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CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS

BY

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Index

	<u>Page</u>
○ Introduction	2
○ The Role of the Board of Directors, the Chairman, the Chief Executive/General Manager and Components of the Executive Management	9
○ The Role of Committees of the Board and those of Executive Management	12
○ The role of the Central Bank in Corporate Governance	17
○ Listed Companies	18
○ Recommendations	19
○ Conclusion	20

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By

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Section 1: Introduction

Your Excellency the Minister, distinguished guests, I am delighted to be with you today and to have the opportunity of giving you my thoughts on the very topical subject of **Corporate Governance**.

I was lucky to have had the opportunity to contribute to this public dialogue about financial governance for the third time. The previous two events were: a workshop on "Corporate Governance in Banks and Financial Institutions", organized by the Central Bank of Oman in June Last year, for the central and commercial banks in the GCC region, (*for more information on the workshop program, see Annex 1*); and an international conference on "Financial Safety: Stakes and Perspectives (La Securite Financiere: Enjeux et Perspectives)", organized by Tunisia's Chartered Accountants Associations, on January 15, 2004, for financial, banking and accounting institutions in the Arab world. (*for more information on the conference agenda, see Annex 2*).

The European Commission published two documents that were both related directly to corporate governance. One was an "Action Plan on Corporate Governance", which stipulates that companies are required to publish an annual corporate governance statement - describing their corporate governance structures and practices. The second was "Reinforcing the Statutory Audit in the European Union", which requires much greater disclosures by audit firms, e.g. about their international arrangements, and also their internal quality assurance.

In the aftermath of the Enron debacle in the USA and most recently the Parmalat of Italy along with other corporate failures and financial matters including money laundering has raised a number of issues such as corporate governance, the role and responsibilities of the banking

profession. Financial institutions (and auditors in particular) should be specifically vigilant with respect to fraud, corruption, and misstatements.

As Chairman of the largest Arab national firm of auditors in the world - Talal Abu-Ghazaleh & Co (TAGCO). I am deeply concerned about this latter issue although it is only one of many, we have to discuss. Sometime ago I instructed all of my offices not to accept any more bank audits. An audit should assure that the financial statement shows a true and fair view, that there was no suspicion of money laundering and that the bank had an appropriate standard of corporate governance. This is a task that requires a level of work well in excess of what is expected at present. The banks and auditors are going to have to tackle this. It will not go away. The simple solution of increasing audit fees to allow more work by itself will not be enough in its self. Nor am I yet convinced of the case limiting the liability for auditors, which is being argued for in many parts of the world. It does need to be looked at perhaps as a symptom rather than a cure. All of the interested parties - central banking authority, individual banks, auditors, chief executives and finance officers need to get together to look at the whole culture and attitude, which determine the environment within which corporate governance is exercised.

Corporate Governance

It is clear that the absence of good governance causes extensive damage to the economy and the society as well. Where controls are lenient, values of diligence and integrity will decline.

While corporate governance was highlighted by the Enron affair, it had been a matter of concern for many years before it is again largely instigated by the collapse of major corporations. As a result of the collapse of Enron and as a consequence that of Arthur Andersen, the accounting failure of WorldCom and the bankruptcy of Global Crossing, the US congress enacted a new law, the Sarbanes-Oxley Act of 2002, enforcing good corporate governance and ethical practices on publicly traded companies. The Congress described it as "An Act to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the

securities law, and for other purposes." (for a Quick Overview of the Sarbanes-Oxley Act of 2002, see Annex 3).

It is true that the Sarbanes-Oxley Act is only applicable to the US publicly traded companies; however, all companies around the world, the Arab countries in particular, should take note of its implications. Sooner or later, more countries will follow the US example.

The phrase "corporate governance" emerged in the 1980s. There are many definitions of corporate governance but perhaps the simplest and the best is still the one given in the 1992 Report of the UK Cadbury Committee on Financial Aspects of Corporate Governance:

"Corporate Governance is the system by which companies are directed and controlled."

