by Ramlal,²⁴ with the following categories (A) Board Responsibility and Structure (B) stakeholders Rights (C) Transparency & Disclosure (D) Audit Committee and each of the questions falls into one of the identified categories. The Category 'Board Responsibility' has 33 questions, stakeholders Rights 28 questions, Transparency & Disclosure 19 questions and Audit Committee 9 questions. Each of Categories is weighted to produce the final TSECGR. The weights are as follows: Board Responsibility and Structure – 25%, stakeholders Rights – 25%, Transparency & Disclosure – 35%, Audit Committee – 15%. The weights are used to indicate the importance of each of these components to the overall TSECGR. Transparency & Disclosure was given the largest weight since this is the most important component to corporate governance. The questions are included in questionnaire that can be responded through publicly released information.

²³ See generally Ramlal (n 11)

²⁴ *ibid*

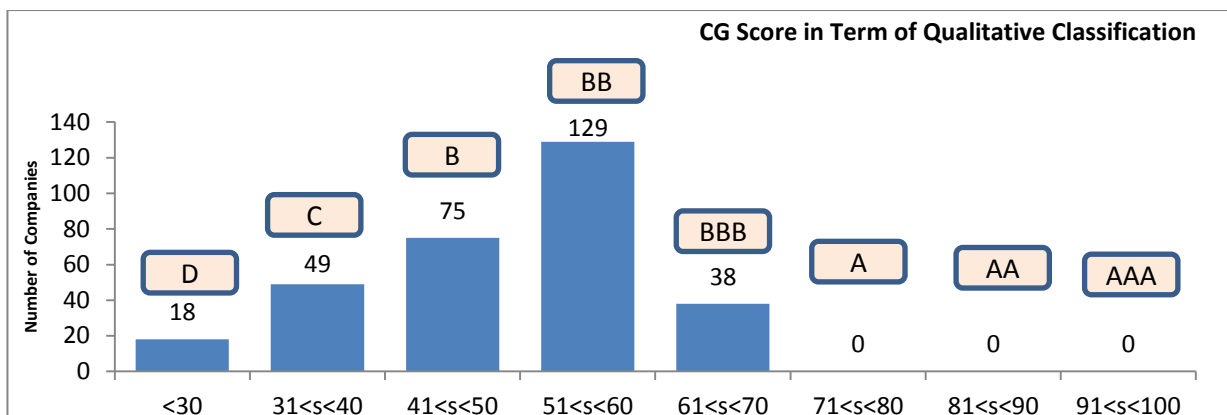
The TSECGR is calculated as a composite index comprising of weighed average of four sub categories.²⁵ The complete list of questions in each of the categories is included in the appendix 3 of the paper.

²⁵ *ibid*: The index 'is formed as a composite index which is produced by calculating the weighted average of each of categories. This means that for each of the [four] categories the firm's total score for that sub category is divided by the categories total and then multiplied by the weight to get that company's category value. Finally, all the category weights are summed' to get the final output.

