Rasheed Mohammed Al Maraj: The Corporate Governance Code of the Kingdom of Bahrain

Welcome address by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the launch of the proposed new Corporate Governance Code, Manama, 16 March 2010.

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Distinguished Guests, Ladies and Gentlemen:

It gives me great pleasure to be with you here today and to take part in the launch of the proposed new Corporate Governance Code for all public companies in the Kingdom of Bahrain. 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. We will be working with the financial sector and listed companies on the implementation of both the spirit and letter of the new Code.

Although high standards of corporate governance are essential for all publicly listed companies, they are especially important for firms in the financial sector. If I may refer back to the speech that I gave at the World Islamic Banking Conference in December of last year, financial institutions – and 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, policy holders, 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.

Unfortunately, the global financial crisis has provided many illustrations of failures of corporate governance. 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. It was the Board of Directors that should have ensured there were proper risk management and control systems within each bank. It was the Board of Directors that should have ensured that the senior management of the bank had properly taken into account the possibility of experiencing extreme stress scenarios. Finally, it was the Board of Directors that should have ensured the remuneration structures were in line with the long-run interest of the bank itself rather than rewarding short-term risk-taking.

The need for high standards of corporate governance is, therefore, 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.

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.

Of course, the special responsibilities of the Board of Directors of a financial institution which I mentioned earlier means that the CBB will need to continue to apply its own corporate governance requirements on such matters as internal high level controls, the avoidance of conflicts of interest, and various public disclosure and reporting requirements. These will need to remain more detailed than those in the new Code, for example setting the public disclosure requirements for financial institutions. The CBB's detailed requirements on corporate governance will therefore continue to exist in parallel to the new Code.

It is important that public companies in Bahrain, both financial and non-financial, enter fully into the spirit of the new Code. It should not be seen as a matter of complying with just another set of regulations, but as something that should influence the corporate culture of companies in Bahrain. Greater transparency and more effective governance structures will in the long-run only serve to increase the attractiveness of Bahrain for foreign investors seeking to establish or expand operations in the MENA region.

In conclusion I would like to take this opportunity to thanks Dr. Hassan Fakhro, Minister of Industry and Commerce, for his support and cooperation in the introduction of the new Corporate Governance Code, and to the Steering Committee for the excellent work it has achieved.

Thank you for your attention.