Every organization/group/corporate body is directed and controlled so we are not talking about introducing something which has not existed before. The question is not, therefore, whether you have corporate governance but rather whether it is good or bad as judged against what is seen as best practice. We will be later discussing what is currently regarded as best practice, but two words can perhaps sum up what this is - "Independence" and "Stakeholders". The system should allow for the exercise of independent objective judgment without fear or favor by competent individuals who are aware of the legal and ethical responsibilities of the corporate body, not only to its shareholders but also the other stakeholders such as employees, suppliers, customers, government and society at large.

Advantages of Corporate Governance Standards

It can be, and indeed has been, argued that even without the pressures of government and its agencies through legislation and other means the case for good corporate governance is strong. A company with good corporate governance is much more sensitive to the needs and objectives of its stakeholders and builds greater confidence with them. It is a powerful weapon in the prevention of fraud and overall makes the company much more sensitive to the risk factors which affect the carrying out of its

business. By reducing the perceived level of risk in the business it facilitates access to capital markets and improves the market acceptance of those who buy its goods and services. Investment risk is a function of political, security and business risk and is of crucial importance to our region. Anything which improves the situation i.e. reduces the perceived investment risk must be given serious consideration. Too high an investment risk leads to a lack of inward investment and an increase in the flow of outward capital. We all know that for many years our region has been a net exporter of capital. What might our social and economic position have been today if the reverse had been the case?

Good governance means better organization, more internal discipline, efficient internal and external auditing and ethical conduct. It is the best cure for internal control weaknesses and lack of compliance with applicable internal control procedures.

Acceptable Standards for Corporate Governance

There is, of course, no single recognized best model of corporate governance. However, the key factors in assessing corporate governance in any organization usually involve an examination of (a) the appointment, roles, responsibilities and accountability of the board of directors and those of the chief executive and other senior management, and the authority, experience and independence of all. For ease, I will call these people the *Directors* whether they are legally such or not, and (b) the compliance, control, and audit arrangements - both internal and external.

Corporate governance standards and principles in financial institutions would be adequate if they equitably protect and cater for the interests of all stakeholders, including the public, shareholders, investors, creditors, and employees. Good governance is simply to ensure accountability, reliability, accuracy and transparency.

The Directors

Underlying all the various comments and suggestions on this issue, one core theme emerges. All individuals should be accountable and no one individual or group should be able to dominate decision making in the

organization. This can be achieved by firstly establishing clear lines of responsibility and authority. Those for the Chairman should clearly distinguish his role from that of the Chief Executive. It should be exceptional that these two posts are held by the same individual. If so, good reason should be given and the other directors should review and report on this.

Secondly, every board should have independent directors with special responsibilities. We need to clearly distinguish between independent directors and non-executive directors. An independent director, by definition, must be non-executive. But a non-executive director need not be independent. The father or son of the Chairman might well be non-executive but could never be independent. Independent directors should be appointed for their ability and expertise, and not simply because they are important customers or suppliers or "friends". They should always be particularly conscious of the obligations to stakeholders. It is clear from developments in the USA and the UK that enhancing the role and quality of the independent directors is seen as a very important tool in the creation of good corporate governance. However, it has also caused much controversy about how you determine independence and what precisely the independent director's role should be. The appointment of large numbers of independent directors is not an elixir, which will instantly cure the ills of corporate governance. They have an important role to play and it may be a necessary condition for improving corporate governance but it is not a sufficient one. We must beware that we do not create a system of schizophrenic management. Every organization needs clear and decisive leadership.

Thirdly, the independent directors, or a committee of them, would be responsible for the remuneration packages of the chairman, chief executive and other executive directors. In terms of stock options, the potential impact on profits of such options would have to be made clear on an annual basis.

Fourthly, the Board of Directors and its Committees should be supplied with timely, relevant and appropriate information relating to all of the company's

activities. Meetings should allow for sufficient time to discuss this information adequately. While the chairman of the meeting will set the agenda, all directors should have the right to comment on the agenda and request the inclusion of any matter. Directors should not be denied access to any employee, if they so wish.

Compliance and Control Arrangements

A key factor in corporate governance is the monitoring of and the reporting on the internal control system.