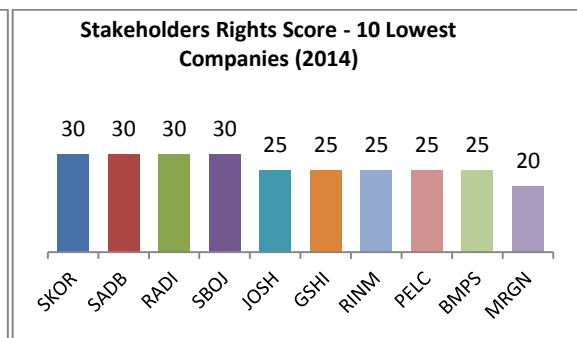
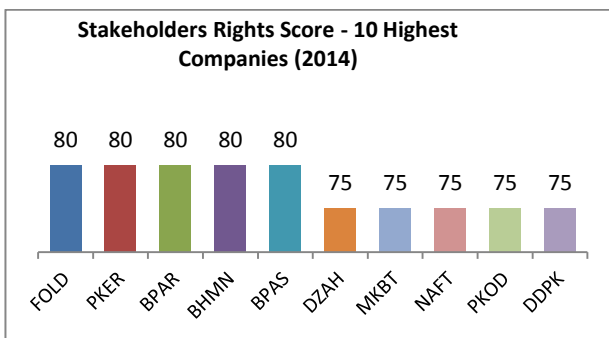
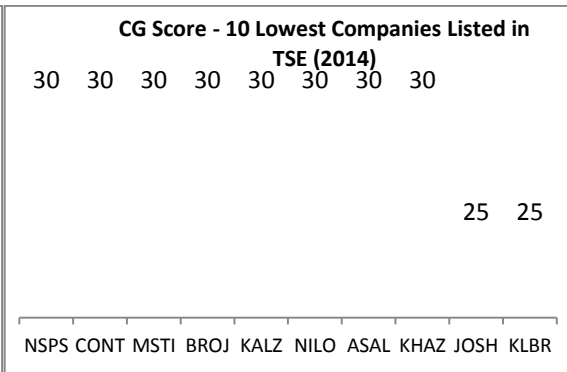
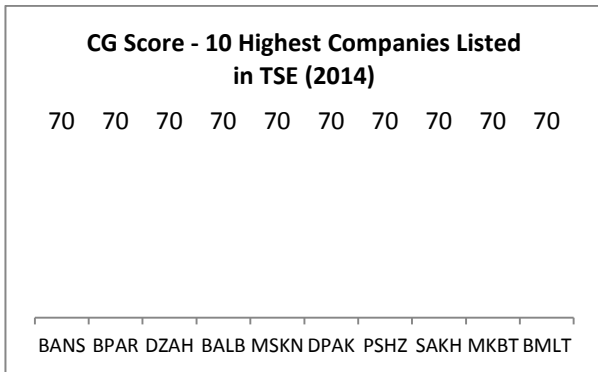
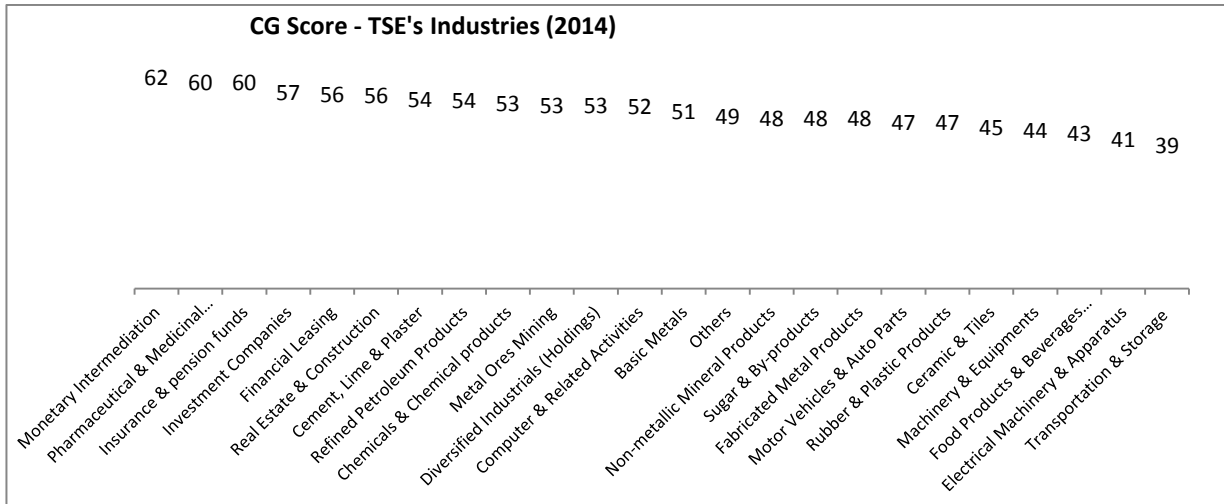
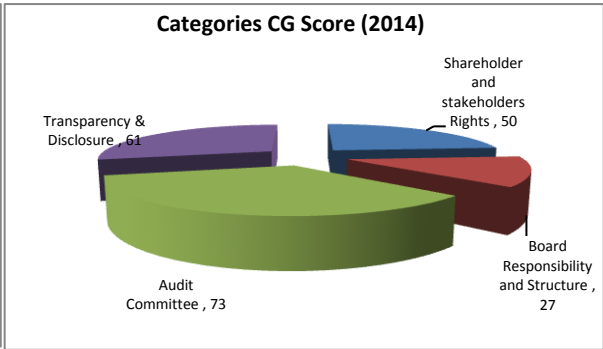
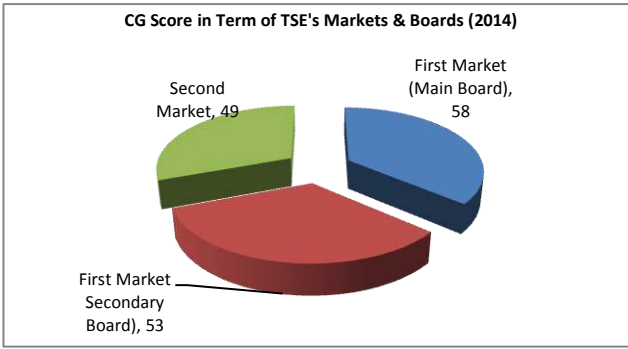
V. Results and analysis

