



The Corporate Governance Code of the Kingdom of Bahrain

Fundamentals and Implementation 4 May 2009

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Behind the Scenes: The Corporate Governance Preferences & Effective Enforcement of Codes at the Company Level





Corporate Governance Defined

Corporate governance refers to rules, regulations, and best practices which ensure that boards and management **secure the rights of shareholders**, improve competitiveness, and enable access to capital in global markets

and (other) stakeholders like creditors, employees, suppliers, regulators, auditors, rating agencies, media and the community.....



Corporate Governance Defined

Welch denounces corporate obsessions

By Francesco Guerrera in New York

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Jack Welch, who is regarded as the father of the "shareholder value" movement that has dominated the corporate world for more than 20 years, has said that it was "a dumb idea" for executives to focus so heavily on quarterly profits and share price gains.

The former General Electric chief told the Financial Times the emphasis executives and investors had put on shareholder value - which began gaining popularity after a speech he made in 1981 - was misplaced.

Mr Welch, whose record at GE encouraged other executives to replicate its consistent returns, said managers and investors should not set share price increases as their overarching goal. He added that short-term profits should be allied with an increase in the long-term value of a company.

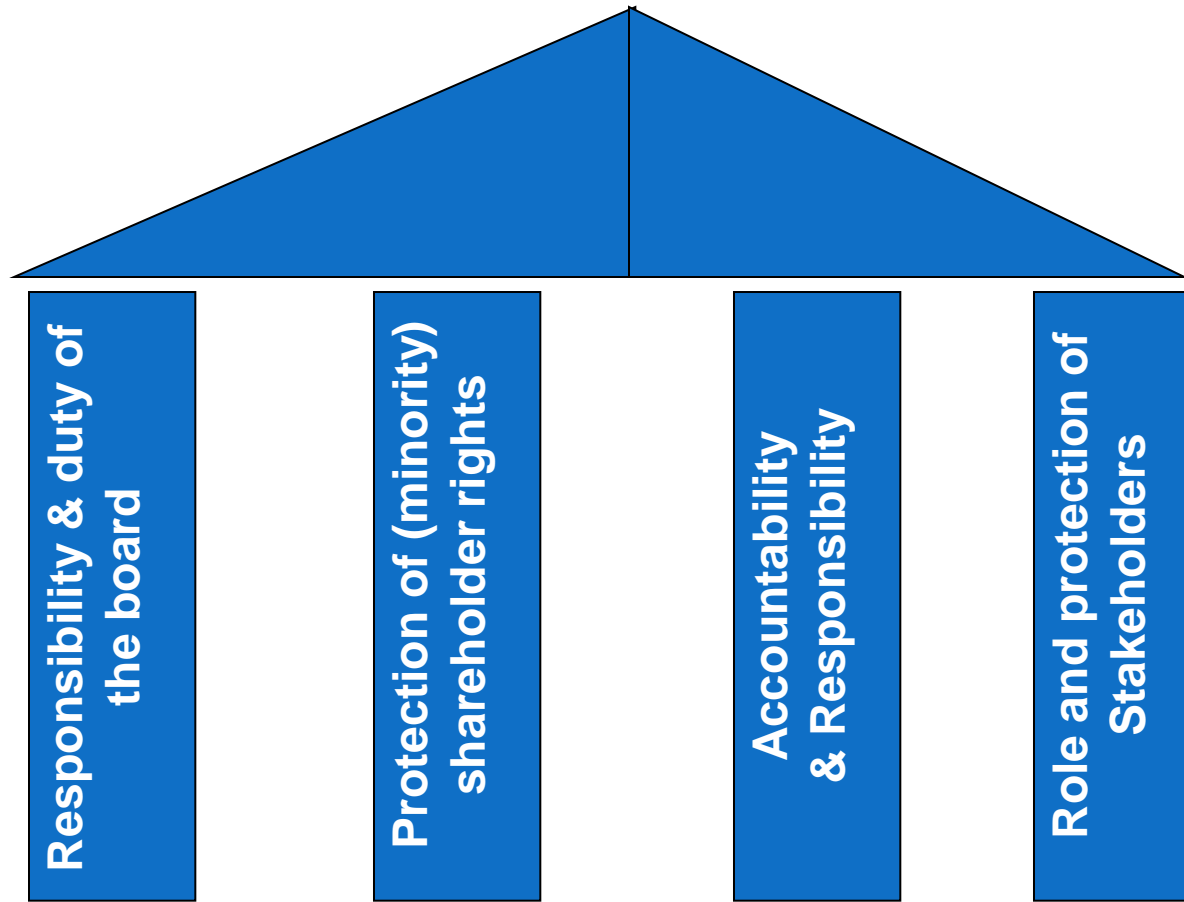
"On the face of it, shareholder value is the dumbest idea in the world," he said.