Every board of directors should have an Audit Committee. This committee would be formed from the independent directors. It has been suggested that at least one of the members should be a qualified accountant. I would not like to be thought of as trying to create employment opportunities for one of my own profession, but certainly the members should be financially literate.

The Audit Committee would recommend to the Board of Directors the appointment of the external auditors, and such appointment would be reviewed regularly. The external auditors and the internal auditors would report direct to the Audit Committee, which would in turn report annually on the state of the internal control system and its adequacy in light of the then current circumstances.

Many countries, e.g. the USA and the UK, are reviewing the external auditor's responsibilities and whether this should include a requirement to include in their report formal comments on the system of corporate governance. In some countries, auditors are recommended to consider whether this should be reported on. While in other countries, consideration is being given to making this a statutory requirement. In order to ensure the auditors are truly independent, it has been suggested in the USA that for certain corporations - the very large and major financial institutions - the auditors should not be appointed by the company shareholders or directors but rather by a special body established to carry out this task. This is not unusual in the public sector where some form of independent commission

appointed by the government determines who shall audit e.g. local governments and state owned enterprises.

The Importance of Communication

Underlying all our discussions will be the presumption that there is good communication between all of the interested parties, i.e. the stakeholders. This is easy to say but difficult to achieve. All businesses and banking in particular, have a long tradition of confidentiality and of concern about disclosing valuable information. Trust, including financial trust, is built around this. I am, of course, not suggesting that this should be weakened. "My word is my bond" is a principle I have always strongly adhered to. However we do need to spend more time considering transparency and what and how we communicate. The answer is not producing longer and longer annual reports. Many are far too big already. We live in an electronic age where recording, updating and indexing of information can be done in an efficient manner. I have been advocating for many years of the need for the Arab World to be able to participate in the digital revolution, and governance communication should be considered as part of this. This of course also applies as to how governments and their agencies communicate with all stakeholders.

The Impact of Culture

The main work on, and consideration of, corporate governance has taken place not surprisingly in the industrialized nations in the developed world. While it is always wise to learn from such nations it is not wise simply to copy without giving consideration to the different cultures which exist elsewhere and how this might affect the acceptability and success of what is being considered. How would we in the Arab nations regard the views which have been put forward on the role and responsibilities of the chairman, the Chief Executive Officer and non-executive or independent directors? An interesting study was carried out recently by the UK Chartered Association of Certified Accountants (ACCA) in China and South East Asia. Two hundred chief financial officers out of the top three hundred companies were surveyed on their views of the development of corporate governance. The results showed that more needs to be done to develop best procedures despite the growing awareness of the need for this.

Progress had been made but the most significant barrier was culture and adherence to the concepts underlying the traditional corporate model. This inhibited the application of many of the characteristics of good practice for example, the role of independent and non-executive directors, the power and authority of the chief executive. This view was further endorsed by the report of the Asian Corporate Governance Association entitled "Fakin' It: Board Games in Asia", which concluded that the response to demands for better corporate governance have led to cosmetic changes that do not translate into true improvements.

Much play has been made about statements in annual reports with no real substance behind the scenes:

"A policy statement that says corporate governance is important and a few paragraphs in an annual report that give lip-service to corporate governance can be just that - lip-service."

The report claims that the core areas such as accountability, responsibility, and independence are lagging behind.

It would be interesting to have a similar survey done in the Arab World to see what the current position is and should there be sufficient interest. I am sure the Arab Society of Certified Accountants (ASCA), of which I am President, would be willing to do this.

Section 2: The Role of the Board of Directors, the Chairman, the Chief Executive/General Manager and Components of the Executive Management

In looking at perceived best practice for the roles and responsibilities of the Board of Directors, the Chief Executive Officer/General Manager we have seen that there is one overriding theme - all individuals should be accountable and no one individual or group should be able to dominate the decision making in the organization. A system of checks and balances should be in place based on clear lines of responsibility and authority.