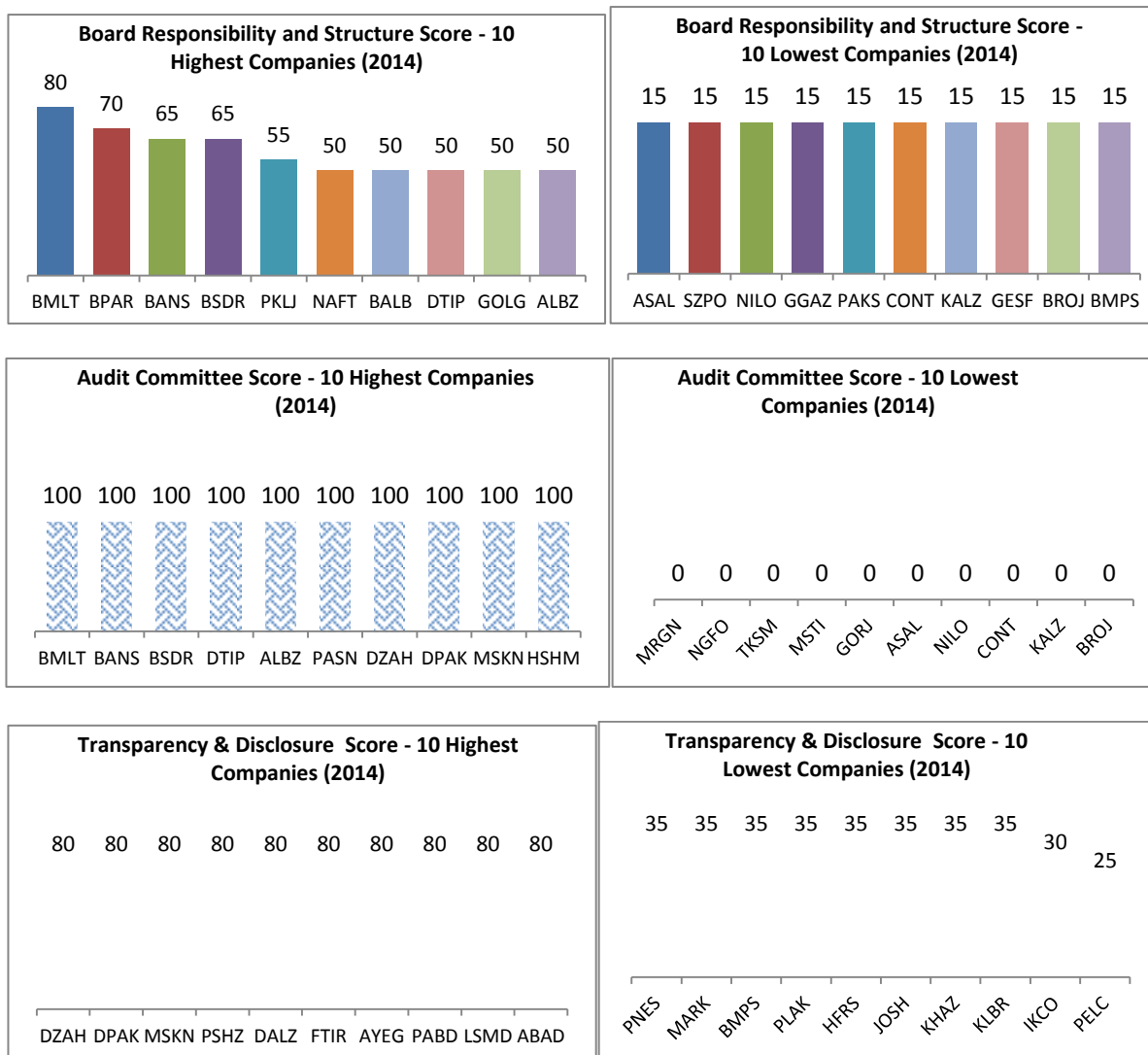
The following graphs show the scores that each market and company gained in the four categories in the survey. The total score for each market/board and company is a simple average of these four scores. Average Tehran Stock exchange CG score is 51 out of 100. The qualitative scores of all companies are classified in 8 qualitative levels. Triple A is the highest score and D is the lowest score. The main board of the first market gets the highest score of 58 and the second market the lowest score of 49. The highest compliance in TSE is in the category of audit committee (73), followed by transparency and disclosure (61). The shareholder rights category had a medium compliance score (50), while weak compliance appears in the board responsibility and structure category (27).

Stating the CG score in term of sectors, Monetary Intermediation sector gets highest score of 62 whereas Transportation & Storage sector gets the lowest score of 39. The summarized score of the all companies shows that: BANS, BPAR, DZAH, BALB, MSKN, DPAK, PSHZ, SAKH, MKBT and BMLT get the highest score of 70 whereas: KLBR and JOSH get the lowest score of 25.²⁶



²⁶ The names of the companies corresponding to the codes are available at Appendix 2.





The scores and pattern of TSECGR shows that Iranian companies are slowly introducing the best practices in corporate governance. This is expected in an emerging market where corporate governance has been introduced in the last decade. It is heartening to note that financial companies and pharmaceutical companies are taking the lead in implementing corporate governance practices. It might be because of larger exposure that these companies have to wider international financial markets. A brief review of TSECGR also shows that overall the corporate governance mechanisms and implementation is fast approaching the average in emerging markets. We hope that within the next half decade the supermajority of companies listed at TSE will be scored above 60 on TSECGR.

VI. Conclusion

Corporate governance evaluation in Iran is comparatively very young and new. The Corporate Governance rating constructed in this paper for Tehran Stock Exchange (TSECGR) is expected to boost stakeholder confidence in the market and designed as an introduction for future academic studies on Iranian corporate governance. A major problem in Iranian financial market is the shortage of retail investors. This is one of the major reasons for the under capitalization of Iranian stock market. The culture of the region makes local investors prefer government bank backed ‘risk-free’ investments like fixed deposit bonds etc. over ‘volatile and risky’ financial market. It is hoped that this rating will probably assist domestic small investors in objectively determining the comparative risk associated with investing in a particular company. It is hoped this will lead to higher investment and turnover in TSE. The rating also includes subcategories of major aspects of governance for ease of comparison by investors. It is hoped that the corporate governance rating will encourage listed and non listed companies to practice and adopt ideal corporate governance habits to improve their corporate governance rating scores. This in turn would ensure that practice of good corporate governance trickles down the entire corporate field.

