

Kingdom launches new corporate governance code

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The global financial crisis has provided many illustrations of failures of corporate governance. Efforts are needed to address this very vital aspect of the global economy, a top official at the Central Bank of Bahrain said yesterday.

"High standards of corporate governance are essential for all publicly-listed companies, they are especially important for firms in the financial sector," Rasheed M. Al Maraj, Governor, CBB told the audience during the launch of a new Corporate Governance Code Initiative yesterday.

"The need for high standards of corporate governance is one of the main lessons to be drawn from the global financial crisis. It is in this context that the CBB views the new code as a significant development in strengthening Bahrain's reputation as a well regulated financial centre," he added.

The Minister of Industry and Commerce Dr Hassan Fakhro, experts and delegates from the US also addressed the gathering.

Al Maraj also underlined the importance of the launch of the proposed new Corporate Governance Code for all public companies in the Kingdom of Bahrain and assured that CBB would be working with the financial sector and listed companies on the implementation of both the spirit and letter of the new code.

"Although this initiative has been led by the Ministry of Industry and Commerce, the Central Bank has been involved at all stages in the development of the new code and we are strong supporters of it," he said.

"Financial institutions, banks in particular, are not like other corporations where directors need to consider only the interests of

shareholders. Financial institutions have a special position of trust in that they are charged with looking after other people's money. This means that the interests of creditors, depositors, policyholders, and clients need to have equal weight with those of shareholders and the decisions taken by the Board of Directors. Recognition of the directors' fiduciary responsibilities is, therefore, an essential element of corporate governance for banks and other financial institutions," he said.

"There is common pattern behind many of the failed financial institutions of the last 18 months. In many cases, the Chief Executive was a dominant figure who made sure that he alone took all important decisions. There was no culture of open debate and discussion within the senior management of these institutions, with the result that other members of the Board of Directors did not feel able to challenge the Chief Executive's decisions. Many bank Boards lacked banking experts. Individuals were recruited to the Board of banks for their connections rather than for their knowledge of the banking industry and their ability to ask the right questions.

"In the case of many failed banks the standards of corporate governance fell far short of what should have been expected. It was the Board of Directors that should have challenged the aggressive growth strategies pursued by some Chief Executives.

"The new code builds on current international best practice for corporate governance. For example, it reflects the corporate governance principles developed by the Organisation for Economic Cooperation and Development, which have become the benchmark for international standards in the field," he said.



NEW INITIATIVE: CBB Governor Rasheed Al Maraj, the Minister for Industry and Commerce Dr Hassan Abdulla Fakhro and other panelists during the opening session of Corporate Governance event held at the Gulf Hotel yesterday.