All analysts agree that a major task for the Board of Directors is policy formulation so that a clear set of policies is available to the management. The purpose of such policies is to achieve value for the owners and the other stakeholders by operating in an effective and ethical manner. Policy formulation is for the Board but policy implementation is not. This is the role of the Chief Executive/General Manager and the senior management team and the Board of Directors should not seek to duplicate this. The directors are of course required to monitor policy implementation to ensure that its policies are being followed. Many believe that this cannot be achieved if the roles of Chairman and Chief Executive are combined even if this is common in practice as in the USA. In France, until 2001, under the code Napoleon the chairman was de facto CEO or General Manager and could appoint on his own authority and responsibility another person to those positions. However company law was changed to prohibit the same person holding these two positions except in two cases. Firstly, if the Board of Directors appoints the Chairman as General Manager it can only be for one year and has to be renewed annually. Secondly, if the founders decide that the Chairman is the General Manager, then it must be stated at the foundation of the company and written clearly in the company's articles. If the same individual holds both positions, then there should be a clear statement as to why this is the case and what other steps have been taken to ensure that proper checks and balances are in place.

It has been suggested that the main function of any Board of Directors is to appoint a Chief Executive/General manager and if this is so, it would then seem odd that once appointed and until his departure the Chief Executive should then assume the mantle of Chairman. Much of Corporate Governance in many parts of the world seeks to find some way of stopping too much power being vested in one individual. Nevertheless, we have to recognize that many commentators in the USA believe that the shareholders' interests are best served when these two positions are indeed combined.

We will now look at some of the detail of what is regarded as best practice much of which is of the balanced score card type. However, I believe that in terms of corporate governance at least equally, if not more important is

the role of the Directors in creating a climate of integrity, transparency, social responsibility and compliance within which the profit making process takes place. There is nothing improper about the making of profit and indeed I have always voiced my support for this. How it is made and how it is used, however, have not to be improper as well.

The role of the Chairman of the Board of Directors is to ensure, through his chairmanship, that the Board carries out its duties and responsibilities efficiently, ethically and legally. However, it has to be emphasized that each individual director has to exercise his function as a general director in a diligent and professional manner and has to ensure that timely and relevant information is received for this to be done. He should not be restricted in any way. While the Chairman may well set the agenda for meetings any director must have the right to request that certain items should be included and the right of access to senior management. This is in addition to any specialist work a director is required to do on behalf of the Board such as serve on a Board Committee. We will deal with the question of independent directors later. Many analysts and regulators list various functions and responsibilities. For comparison we can look for example at the recommendations of the USA based Business Roundtable which is an Association of Chief Executive Officers Committed to Improving Public Policy. In summary, they say the Board of Directors monitor management on behalf of the stockholders, select and compensate and evaluate a well qualified and ethical Chief Executive Officer, should not represent the interests of particular constituencies, act with integrity and commitment to the corporation, exercise diligent oversight over a corporation's affairs. Specific responsibilities include planning for management succession, understanding, reviewing and monitoring implementation of strategic plans, understanding and reviewing annual operating plans and budgets, focusing on the integrity and clarity of financial statements and financial reporting, engaging outside auditors and considering independence issues, advising management on significant issues facing the corporation, reviewing and approving significant corporate activities, nominating directors and committee members and overseeing effective corporate governance .

All of us will have one view, and I suspect it is a common one, of the detailed role and responsibilities of the Chief Executive and Senior Management with different emphasis being placed on individual aspects. The Business Round Table concluded that the first is to operate the corporation in an efficient and ethical manner and to be aware of the major risks and issues that the corporation faces. They are responsible for implementing the policy decisions of the Board of Directors and carrying out the strategic objectives within annual operating plans and budgets which have been reviewed by the board. They take the lead in fashioning strategic plans, which will achieve the board's objectives and present them to the Board for approval.

The Central Bank of Oman issued its BM 932 Circular on Corporate Governance, and I was particularly interested in Section 5 of the Circular which specifically relates to the CEO/General Manager and which for convenience I quote in detail:

"The CEO/GM is accountable for proposed policies, evolving and adapting implementations strategies in respect of Board-approved policies, initiating measures for profit growth in short term (my italics) *without sacrificing the long term profit and net worth enhancement potential*. The CEO is expected to provide leadership by establishing style and spirit that enhances the image and reputation of Licensed Institutions."