The rating questionnaires used in this survey is compatible to the Iran business code, TSE’s listing, disciplinary, and disclosure rules, and other related rules that ratified by Securities and Exchanges Organization (SEO). The result of the rating indicates that CG practices consideration in TSEs’ listed companies is at an average level, 51 out of 100. The paper hopefully dismantles the popular perception that corporate governance practices in Iran are not desirable. Moreover, the results of this survey can be used to design a corporate governance index of listed companies in other stock exchanges. We hope that this paper will spur further interest on corporate governance in Iran and lead to further studies in this area.

Appendix

Appendix 1: Sectors CG Score (2014)

Sectors CG Score (2014)	Transparency & Disclosure	Audit Committee	Board Responsibility & Structure	stakeholders Rights
Basic Metals Average	61	71	25	49
Cement, Lime & Plaster Average	68	88	26	47
Ceramic & Tiles Average	56	53	22	45
Chemicals & Chemical products except Pharmaceutical Products Average	64	83	26	52
Computer & Related Activities Average	63	76	25	48
Diversified Industrials (Holdings) Average	63	74	33	48
Electrical Machinery & Apparatus Average	57	22	24	46
Fabricated Metal Products except Machinery & Equipments Average	55	57	25	48
Financial Leasing Average	68	80	26	57
Food Products & Beverages except sugar Average	59	47	23	40
Insurance & pension funding except compulsory Social Security Average	73	97	30	57
Investment Companies Average	71	91	27	47
Machinery & Equipments Average	52	47	24	50
Metal Ores Mining Average	63	63	30	52
Monetary Intermediation Average	59	96	49	64
Motor Vehicles & Auto Parts Average	50	78	23	50
Other Non-metallic Mineral Products Average	56	67	25	50
Others Average	59	62	27	49
Pharmaceutical & Medicinal Products Average	68	93	30	60
Real Estate & Construction Average	65	83	28	52
Refined Petroleum Products & Nuclear Fuel Average	50	96	31	56
Rubber & Plastic Products Average	58	67	23	46
Sugar & By-products Average	60	61	25	42
Transportation & Storage Average	47	40	23	45

