Rasheed Mohammed Al Maraj: The Corporate Governance Code of the Kingdom of Bahrain – fundamentals and implementation

Address by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at an event, organized by the International Chamber of Commerce, Manama, 4 May 2009.

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Distinguished guests, ladies and gentlemen.

As patron of this event, the Central Bank is proud to take part in today's proceedings. My thanks go out to the organisers of this event, the International Chamber of Commerce, and also to the many sponsors who have made this event possible.

Today's conference focuses on the features of good corporate governance and on developments relating to the proposed new corporate governance code for all companies in the Kingdom of Bahrain. This initiative by the Ministry of Industry and Commerce is welcomed by the Central Bank and we will be working with the financial sector and listed companies on the implementation of the spirit and the letter of the New Code upon its publication.

In my opening comments, I will highlight what the CBB considers to be the key attributes of good corporate governance, and how we have encouraged licensees of the CBB and listed companies to implement a sound corporate governance environment.

Effective corporate governance begins with establishing a clear dynamic between three different bodies of persons: the shareholders; the board; and the management. In a perfect World, these three bodies would all recognise their interdependence and their responsibilities and act promptly, rationally and transparently in the best interests of the concerned company. However, events globally over the past decade indicate that we do not live in a perfect World, and so rules from regulators, company law and codes of practice are necessary to ensure that one set of stakeholders do not act in their own self-interest to the detriment of other stakeholders, or indeed to the detriment of the economy itself in the case of the largest companies.

The Central Bank of Bahrain has recognised that the conduct and health of the financial sector in particular has a far wider impact than just on shareholders' wealth. The health of the financial sector affects the reputation of the country, the functioning of the payments system and provides valuable employment in the domestic economy. Therefore the CBB has implemented several far-reaching initiatives on corporate governance standards over the past five years or so to complement the requirements of the Commercial Companies Law.

These Standards include: The Disclosure Standards for Listed Companies which were issued in December 2003; The Guidelines for Insiders, issued October 2004; The Guidelines for the Issue of Debt Securities, issued March 2004; The Takeovers, Mergers and Acquisitions Module of Volume 6 of the CBB Rulebook; and also the High Level Controls, Public Disclosure and Business Conduct Modules of the CBB Rulebook.

You will note that the CBB's emphasis has been on the internal governance, market conduct and transparency of listed companies and licensees. Let me deal with these three points in turn.

The CBB's internal governance requirements have concentrated first and foremost on the role of the Board, and secondly on sound internal controls and risk management systems. The Board sets the tone at the top and its functions include effectively monitoring the management and performance of licensees, and to establish the objectives of, and to develop the strategy of the licensee. In banks in particular, we have asked boards to define the risk appetite of the institution and to develop and approve its business plans. More recently we have specifically asked bank boards to quantify the capital needs of their banks. Market conduct has involved requiring banks to adopt codes of conduct for dealing with customers and also to adopt staff codes of conduct in dealing with potential conflicts of interests, for example. Transparency requirements for licensees and listed companies have increased dramatically over the past decade as we have sought to make management and boards more accountable for their actions and conduct and to tell stakeholders more about the affairs of the company. We therefore see the new Code as a highly useful next step and complement to the CBB's existing measures, and encourage companies, their boards and their management to work further on implementing good corporate governance standards.

In conclusion, I would like to comment is on the timeliness of this event.

The global financial crisis has badly affected investor confidence all over the World, as witnessed by falling stock prices across World markets in 2007 and 2008, and a retreat by investors into so-called safe havens of Government bonds and high quality investments. In such times, if listed companies or financial institutions wish to obtain funding at reasonable cost then they must maintain, and in some cases, regain the confidence and trust of investors by demonstrating good corporate governance. This means demonstrating that the company is well run at the top level by an independent, well qualified, experienced board overseeing high quality management. This also means that the company must show that it has excellent risk management and internal control systems, including an efficient internal audit. Furthermore, conflicts of interests should be removed or minimised, and properly disclosed where they remain.

Remuneration for management and directors should be transparent and not excessive. Management structure must be clear, and management must be held accountable to shareholders and the board for their actions and performance. Above all, the company must be transparent in its communications with its shareholders and stakeholders. This would include in particular the prompt reporting of full financial and risk information and the disclosure of the governance structure and governance performance of the company. I would therefore encourage companies, their boards and their management to take the New Code seriously and adopt it wholeheartedly if they wish to attract new investment and to retain the confidence of existing investors and other stakeholders in a post – Subprime World.

Thank you.