"Shareholder value is a result, not a strategy . . . Your main constituencies are your employees, your customers and your products."

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Corporate Governance Pillars



Corporate Governance Infrastructure/climate in a country



Convergence In The Policies Divergence In Practices

Corporate Governance Practices	USA – New York Stock Exchange	European Union	Bahrain Stock Exchange
Which companies	Listed companies	Listed companies	Listed companies
Corporate Governance Practices	Mandatory	Comply & Explain	Comply & Explain
Board Composition	Majority of independent members	Sufficient number of Independent Directors	Half of a company's board should be non-executive directors and at least 2/3 should be independent. If a company has a controlling shareholder, at least one-third of the board should be independent directors.
Audit Committee	Totally independent directors	Non-executive or supervisory directors. At least a majority of its members should be independent.	The board shall establish an audit committee of at least three members which shall all not include be non-independent directors
Nomination Committee	Entirely of independent directors	At least a majority of independent, non-executive or supervisory directors	The Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director
Compensation/Remuneration Committee	Entirely of independent directors	Exclusively of non-executive or supervisory directors. At least a majority of its members should be independent	The board shall establish a remuneration committee of at least three members. The committee should include only independent directors or only non-executive directors of whom majority are independent
Shareholder approval of compensation	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto	Shareholders should be provided with a clear and comprehensive overview of the company's remuneration policy.	The Remuneration Committee or the board should negotiate the remuneration package of each director on the understanding that it shall be subject to shareholder approval.
Corporate Governance Guidelines/statement	Listed companies must adopt and disclose corporate governance guidelines	Companies should be obliged to disclose an annual corporate governance statement as a specific and clearly identifiable section of the annual report.	The company shall disclose its corporate governance The board shall establish and adopt written corporate governance guidelines.



Convergence In The Policies Divergence In Practices

Website Requirement	Listed companies must have and maintain a publicly accessible website	Directive 2006/46/EC Corporate governance statement which takes part in the annual report is published in the company's website	A company should maintain a company website and communicate with shareholders by electronic methods.
Certification requirements	Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary	Corporate Governance is regulated under the heading of modernization of company law and enhancement of corporate governance. Under this heading takes place, Directors' remuneration, responsibility of board members, independent directors and shareholder rights which are regulated either by directives or recommendations	To encourage management accountability for the financial statements required by the directors, the company's CEO or CFO shall state in writing to the audit committee and the board that the company's financial statements present a true and fair view of the company's financial condition and results of operations in accordance with applicable accounting standards
Annual accounts and consolidated accounts	SOX and SEC regulations, and US GAAP	Accounting directives puts responsibility for the financial statements and key-non financial information on the board	The board shall have rigorous controls for financial, audit and reporting, internal control and compliance with law
Related party transactions	Each related party transaction is to be reviewed and evaluated by an appropriate group within the listed company involved. While the Exchange does not specify who should review related party transactions, the Exchange believes that the Audit Committee or another comparable body might be considered as an appropriate forum for this task	Directive 2006/46/EC With the objective of bringing companies whose securities are not admitted to trading on a regulated market closer to companies applying the international accounting standards for their consolidated accounts, disclosure should be extended to cover other types of related parties	The company shall disclose related party transactions and approval process for related party transactions in the corporate governance disclosure
Off balanced sheet arrangements		The commission proposes that all companies – listed or not – should disclose all off-balance sheet arrangements, including their financial impact, in notes to the annual and consolidated accounts.	
Internal control & risk management	Sarbanes-Oxley (SOX) 302 mandates a set of internal procedures designed to ensure accurate financial disclosure. Section 404 requires management and external auditor to report on the adequacy of the company's internal control over financial reporting. Management is required to produce an "internal control" report as part of each annual report.	Directive 2006/43/EC Directive on statutory audit requires audit committee (or alternative body) of listed and other eligible public interest entities to monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems.	The board shall have rigorous controls for financial, audit and reporting, internal control and compliance with law

Why Corporate Governance So Important!!!