Appendix 2: Sectors, Companies and Symbols

Sector	Company	Symbol
	Fars Chemical Ind. Co.	SHFS
	Persian Gulf Petrochemical Industry Co.	PKLJ
	Goltash Co.	GTSH
	Pars Carbon Black Co.	DODE
	Paxan Corporation Co.	PAKS
	Fanavaran Petrochemical Co.	PEAN
	Farabi Petrochemical Co.	PFRB
	Shazand Petrochemical Complex	PARK
	Iran Carbon Co.	CRBN
	Petrochemical Industries Investment Co.	PETR
	Pars International Products Co.	BMPS
	Poly acryl Iran Co.	PLAK
Sector	Company	Symbol
Related & Computer Activities	Informatics Services Corp.	INFO
	Iran Argham Co.	LAGM
	Parsian E-commerce Electronic Co.	EPRS
	Data Processing Iran Co. (DPI)	DADE
Industrials Diversified (Holdings)	Kish Iran Credit Card Corp.	RKSH
	Ghadir Investment Co.	GDIR
	Omid Investment Management Corp.	OIMC
	Tose-e Melli Group Investment Co.	BANK
& Machinery Electrical Apparatus	Civil Pension Fund Investment Co.	SAND
	Pars Switch Co.	SWIC
	Nirou Trans Co.	NIRO
	Shahid Ghandi Communication Cable Co.	KGND
	Iran Transfo Corp.	TRNS
	Pars Shahab Lamp Co.	LAPS
	Motogen Co.	MOTJ
	Cable Alborz Co.	KALZ
Products Fabricated Metal & except Machinery Equipments	Jooshkab Yazd Ind. Co.	JOZH
	Azarab Industries Co.	AZAB
Leasing Financial	Lamiran Co.	LAMI
	Jaam Darou	JAMD
	Ama Industrial Co.	SAMA
	Mashine Sazi Arak Engineering & Construction Co.	MARK
Beverages & Food Products except sugar	Industry & Mine Leasing Co.	LSMD
	Iran Leasing Co.	LZIN
	Leasing Rayan Saipa Co.	RSAP
	Iran Leasing Co.	LIRZ
	Leasing Khodro Ghadir Co.	LKGH
	Noosh Mazandaran Inc.	NOSH
	Piazar Co.	PIAZ
	Isfahan Pegah Dairy Co.	SPPE
	Behshahr Industrial Development Corp.	TSBE
	Pegah Khorasan Dairy Co.	SPKH
	Pars Minoo Industrial Co.	MINO
	Gorji Biscuit Co.	GORJ
pension & Insurance funding except compulsory Social Security	Mahram Co.	MRAM
	Pars Animal Feed Co.	KDPS
	Chin Chin Cultivation Complex	CHCH
	Dashte Morghab Co.	DMOR
	Salemin Co.	SLMN
	Glucosan Co.	GCOZ
	West Azarbaijan Pegah Dairy Co.	SHPZ
	Shahdiran Inc.	SHAD
	Iran Behnoush Co.	BENN
	Margarine Co.	MRGN
Companies Investment	Behshahr Industrial Co.	SBEH
	Pak Dairy Co.	LPAK
	Kalber Dairy Co.	KLBR
	Alborz Insurance Co. (AIC)	BALB
	Mellat insurance Co.	BMEL
	Parsian Insurance Co.	IPAR
	Asia Insurance Co.	ASIA
	Dana Insurance Co.	BDAN
	Pardis Investment Co.	AYEG
	Buali Investment Co.	BALI
Chemical & Chemicals products except Pharmaceutical Products	Sepah Investment Co.	SPAH
	Mellat Investment Corporation Co.	MELT
	Bahman Investment Co.	SBAH
	Industry & Mine Investment Co.	SNMA
	Behshahr Industrial Group Investment Co.	GBEH
	National Investment Company of Iran (NICI)	NIKI
	Kharazmi Investment Group	IKHR
	Iran Industrial Development Investment Co.	TOSA
	Tosee Melli Investment Co.	TMEL
	Nirou Investment Co.	SNRO
Basic Metals	Atye Damavand Investment Co.	ATDM
	Khouzestan Steel Co.	FKHZ
	Khorasan Steel Complex Co.	FKAS
	Faravari Mavad Madani Iran Co.	FRVR
	Calcimin Co.	KSIM
	Kashan Amirkabir Steel Co.	FAJR
	Iran Ferrosilice Co.	FRIS
	Esfahan's Mobarakeh Steel Co.	FOLD
	Tukafoolad Investment Co.	TOKA
	National Iranian Copper Industries Co.	MSMI
Plaster & Cement, Lime	Iran Alloy steel Co.	FAIR
	Luleh Va Machinsazi Iran Co. (LMICO)	LMIR
	Sepahan Industrial Group Co.	SEPA
	Shahid Bahonar Copper Industries Co	BAHN
	Navard Aluminium MFG. Group	NALM
	Sepanta Industrial & Investment Co.	SPTA
	National Iranian Lead & Zinc Co. (NILZ)	SORB
	Rolling & Steel Production Co.	NGFO
	Alomrad Co.	ALMR
	Iranian Aluminium Co.	ALIR
Tiles & Ceramic	Sepahan Cement Co.	SSEP
	Urmia Cement Co.	SURO
	Fars Cement Co.	SFRS
	Darab Cement Co.	SDAB
	Doroud Cement Co.	SDOR
	Khazar Cement Co.	SKAZ
	Behbahan Cement Co.	SBHN
	Shahrour Cement Co.	SROD
	Tehran Cement Co.	STEH
	Farsnov Cement Co.	SFNO
	Soufian Cement Co.	SSOF
	Hormozgan Cement Co.	SHZG
	Qayen Cement Co.	SGEN
	Neyriz White Cement Co.	SSNR
	Isfahan Cement Co.	SEFH
	Ardebil Cement Co.	SADB
	Bojnourd Cement Co.	SBOJ
	Fars & Khuzestan Cement Co.	SEKZ
	Karoon Cement Co.	SKRN
	Mazandaran Cement Co.	SMAZ
Dashtestan Cement Industries Co.	SDST	
Kerman Cement Co.	SKER	
Shargh Cement Co.	SSHR	
Ilam Cement Co.	SEIL	
Khash Cement Co.	SKHS	
Hegmatan Cement Co.	SHGN	
Kordestan Cement Co.	SKOR	
Gharb Cement Industries Co.	SGRB	
Shomal Cement Co.	SIMS	
Chemical & Chemicals products except Pharmaceutical Products	Saadi Tile & Ceramic Co.	KSAD
	Alvand Tile & Ceramic Industries Co.	ALVN
	Sina Tile & Ceramic Co.	SINA
	Irana Tile Co.	CHIR
	Hafez Tile & Ceramic Co.	KHFZ
	Pars Tile Co.	KPRS
	Takceram Co.	TKSM
	Behceram Co.	BHSM
	Nilou Tile Co.	NILO
	Shiraz Petrochemical Co.	PSHZ
Pharmaceutical Products	Abadan Petrochemical Co.	PABD
	Loabiran Co.	LEAB
	Nirou Chlor Co.	NKOL
	Pars Pamchal Chemical Co.	PPAM
	Sina Chemical Industries Co (SCIC)	SHSI
	Parsian Oil & Gas Development Co. (POGDC)	PASN
	Iran Chemical Industries Investment Co.	SIN
	Fiber Intermediate Products Co.	MAVA
	Pardis petrochemical Co.	PRDZ
	Iran Amlah Co.	AMLH
Pharmaceutical Products	Kermanshah Petrochemical Industries Co.	PKER
	Pakshoo Industrial group	PASH
	Tamin Petroleum & Petrochemical Investment (TAPPICO)	PTAP
	Kharg Petrochemical Co.	PKHA