I do not disagree with what is said but wonder how the caveat about short versus medium/long term is to be judged and if needs be verified. Like many others, I have always been concerned about the problems of sacrificing the future for the present and the "stock option push for quick profits, take your money and run philosophy" which has characterized so much of contemporary business attitudes and led to many of the problems we face today. I suspect that this reference in the Circular is more of an exhortation than a regulatory requirement.

Section 3: The Role of Committees of the Board and those of Executive Management

Before we look at this subject, we should first of all spend a little time on the concept of the Independent Director. In recent years, and in terms of corporate governance, much emphasis is being placed on having on the Board of Directors a number of well-qualified people who are non-executive and totally independent in a personal and business sense of the organization and its executive directors and management. Indeed, this seems to be the foundation upon which the whole concept of the monitoring of good governance is to be based. Some authorities argue that indeed a majority of the board should be independent, and that one of them should be nominated as the senior independent director who would chair meetings of independent directors and would also be available to for example shareholders to hear any points of concern that they had. While an independent director has to be non-executive the other independence requirements have often been left to judgment and good sense. However, there is a growing tendency to seek a definition for independence more rigorously and incorporate this into regulations and/or codes of conduct. For example, the recent proposals of the Higgs Committee in the UK have, in addition to judgment, set out the following characteristics which would deem a person to be unsuitable as an independent director,

- i. "is a former employee of the company or group until five years after employment, or any other material connection, has ended;
- ii. has, or has had within the last five years, a material business relationship with the company either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- iii. has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or performance-related pay scheme, or is a member of the company's pension scheme;
- iv. has close family ties with any of the company's advisers, directors or senior employees;
- v. holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;

- vi. represents a significant shareholder; or
- vii. has served on the board for more than ten years ."

Quite a list! While the business community in the UK has accepted the general tenor and principles of the Higgs report on Corporate Governance it has reacted strongly against the detailed points listed above. It does not like the concept of a senior independent director; the required minimum number of independent directors; and the detailed characteristics, which debar a person being regarded as independent. There is concern about *creating a board within a board and the disunity this might bring*. A note of caution has also come from the USA, where in an address to the Stern School of Business, New York University, in March 1992 Mr. Alan Greenspan, Chairman of the Federal Reserve Board of the USA said:

"In a further endeavor to align boards of directors with shareholders, rather than management, considerable attention has been placed with filling board seats with so called independent directors. However in my experience, few directors in modern times have seen their interests as separate from those of the CEO, who effectively appointed them and presumably, could remove them from future slates of directors submitted to the shareholders. I do not deny that laws could be passed (*the proposed UK approach- my words*) to force selection of slates of directors who are patently independent of CEO influence and thereby significantly diminish the role of the CEO. I suspect that such an initiative, while ensuring independent directors would create competing power centers within a corporation, and thus dilute coherent control and impair effective governance."

I have to admit I share some of Mr. Greenspan's and others reservations. However, we have to accept that the Higgs disqualification factors listed above, even if they are not incorporated into regulations or mandatory codes of conduct, are going to be used by auditors if and when they are required to test this as part of their audit requirements. It is an issue which inevitably we will all have to face.

Boards of Directors and Senior Management are always authorized, explicitly or implicitly, to establish committees with delegated responsibilities. Good corporate governance will usually require at least the following - an Audit Committee, a Remuneration Committee, and a Nominating Committee.

Audit Committee

The Audit Committee is seen as the key vehicle for monitoring and reporting on corporate governance. It will usually be suggested that it be composed entirely of independent directors and that at least one should have financial experience. Its role would include monitoring of the financial statements, the internal control system, the internal audit function - with direct access to the internal auditor who, if he does not report directly to the Audit Committee, will be required to submit his reports to them and provide an annual assurance report and an assessment of the external auditor's independence, effectiveness and their provision of non-audit services. It will also recommend to the board the appointment of the external auditors, and approve their terms of engagement and remuneration. The Audit Committee should also include a report to shareholders as part of the overall annual reporting system, and its chairman should be available to answer questions on this.