Benefits to Companies

Increases Operational and Financial Efficiency

Improves Access to Outside Capital (equity financing)

Increases Market Value & Lowers the Cost of Capital

Avoids Agency Cost & Management Entrenchment

Maintains Reputation and Builds Trust

- ➔ **Adds to shareholder value**
- ➔ **Increase competitiveness**
- ➔ **Contributes to sustainability**



Role of Institutional Investors

The assets under management of Institutional investors are catching up with those of the banking system.

Institutional investors include;

- mutual funds,
- pension funds, e.g. CalPERs (***\$176.4 billion as of April 2009***)
- insurance companies, and
- similar private institutions

Assets Under Management

Insurance companies + pension funds = USD 30 trillion (2005),

Insurance companies = USD 17 trillion,

Pension funds = USD 13 trillion

CalPERS-Wilshire Report April 2007

Country and Market Macro-Factors

Country	Market
Political Stability	Market Liquidity and Volatility
Transparency	Market Regulation/Legal System/Investor Protection
Productive Labor Practices	Capital Market Openness
	Settlement Proficiency/ Transaction Costs

CaIPERS-Wilshire Report April 2007

Separate Country Factor and Market Factor Ranks

Country Factor Ranks

- 1 Hungary
- 2 Czech Republic
- 3 Chile
- 4 Poland
- 5 South Korea
- 6 Taiwan
- 7 Israel
- 8 South Africa
- 9 Mexico
- 10 Argentina
- 11 Philippines
- 12 Brazil
- 13 Turkey
- 14 Malaysia
- 15 Jordan
- 16 India
- 17 Sri Lanka
- 18 Peru
- 19 Thailand
- 20 Morocco
- 21 Indonesia
- 22 Colombia
- 23 Russia
- 24 Egypt
- 25 Venezuela
- 26 China
- 27 Pakistan

Market Factor Ranks

- 1 Chile
- 2 Pakistan
- 3 South Korea
- 4 Israel
- 5 Brazil
- 6 Hungary
- 7 Philippines
- 8 Taiwan
- 9 Thailand
- 10 Poland
- 11 South Africa
- 12 Indonesia
- 13 Czech Republic
- 14 Mexico
- 15 Peru
- 16 India
- 17 Jordan
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- 20 Russia
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- 24 Colombia
- 25 Sri Lanka
- 26 Argentina
- 27 Venezuela