	Telecommunications Company of Iran (TCI)	MKBT	
	Iran Carton Co.	KRTI	
	Kaveh Paper industry	KSKA	
	Iran Fiber Production Co.	FIBR	
	Iran Power Plant Projects Managements Co. (MAPNA)	MAPN	
	Melli Industrial Group	GMEL	
	Iran Merinos Co.	MRIN	
	Iran Counter Manufacturing Co. (SKI)	CONT	
	Borujerd Textile Co.	BROJ	
	Offset Press Inc.	OFST	
	Pars Electric Mfg. Co.	PELC	
Sector	Company	Symbol	
Medicinal & Pharmaceutical	Zahravi Pharmaceutical Co.	DZAH	
	Darou Pakhsh Pharmaceutical Mfg. Co.	DPAK	
	Alborz Darou pharmaceutical Co.	DALZ	
	Iranian Parenteral & Pharmaceutical Co.	FTIR	
	Osvah Pharmaceutical Co.	DOSE	
	Aburaihan Pharmaceutical Co.	DABO	
	Daroupakhsh Holding Co.	DARO	
	Sina Darou Laboratories Co.	DSIN	
	Damloran Razak Pharmaceutical Co.	DAML	
	Dr. Abidi Cosmetics & Toiletries Laboratory Co.	ABDI	
	Darou Pakhsh Pharma. Chem. Co.	DDPK	
	Exir Pharmaceutical Co.	EXIR	
	Sobhan Pharmaceutical Co.	DSOB	
	Products	Temad Co.	TMVD
		Alborz Investment Co.	ALBZ
		Razak Laboratories	DRZK
		Jaber Ebne Hayyan Pharmaceutical Co.	DJBR
		Cosar Pharmaceutical Co.	DKSR
		Loghman Pharmaceutical Co.	DLGM
		Iran Daru Co.	IRDR
Tamin Pharmaceutical Investment Company (TPICO)		DTIP	
Amin Pharmaceutical Co.		AMIN	
Farabi Pharmaceutical Manufacturing Complex		DFRB	
Pars Darou Pharmaceutical Co.		PDRD	
Chemidarou Co.		KIMI	
Rouz Darou Pharmaceutical Co.		ROZD	
Tehran Chemie Pharmaceutical Co.		THSH	
Housing Investment Co.		MSKN	
Construction & Real Estate	Abadgarane Iran Tourism & Welfare Complex	ABAD	
	Iran Construction Investment Co.	SAKH	
	International Construction Development Co.	BSTE	
	Fars Construction & Development Co	OFRS	
	Toosgostar Investment Co.	TGOS	
	North East Housing Investment Co.	PMSZ	
	Shahed Investment Co.	SAHD	
	Azərbayjan Development Investment Co.	TAZB	
	Isfahan Saman Gostar Co.	SGOS	
	Tehran Renovation & Construction Co.	NSTH	
	Sakht Ajand Co.	SAJN	
	Products Refined Petroleum	Pars Oil Co.	NPRS
Behran Oil Co.		NBEH	
Oil Industry Investment Co.		NAFT	
Tabriz Oil Refining Co.		PNTB	
Bandar Abbas Oil Refining Co.		PNBA	
Nuclear Fuel &	Esfahan Oil Refining Co.	PNES	
	Sahand Rubber Industries Co	SHND	
	Iran Yasa Tire & Rubber Co.	YASA	
	Derakhshan Tehran Co.	DRKH	
	Barez Industrial Group	BARZ	
Plastic Products & Rubber	Iran Tire Mfg. Co.	TAIR	
	Plascokar Saipa Co.	PLKK	
	Piranshahr Suger Co.	GPSH	
	Naghshe Jahan Suger Co.	GNJN	
	Neyshabour Suger Co.	GNBO	
By-products & Sugar	Shahd Suger Co.	GHND	
	Marvdasht Suger Co.	GMRO	
	Hegmatan Suger Co.	GHEG	
	Ghazvin Suger Co.	GGAZ	
	Isfahan Suger	GESF	
	Lorestan Suger Co.	GLOR	
	Shirin Khorassan agro. Industry Co.	GSHI	
	Shahroud Suger Co.	SHKR	
	Sabet Khorasan Industries & Manufacturing Co.	GSBE	
	Storage & Transportation	Petrochemical Transport Co.	HJPT
		Tuka Transportation Co.	HTOK
		Islamic Republic of Iran Shipping Lines Co. (IRISL)	KSHJ
Tidewater Middle East Co.		TAYD	
	Persian Gulf Transportation Co.	HFRS	