One of the most controversial subjects, which over the years has periodically emerged, is the extent to which the external auditors can be truly independent, if at the same time they are providing other professional services such as taxation advice, management consultancy and so on. There is little doubt that, for many of these, the audit firm is best placed to provide an economic and efficient service, and pragmatism has usually won the day. The audit firms have also sought to alleviate the fears of independence by setting up independent firms and making certain that different people are involved. However, Enron and other corporate disasters have brought this subject to the table once again and for example in the USA it was believed that strong action would be taken by the US Securities and Exchange Commission (SEC) with a total ban on the provision of tax services. However, the SEC has not gone that far and has simply made it a requirement that such services should be pre-approved by

the Audit Committee. There is concern that this will not be seen to be a sufficient safeguard. Some companies have restricted the type of tax work the external audit firm will be allowed to carry out and others have put a financial cap on non-audit work to substantially reduce its materiality. I have little doubt that the SEC will be revisiting this issue again in the near future.

The Sarbanes-Oxley Act called for the creation of the Public Company Accounting Oversight Board, giving the SEC control powers over it. The Board's mission is to oversee the auditors of public companies in order and "... to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports ...".

The Act describes the Board as "The Board shall not be an agency or establishment of the United States Government, and, except as otherwise provided in this Act, shall be subject to, and have all the powers conferred upon a nonprofit corporation by, the District of Columbia Nonprofit Corporation Act. No member or person employed by, or agent for, the Board shall be deemed to be an officer or employee of or agent for the Federal Government by reason of such service."

While in most parts of the world the external auditors are not required explicitly to report on the system of corporate governance, they are beginning to do so. For example in the audit report for 2002 of a leading UK company it states:

"...We read the other information contained in the Annual Report and Accounts...

... and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. The other information comprises only ... and the Corporate Governance Statement

We review whether the Corporate Governance Statement reflects the Company's compliance with ... and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and control, or to form an opinion on the

effectiveness of the Group's corporate governance procedures or its risk and control procedures."

I believe that soon they will have to.

Remuneration Committee

The Remuneration Committee should again be composed entirely of independent directors and as its name implies is concerned with determining the total remuneration package for the other directors and senior management. This would include targets for performance, related pay packages, which do not reward failure, such as bonuses, share options, pensions, expenses of the Chairman and Chief Executive and also transparency in its activities by making public its terms of reference, the frequency of its meetings ,and reporting annually to shareholders .

Nominating Committee

Lastly, there is the Nominating Committee where again there should be a majority of independent directors. It is concerned with the whole process of how individuals are firstly appointed and then re-appointed to the Board of Directors or as Chief Executive/General Manager. This also includes the time requirements of the job and whether existing individuals are devoting sufficient time to it.

Some of the most important aspects of its remit is succession planning, the structure and composition of the Board of Directors, and the nature and requirements of the position of Chief Executive.

Section 4: The role of Central Banks in Corporate Governance

The various regulations in the Arab countries clearly set out the implementation and monitoring role of the central Banks and the actions to be taken if non-compliance appears to have occurred. I am sure that these will be implemented and applied rigorously by the banks. However, I believe that central banks has an equally important leadership role to play in helping to create an environment within which good corporate governance is the norm and where transparency and accountability are the order of the day. Although it is perhaps old fashioned and out of touch with

contemporary thinking, I am still a great believer in the adage of “leadership by example”. I would never ask of my staff anything, which I did not practice or was not prepared to do myself. Corporate governance is not just for banks, financial institutions or listed companies, rather it is for all organizations. There are few more influential organizations in the public and private sectors of a country than its central bank. When the governor speaks, people in general, and the business community in particular, pay attention.

The banking sector in general and central banks in particular, has an important role to play in the stability of the financial markets and economy at large. Hence, banks with good governance could be a critical success factor for development efforts in the Arab region. Despite difficulties arising from the ownership structures of some banks in the Arab world, implications of corporate governance for the Arab banking are positive.