CalPERS-Wilshire Report April 2007

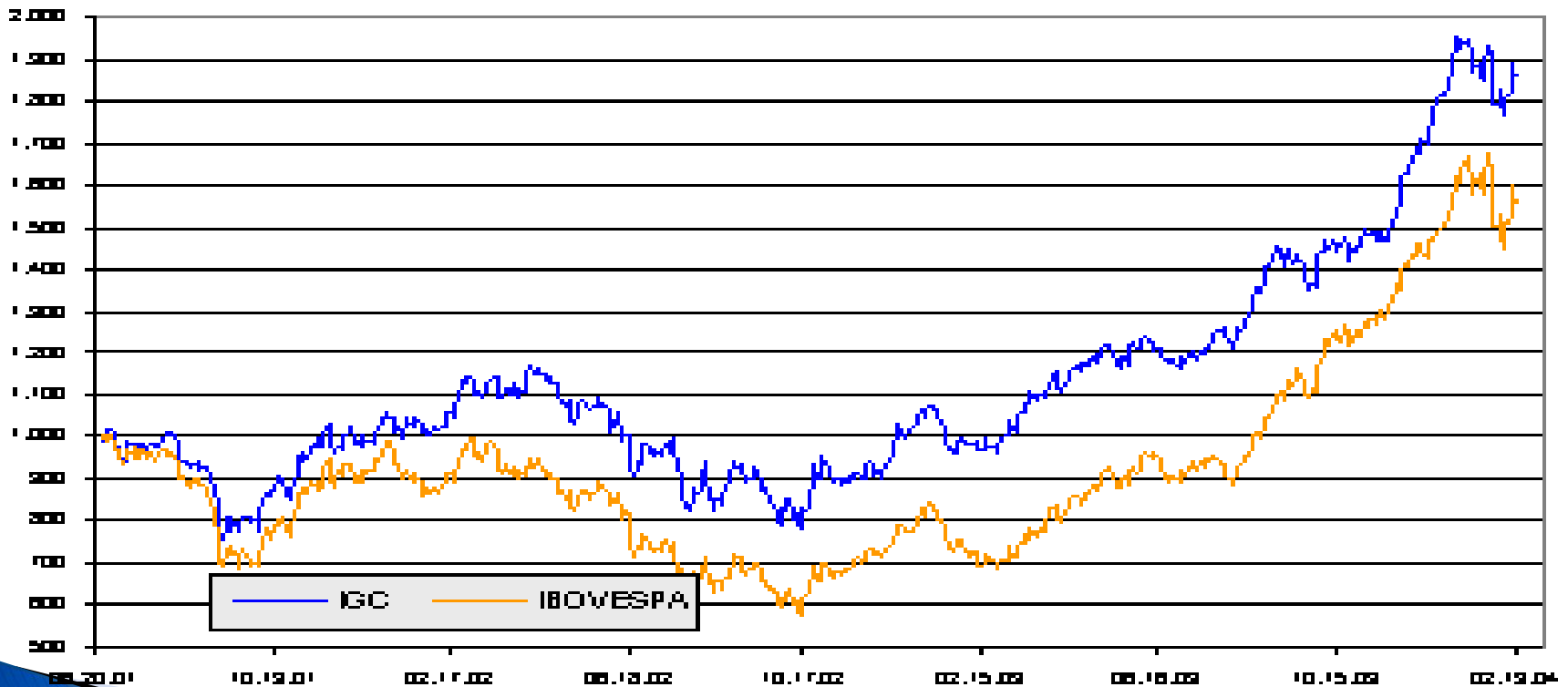
Overall Summary

	Country Factors			Market Factors				2007 Score	Cumulative Mrk Cap as a % of total Mark Cap
	Political Stability	Productive Labor Transparency Practices	Market Liquidity & Volatility	Market Reg. Legal System Investor Protec.	Capital Market Openness	Settl. Proficiency Trans. Costs			
Weights	16,70%	16,70%	16,70%	12,50%	12,50%	12,50%	12,50%	100%	
Subtotal Weights	50%			50%				100%	
1 Hungary	2,7	2,7	3,0	2,7	2,3	2,7	2,3	2,7	1,09%
2 Chile	3,0	2,7	2,3	3,0	2,7	2,7	2,0	2,6	2,77%
3 South Korea	2,3	3,0	2,3	3,0	3,0	2,3	2,0	2,6	20,34%
4 Czech Republic	2,7	2,7	2,7	2,7	1,7	2,7	2,3	2,5	21,06%
5 Poland	2,3	2,7	2,7	3,0	2,3	2,3	2,3	2,5	22,47%
6 Israel	2,0	2,7	2,7	2,7	2,7	2,7	2,0	2,5	24,48%
7 Taiwan	2,7	2,7	2,0	3,0	2,3	2,7	2,0	2,5	38,76%
8 South Africa	2,0	3,0	2,3	3,0	2,7	2,3	1,7	2,4	49,34%
9 Brazil	1,7	2,7	1,7	2,7	2,3	2,0	3,0	2,3	61,03%
10 Philippines	1,7	2,7	1,7	2,7	3,0	2,0	2,3	2,3	61,38%
11 Mexico	2,0	2,7	1,7	2,7	2,0	2,0	2,7	2,2	69,73%
12 Jordan	2,0	2,3	1,7	3,0	1,0	2,3	3,0	2,2	70,20%
13 Thailand	1,7	2,0	1,7	3,0	2,3	2,0	2,7	2,2	71,50%
14 Turkey	1,7	2,3	2,0	2,7	1,7	2,3	2,3	2,1	72,86%
15 India	2,0	2,7	1,0	3,0	2,3	1,3	2,7	2,1	81,33%
16 Peru	1,3	2,3	2,0	2,7	1,7	2,3	2,7	2,1	81,53%
17 Indonesia	1,7	2,3	1,3	3,0	2,3	2,0	2,3	2,1	82,90%
18 Malaysia	2,3	2,7	1,0	3,0	2,3	1,3	2,0	2,1	86,20%
19 Morocco	2,0	2,0	1,3	2,7	2,0	2,3	2,0	2,0	86,50%
20 Argentina	1,7	2,3	2,3	2,0	2,0	2,3	1,3	2,0	87,11%
21 Pakistan	1,0	1,7	1,0	3,0	2,7	1,7	3,0	1,9	87,29%
22 Egypt	1,3	1,7	1,7	2,7	1,3	2,0	3,0	1,9	88,03%
23 Russia	1,0	2,0	1,7	3,0	2,0	1,7	2,3	1,9	97,06%
24 Sri Lanka	1,3	2,3	2,0	2,7	1,3	1,7	2,0	1,9	97,11%
25 Colombia	1,7	1,7	1,7	2,7	2,0	2,3	1,0	1,9	97,74%
26 China	1,3	1,3	1,3	3,0	1,7	1,3	2,3	1,7	99,89%
27 Venezuela	1,0	1,7	2,0	1,7	1,0	1,7	2,0	1,6	100,00%