	Banks Pension Fund Investment Co.	SKBV
	Saipa Investment Group	SSAP
	Insurance Industry Investment Co.	BIME
Equipments & Machinery	Agricultural Industries & Services Development Co.	GSKE
	Pumpiran Co.	PIRN
	Iran Tractor Manufacturing Co.	TRIR
	Niroumoharekeh Machine Tools (NMT Co.)	MNMI
	Pars Touseh Investment Co.	TSHE
	Sarma Afarin Industries Co.	SRMA
	Butane Industrial Group	BOTA
	Technotar Engineering Co. (TTECO)	TKNO
	Iran Combine Mfg. Co.	COMB
	Absal Co.	ASAL
	Pars Khazar Industrial Co.	KHAZ
	Sector	Company
Mining Metal Ores	Bama Co.	BAMA
	Iran Manganese Mines Co.	MNGZ
	Bafgh Mining Co. (BMC)	BAFG
	Iran Zinc Mines Development Co.	ROZI
	Chadormalu Mining & Ind. Co.	CHML
	GolGohar Iron Ore Co.	GOLG
	Sabanour Steel Raw Material Supply Co.	KNRZ
	Mines & Metals Development Investment Co.	MADN
	Damavand mineral water Co.	DMVN
	Intermediation Monetary	Karafarin Bank
Ansar Bank		BANS
Tejarat Bank		BTEJ
Sina Bank		VSIN
EN Bank		NOVN
Post Bank		BPST
Saderat Bank		BSDR
Parsian Bank		BPAR
Mellat Bank		BMLT
Pasargad Bank		BPAS
Auto & Motor Vehicles	Rena Industrial Group Investment Co.	RENA
	Mehrcam Pars Co. (MCP)	MHKM
	Bahman Group Co.	BHMN
	Mashad Wheel Mfg. Co.	RINM
	Khavar Spring Mfg. Co.	KFAN
	Electric Khodro Shargh Co.	KHSH
	Nirot Moharekeh Industrial Co.	NMOH
	Iran Credit Investment Co.	IDOC
	Saipa Azin Co.	AZIN
	Iran Khodro Investment Development Co.	GOST
	Indamin Saipa Shock Absorber Mfg. Co.	INDM
	Zamyad Co.	ZMYD
	Zar Spring Co.	ENAR
	Saipa Co.	SIPA
	Parts	Iran Tractor Foundry Co.
Radiator Iran Co.		RADI
Vehicle Axle Mfg. Co. (VAMCO)		TMKH
Sazeh Pouyesh Co.		SZPO
Charkheshgar Co.		CHAR
Nasir Machine Engineering Corporation		MNSR
Iran Casting Industries Co.		RIIR
Motorsazan Co.		MSTI
Pars Khodro Co.		PKOD
Lent Tormoz Iran Co.		LENT
Iran Carburetor Co.		KRIR
Iran Khodro Diesel Co.		KAVR
Saipa Diesel Co.		SPDZ
Iran Khodro Axle Manufacturing Co. (IKAMCO)		MESI
Iran Tractor Forging Co.		ATIR
Iran Auto-Parts Industrial Group	GHAT	
Iran Khodro Industrial Group Co.	IKCO	
Non-metallic Mineral Other	Iran China Clay Industries Co.	KCHI
	Iran Glass Wool Co.	PSIR
	Razi Pharmaceutical Glass Co.	TSRZ
	Pars Ceram Co.	PSER
	Hamadan Glass Co.	SHMD
	Ardakan Industrial Ceramics Co.	ARDK
	Azar Refractories Co.	NSAZ
	Iran Refractories Co. (IREFCO)	NASI
	Shishe va Gas Co. (SHOGA)	SGAZ
	Saipa Glass Co.	SISH
Products	Pars Refractories Co.	NSPS
	Techinco Technical Inspection & Corrosion Control Co.	TKIN
	North Drilling Co.	HSHM
	Mobile Telecommunication Company of Iran	HMRZ
	Magsal Co.	MAGS
Others	Negin Tabas Lignite Co.	TBAS
	Foundry Sand Provision Co.	TAMI

Appendix 3: The TSE's Corporate Governance Rating Questionnaire

Tehran Stock Exchange Corporate Governance Rating Questionnaire	
The rights of shareholders and stakeholders, Weight: 25%	Score
Company has a transaction bylaw.	
No	0
Yes	2
Yes and Works based on bylaw (based on auditor and inspector doesn't report any violation)	10
Company has a Code of Ethics.	
Yes	2
Yes and published	4
Ethical issues training is given to staff	10
Company would comply with the related - party transactions.	
Yes	10
There is a minor non-compliance	-2
The non-compliance is important	-5
Dividend Payment Procedures is satisfactory	
Older methods	0
Paying through two bank account	2
Paying through all the branches of a particular bank	5
Payment through the CSD	10
CEO, executive members of the board, chairman of the audit committee and FEO attended in the AGM.	
One of them	2
Two of them	5
All four of them	10
Company article of association is the template of the Exchange.	
No	0
Yes, but there are cases of non-compliance	5
Yes	10
The company has a strategic plan for the period of 2 to 5 years	
No	0
Yes	2
Yes and publicly published	4
The plan implemented	8
The result checked and evaluated	10
Free float shares of the company is Sufficient and disclosed	
No	0
Yes	10
Company's organizational chart defines the tasks and function of the Investor Relations Department	
No	0
Yes	10
Number of facilities for accessing to investor relations unit (phone, email, social networks and website).	
None of them	0
One of them	3
Two of them	6
Three or more of them	10