Section 5: Listed Companies

The principles for listed companies are no different from the principles we have already discussed and most of the aspects of corporate governance to which I have already referred are equally applicable. A good model was prepared by the Omani Capital Market Authority (CMA) and is contained in Circular No. 11/2002: “Code of Corporate Governance for MSM listed companies”. I would draw particular attention to the introductory paragraph:

“It has been CMA’s endeavor to ensure that the governance structure of public companies in Oman provides basis for efficient functioning with a view to give equitable treatment to all stakeholders and maximize the value creation accruing to the shareholders. Proper governance of the listed companies, leading to improved operational and financial performance, is essential for restoring the confidence of the investors in the market.”

This is what we all want. I am particularly interested in the reaction to these proposals. In particular, how does the business community feel about:

- a) The definition of an independent director.
- b) The definition of a related party.
- c) The definition of a non-executive director.
- d) The composition of the board of directors where the majority shall be non-executive and at least one third shall be independent.
- e) The functions of the board of directors.
- f) The role of the audit committee.
- g) Limitation of external auditor's term of office and provision of non-audit services.
- g) The requirement for the annual report to contain a discussion (without compromising the competitive advantage) on matters such as industry structure and development, opportunities and threats, analysis of segment and product wise performance, outlook, risks and concerns.
- i) The rules for related party transactions
- j) The report on corporate governance and the auditor's responsibility thereto.
- k) The remuneration of directors and key executives.

The Sarbanes-Oxley Act imposes good corporate governance on publicly traded companies, with particular emphasis on internal controls. The Act provides for an independent audit committee be created to monitor the external auditors' function and review their reports, and prohibits the external auditors from providing the company with non-audit services, such as taxation. Under the Act, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have to establish the company's internal control and monitor their implementation over the financial information.

There is much to discuss - have we gone too far or have we not gone far enough?

Section 6: Recommendations

We, in the Arab world, need to adopt new policies, regulations, conventions and declarations, at both public and private sector levels, to enhance governance in general and corporate governance in particular, towards a better future for our financial and banking institutions and our economy in general. A strong commitment to good governance is indeed a strong commitment to efficient and effective management.

There is also a real need for ongoing dialogue and round table discussions involving public agencies, financial and banking leaders, and experts, to set appropriate governance standards to our culture, economic environment and sustainable development requirements.

A field survey of the current development of corporate governance in the Arab world is highly recommended to come out with recommendations that respond to the problems and needs as well.

Governmental agencies and the financial institutions should keep updated with regard to developments on governance in the developed world. It is inevitable that we shall adopt and adapt new governance standards and principles implemented by these countries, particularly as related to transparency and accountability.

Section 7: Conclusion

No one would, of course, argue against good corporate governance in all sectors in general and the financial sector in particular. The role of banking, for example, is so fundamental to our economic and social development. Anything that tarnishes it has serious consequences for society at large. Social progress only becomes a reality when we have economic progress and we are dependent largely on the banking and industrial sectors for this.

However, this does not mean simply accepting the norms or standards that are currently used elsewhere without questioning as to how they will fit into our culture and our traditions. It is not that I am against the application of international standards. I have never believed in reinventing the wheel and indeed I have often been accused of being too much in favor of the application of, for example, *international accounting and auditing standards* in the Arab World. But this I have only done when I was convinced that this was the best way ahead for the Arab nations in order to narrow the gap between them and the developing nations. The same applies to standards of good corporate governance. Let us not simply play lip service to this by paying attention to the letter of what is introduced but ignoring the spirit. We need a cultural change in how we perceive the responsibilities of Chief Executives and Boards of Directors without at the same time impeding their determination to succeed and generate successful growth.

This is the challenge that faces all of us - bankers, accountants and government. Let us work together in meeting this challenge so that in the future we are faced much more with the **PROBLEMS OF SUCCESS RATHER THAN WITH THE PROBLEMS OF FAILURE**.

Talal Abu-Ghazaleh