Good Corporate Governance Adds To The Value Of the Company

Evolution of the IGC compared to the IBOVESPA – 06/26/2001 to 02/16/2004





Good Corporate Governance Not Only In Turbulent Times, But Also In Good Times





Good Corporate Governance Not Only In Turbulent Times, But Also In Good Times

Charlie McCreevy, European Commissioner for Internal Market;
Recent financial turmoil increased the importance of;

➤ Risk management

Current financial turmoil is partly the result of poor risk management. Such poor risk management is, in part, a result of failing internal governance. Financial institutions will have to examine their internal governance framework with a view to embracing risk management. Risk management should be part of the strategy of the firm, the culture of the organisation.

➤ Market transparency

There is an urgent need to improve **transparency for investors, markets and regulators**, by making sure that they are provided with proper information. If industry delivers on the quality and accessibility of information provided to shareholders and investors alike, the ball will then be in the court of shareholders and investors

From Transatlantic Corporate Governance Dialogue 2008



Good Corporate Governance Not Only In Turbulent Times, But Also In Good Times

Charlie McCreevy, European Commissioner for Internal Market;

➤ Remuneration

They need to be aligned with shareholder interest and long-term, firm-wide profitability. An effective internal control system should, in principle, always have been capable of preventing what we have witnessed in the last year, no matter what the remuneration structure looked like. But it is not only remuneration schemes of employees which are at stake. The same is true, if not more so, for the remuneration schemes of board members

➤ Role of regulators and legislators

We also need to look at the role of supervisors in all this. It is clear that (*EU*) regulators need to cooperate more – it is not sufficient to have a national focus when financial markets are integrated (*at the EU level, and sometimes even*) at the global level.



Transparency & Accountability

Why unified global accounting standards?