Company has a unit for dealing with the stakeholder complaints	
No	0
Yes	10
Company has relevant professional certificates.	
1 Certification	2
2 Certification	4
3 Certification	6
4 Certification	8
5 Certification and more	10
There is a Whistleblower Procedure in the company	
Yes	5
Yes and publicly announced	10
Company has a written instruction for human resources, including recruitment, promotion, retirement and replacement.	
No	0
Yes	10
Board makes continuous efforts to upgrade or maintain the company's position in the Stock Exchange markets/Boards.	
Company degraded or maintained on each board conditionally (with minor noncompliance).	0
Company is maintained in second market with full compliance.	6
Company is maintained in secondary board of the first market with full compliance.	8
Company upgraded or is maintained in main board of the first market with full compliance	10
Company has a record of violation or non-compliance	
A summon to the Investigation Committee without issuing an sentence	0
No summon to Investigation Committee	10
Summon to Investigation Committee disciplinary verdict	5-
Summon to Investigation Committee resulted to a criminal sentencing	10
Board of Directors and Committees, Weight: 25%	
How many board members are independent?	
More than 40%	10
Between 20 to 40%	7
Less than 20%	0
How many board members are non-executive member?	
Less than 50%	0
Between 50 to 70%	5
More than 70%	10
Chairman of the Board is not executive member.	
No	0
Yes	10
How many meeting the Board held per month?	
Less than one meeting a month	0
One meeting a month	5
More than one meeting a month	10
Board members of the subsidiaries are elected by the board of holding company.	
No	0
Yes	10
The Board has a secretariat that is responsible for the holding and documentation of the Board's meetings.	
No	0
Yes	10
Secretary of the Board is appointed by recommendation of Chairman and approval of a majority of board members.	
No	0

Yes	10
Board has enough experiences in the field of activity and specialized trainings	
Total scores range from 0 to 10 are calculated.	0 to 10
Secretary of the Board registers all Board resolutions and a summary of negotiations electronically or manually.	
No	0
Yes	10
The Board assesses the performance of the board committees and CEO	
No	0
Yes	10
The board has an appointment and compensation committee	
Board has an appointment committee.	5
Board has a compensation committee.	5
Board has both committees separately or together.	10
The majority of the appointment committee members are independent or non-executive	
Less than 50% are independent or non-executive	0
More than 50 percent are independent or non-executive	10
Chairman of the Appointment and Compensation Committee is independent member of the board.	
No	0
Yes	10
Board approved the duties and the roles of the Appointment and Compensation Committee.	
No	0
Yes	10
Appointment and firing of the CEO, senior managers and board members of the subsidiaries will be recommended by Appointment and Compensation Committee	
No	0
Yes	10
Nominations for membership in the specialized committees of the Board are proposed by the Appointments Committee.	
No	0
Yes	10
Salaries, benefits and bonuses of the CEO and senior executives of subsidiaries companies recommended by the appointments committee.	
No	0
Yes	10
Salaries, benefits and bonuses of the CEO and senior executives of subsidiaries companies approved by the holding board.	
No	0
Yes	10
The company has a risk management committee.	
No	0
Yes	10
Risk management committee has at least 3 members.	
No	0
Yes	10
Risk Management Committee hold at least 2 meeting a year.	
No	0
Yes	10
Board approved the duties and the roles of the Risk management committee.	
No	0

Yes	10
Risk management committee has a comprehensive and systematic procedure for identifying, monitoring and dealing with risks.	
No	0
Yes	10
Risk management committee prepares a report regularly on the identification of risks and the relevant measures.	
No	0
Yes	10
CEO, executive members of the board, chairman of the audit committee and CFO attended in AGM.	
One of them	2
Two of them	5
All of them	10
Audit, Weight: 15%	
The internal audit process implemented in the company	
No	0
Yes	10
The Board has the Audit Committee.	
No	0
Yes	10
Audit Committee has At least 3 members.	
No	0
Yes	10
The majority of the audit committee members are independent or non-executive.	
No	0
Yes	10
Internal Audit Charter issued by the stock exchange will be met.	
No	0
Yes	10
Internal Audit has been done based on the Charter.	
No	0
Yes	10
Accountability and Disclosure of Information, Weight: 35%	
Company has a website that releases all information about company and its products.	
No	0
Yes	10
Company held an analyst day during last year.	
No	0
Yes	10
Fees of external auditors and audit contract will be disclosed.	
No	0
Yes	10
Salary, benefits, bonuses of CEO and senior managers are disclosed.	
No	0
Yes	10
Company prepares and releases a report on risk analysis and control.	
No	0
Yes	10
Company disclose insiders name through its website and other official ways.	
No	0
Yes	10

Internal control report is prepared for the AGM	
No	0
Yes	10
Important information such as name, Details, education, professional experiences the Board members CEO, top managers, the amount of their stock ownership in the company, and membership in the Board of other companies disclosed appropriately in the Company's website and in a separate note in the Board report to the AGM	
No	0
Yes	10
<i>Disclosure Rating is calculated by the company (20%)</i>	