



GOVERNANCE - REGULATION, PRUDENTIAL NORMS, SUPERVISION - *ROLE OF CORPORATE GOVERNANCE*

by

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Part One

- Governance - Regulation, Prudential, Supervisory Issues



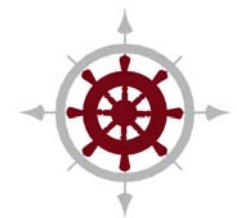
Governance

- Need to disaggregate to be meaningful. “Virtual descent view”[©]
- Governance – critical ideas of fairness, transparency, responsibility, accountability....leading to MDG+++++
- Two broad approaches seen last two decades:
 - Public policy & decisions, strengthening of institutional structures – all types.
 - Service delivery, efficiency, transparency, e-governance, etc of “New Public Management” driven by managerial thought & belief systems.

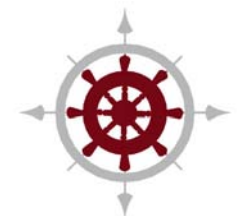


Public Policy, Regulation, Supervisory Issues - Illustrative

- What type of financial system / actors (NDBs, NBFO incl MFI,)
- Financing / Budgetary mechanisms (transparency).
- Role of private, public, capital markets, institutions, government, foreign institutions, multi-lateral
- Design / redesign of structures (incl, consolidation, transformation).
- Regulatory architecture, redesign – who, how, capacity (issues of regulatory arbitrage).

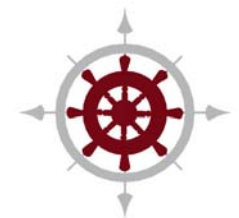


- Regulatory mechanisms / Prudential norms – entry norms, capital adequacy, liquidity, asset classifications, mobilisation of funds / public deposits, types of lending, restrictions on activities, Board – fit & proper/ composition/ committees / increasing integration with CG principles – conflicts of interest, related party transactions, insider trading / dealing, fixing accountability etc.
- Supervisory Mechanisms – off-site surveillance, on-site inspections, reporting, integration with CG principles – such as guidance on sound CG; assessing CG; internal control, audit, group structures, conflicts of interest & giving feed-back.
- *(Increasing differentiation of Governance / Directors from Management)*



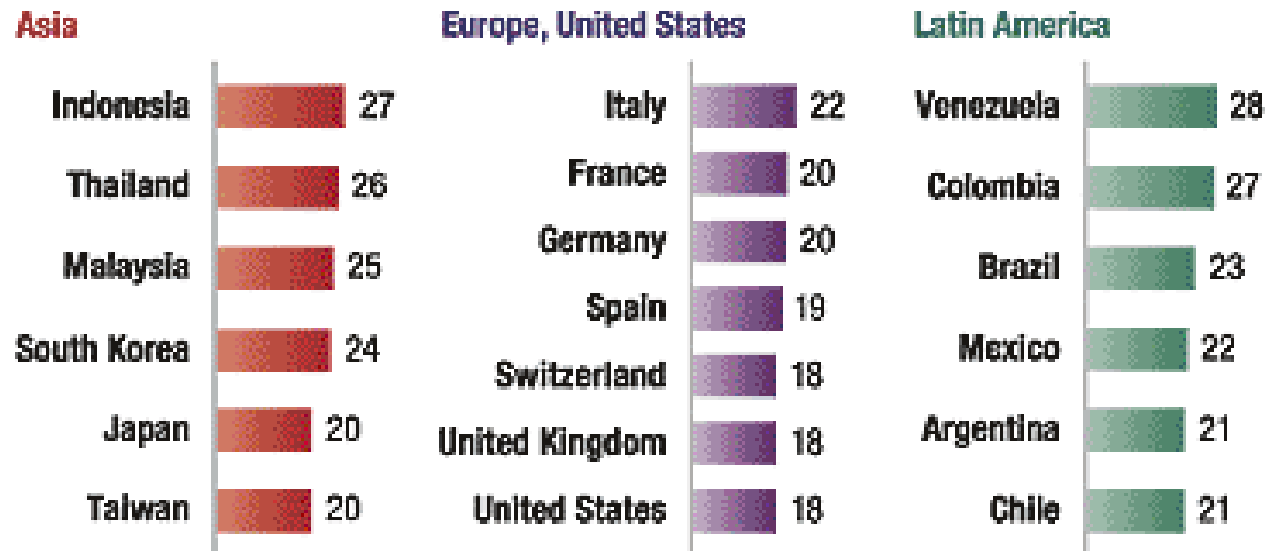
Part Two: Corporate Governance

- Early 90`s concern for investor confidence.
- Asian Crisis
- IMF / World Bank / FSF/ ROSC / FSAP
- OECD Standards
- BIS / BCBS
- Commonwealth Initiatives
- GCGF`s Initiatives
- **All assume market economy benefits – as well as eventual linkages to socio-economic development & contribution to meeting MDGs etc.**

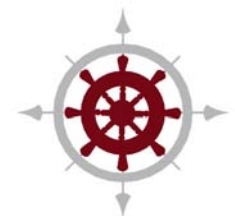


Relative premium: Measuring the value of good governance in 3 regions

Average premium that investors are willing to pay for a well-governed company, by region, percent



Source: McKinsey investor opinion survey, 1999–2000



*“Finance Flows
Where Corporate Governance
Grows”* © Dr. YRK Reddy



IFCs Note

- Korea-US Research: 160% premium
- ABN/AMRO: Best CG Rated companies had P/E ratios 20% higher
- Russian study: 70,000% increase in firm value of 21 companies
- Deutsche Bank: S&P 500: 19% out-performance.
- Harvard / Wharton: abnormal returns of 8.5%
- Cheaper debt: Romania`s BCR
- Operations too: better ROE; EVA



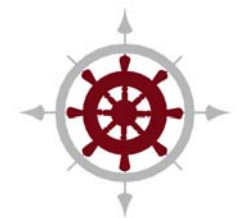
"The Curious Case of" SOEs

- The "overburden"; the "safety net" – the heavy superintending structure, moral hazard, regulatory forbearance, free riding – dispersed fiduciary responsibility etc.
- Current need for reform of interfaces" ministries, superintending / auditing structures, financing agencies, ministries, appointment of directors, board structures, processes & practices, managerial tasks in control, risk, compliance.



Approaches to CG Reform

- Decent tide : growing market forces that lift all
- Deliberate effort:
- “Concept selling” – powerfully (awareness, advocacy).
Directors, *civil servants*, *parliamentary bodies*,
professional bodies / networks.
- More importantly building specific competencies (strategy, risk, CBA-trades-off, legal, human dynamics etc), for practice – huge gap in developed countries also.



- The power of networks in achieving multiple results competitively (NPMP example).
- Building a Roadmap –
 - Policy / Institutional level
 - *Sectoral and Firm Levels: CG Assessments & CG development Plans.*



For Further Interest:

- BIS / BCBS document on enhancing CG.
- OECD Principles on CG.
- OECD Guidelines for CG of SOEs
- GCGF / IFC sites
- CACG documents – principles, Best Practice Manual for SOEs
- First Principles of Corporate Governance for Public Enterprises & various other information:

www.academyofcg.org

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