Mercedes
Benz
1993

German
GAAP

Profit
DM 600
million

Mercedes
Benz
1993

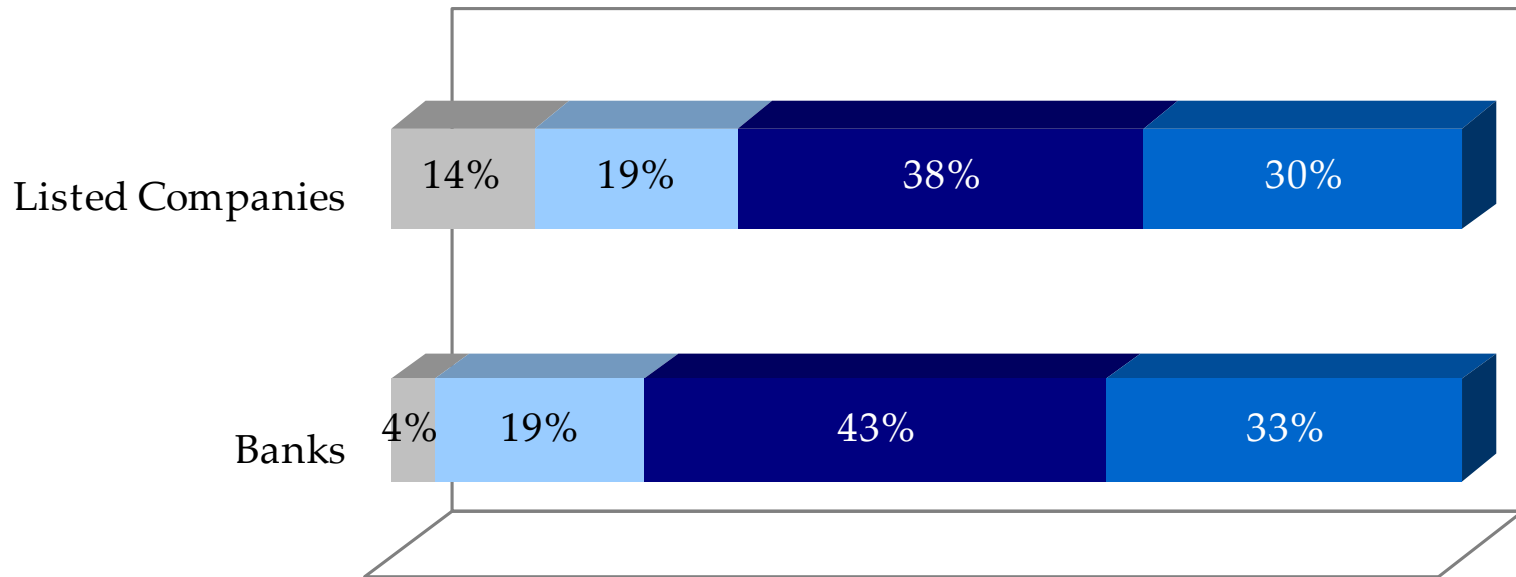
US GAAP

Loss
DM 2 billion



IFC & HAWKAMAH Corporate Governance Survey – Middle East & North Africa

The importance of implementing good governance

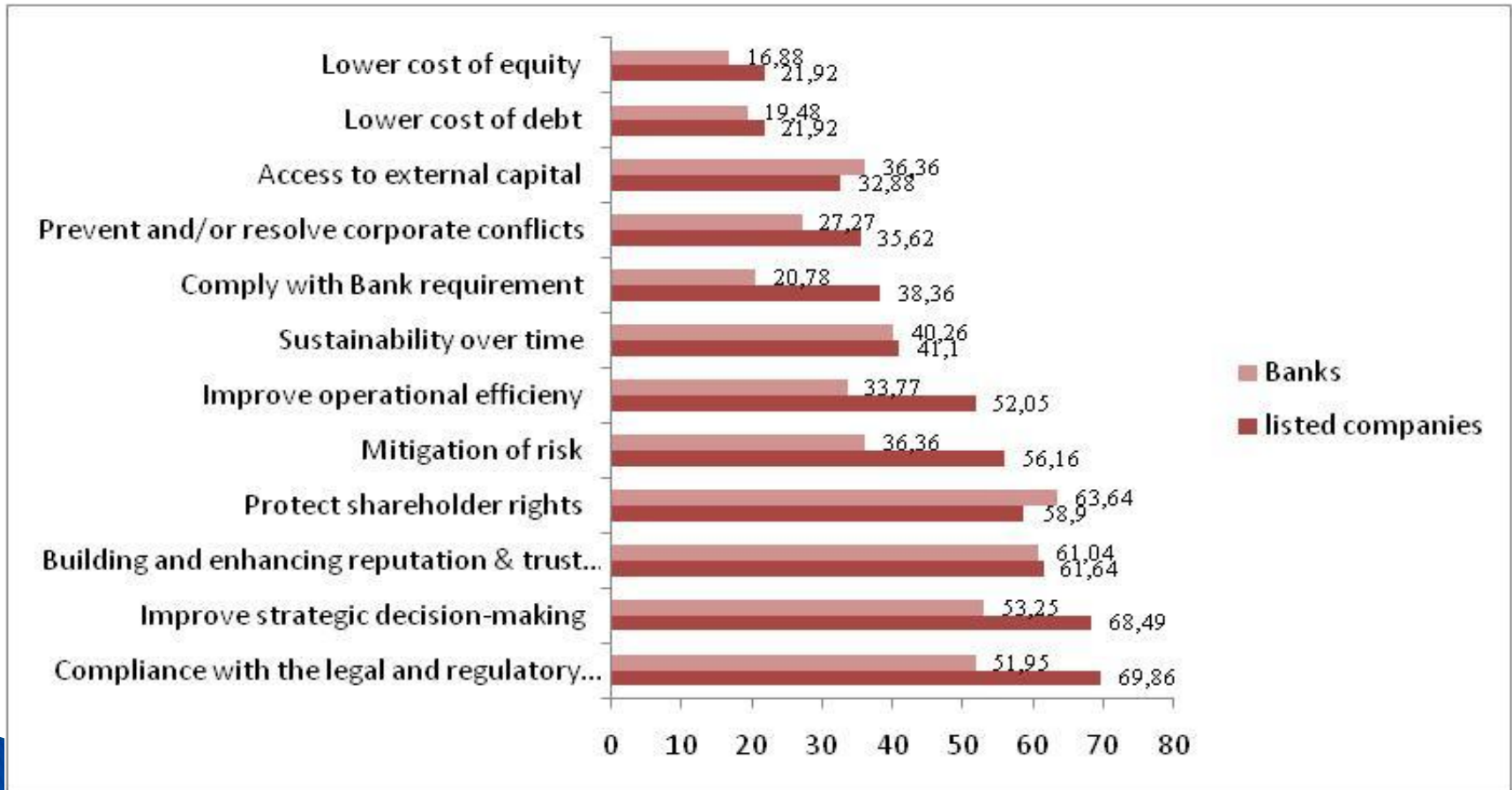


■ Irrelevant ■ Of average importance ■ Important ■ Very important



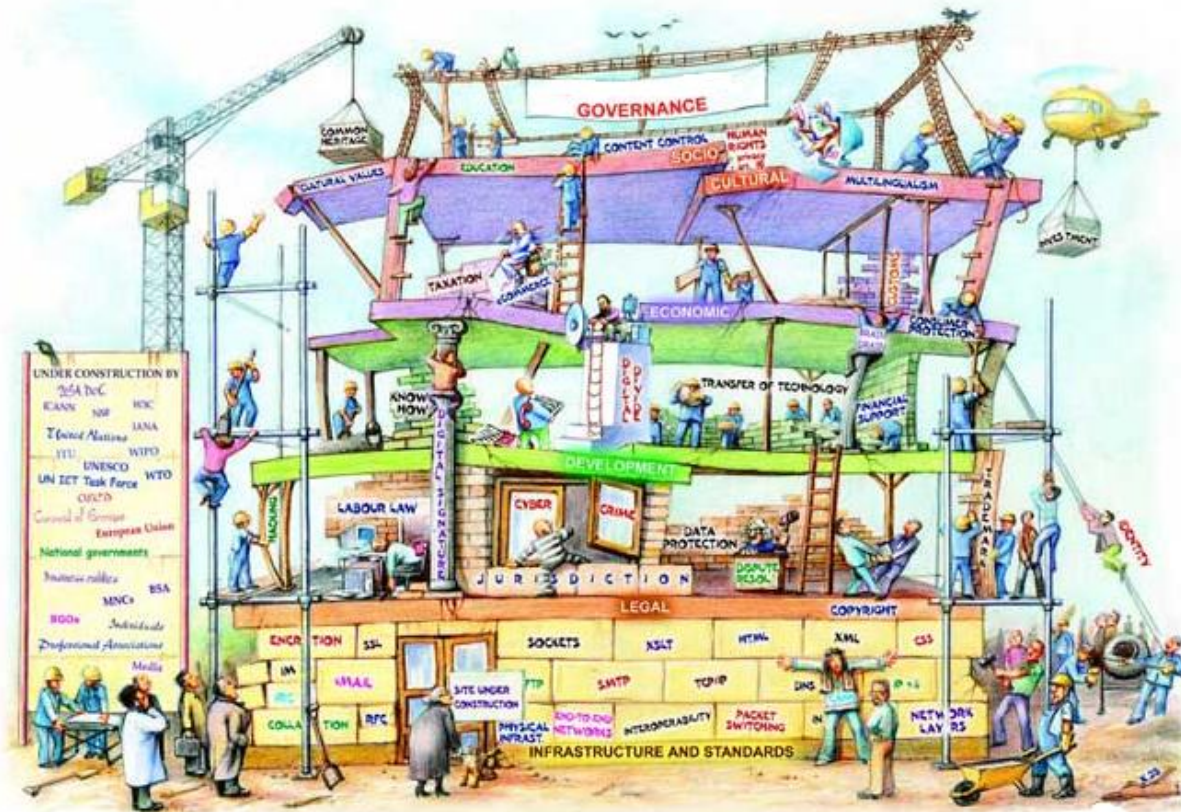
IFC & HAWKAMAH Corporate Governance Survey – Middle East & North Africa

Understanding the business case for corporate governance



Source: IFC & Hawkamah Survey

Incorporating Good Governance In The Company





Step 1

- **Confirm CEO/board commitment to give priority to good governance**

TONE AT THE TOP

The chairman, board of directors, CEO and the executive team should commit themselves to good governance principles.



Step 2

• **Define corporate governance standards/principles**

- Director qualification standards
- Director responsibilities
- Director access to management and, as necessary and appropriate, independent advisors
- Director compensation
- Director orientation and continuing education
- Management succession
- Annual performance evaluation of the board

Board Level

Responsibilities of the Board



- Determine the organization's mission and purpose and review these on an annual basis.
- Ensure effective organizational planning.
- Determine and monitor the organization's programs and services.
- Select the Executive Director.
- Support the Executive Director and review her/his performance.
- Ensure adequate resources.
- Manage resources effectively.
- Enhance the organization's public image.
- Serve as a court of appeal.
- Assess the Board's performance.

Board Level

SOME KEY ISSUES FACING BOARDS IN 2009



- Risk management
- Executive compensation
- CEO succession planning
- Takeover defense
- Short-termism and special interest groups
- Director elections
- Direct lines of communication with shareholders
- Shareholder proposals
- Separation of the chairman and CEO positions
- Considerations in the “zone of insolvency”

Step 3

• Organizing efficient boards

Board meetings

Board resolutions

Board minutes

Board references

Board policies & procedures
Company information
Regulatory filings
Checklist

Step 4

- Design board committees and draft committee charters

- Nomination Committee
- Remuneration Committee
- Audit Committee

But most importantly, assure that these committees and their members are properly fulfilling their roles and responsibilities



No box ticking exercise!!!



Step 5

- Identify key stakeholders, and draft guidelines for stakeholder engagement



Having a dialogue with stakeholders;

➤ ***Prevents–potential problems before they arise***

➤ ***Resolves- disputes through effective communication***

➤ ***Manages - to mitigate sources of dispute through collaboration***



Step 6

- **Benchmark against selected external codes and standards**

It is for an individual company or industry sector to decide what the most useful benchmark codes are and to develop their own understanding of how business principles relate to external codes and guidelines, and to societal expectations.

Examples:

OECD Corporate Governance Principles

Newyork Euronext Stock Exchange Corporate Governance Standards

ICGN Corporate Governance Principles

Asian Development Bank Corporate Governance Principles,

Microsoft Corporation Corporate Governance Principles

Corporate Governance Principles of Infosys (India)



Step 7

- Ensure there is an efficient internal control and effective risk management system

Performance & all kinds of risks

Good Corporate Governance

Risk Management

Internal Control

Conformance, compliance and efficiency





Step 8

- **Educating top management on the benefits of good governance in your business**

Board Level

Incorporating integrity, accountability, responsibility, and assuring independence

Top Management & Company Level

Incorporating good governance practices assuring internal control & risk management in the company



• Use language that everyone can understand

Step 9

- ✓ Principles, policies and guidelines must be clearly expressed, particularly if the material is to be translated.
- ✓ As much as possible, companies should avoid using jargon and prefer a straightforward business-like style and vocabulary.





• Set up internal monitoring

Step 10

- *“what gets measured gets managed”*

- An audit of corporate governance practices- set up an adequate internal monitoring system to ensure that corporate governance principles are put into practice
- Corporate governance is a moving target that needs to be revised and updated as experience dictates. (Troubled Asset Relief Program in USA)
- Regulatory developments regarding the rating agencies
- Regulatory developments of hedge funds and private equity funds

Corporate Governance is like Pandoras Box

Companies should consider issues such as;

- Rules and regulations in their business environment
- Social expectations in the countries they operate
- Strategic management and the business policy issues
- Corporate and product image – reputational risk
- Risk management
-
-



Therefore the corporate governance polices and practices must be implemented with full support of the executive team including the CEO.



Thank you
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