Corporate Governance of Banks in Southeast Europe

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Legal and Economic Aspects of Corporate Governance
Market Transparency and Disclosure in Private and Public Companies
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- **What is Corporate Governance and why do we care?**
- **Corporate Governance and Corporate Governance of Banks**
- **Key challenges in Southeast Europe**

What is corporate governance?

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“It is the system by which businesses are directed and controls are implemented”

(Cadbury Report, 1992)

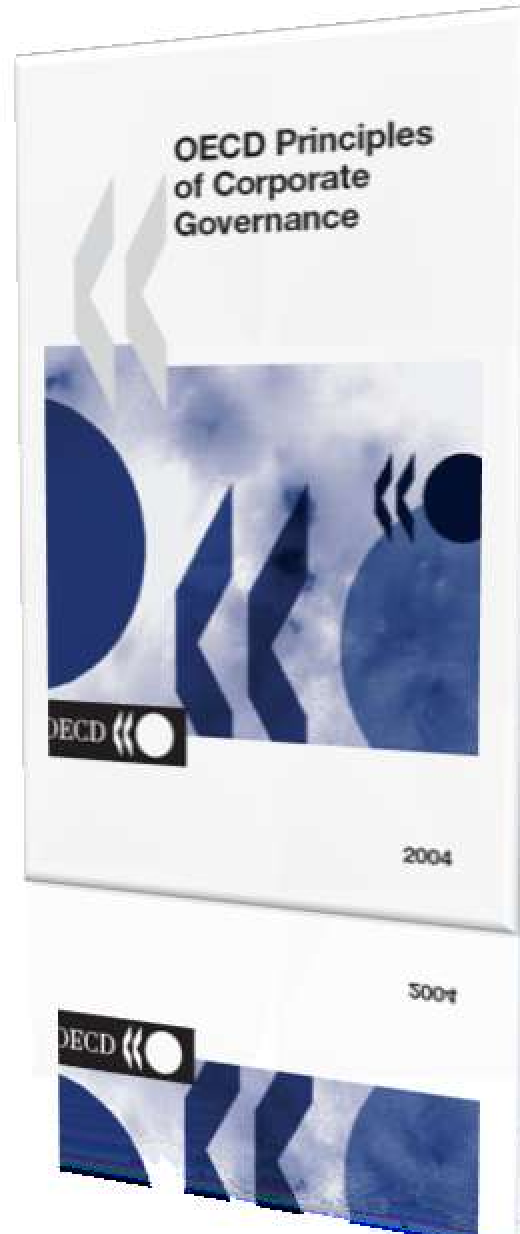
Corporate Governance Standards

One of the 12 Key Standards for Sound Financial Systems

Issued in 1999 and revised in 2004

6 Principles:

1. **Ensuring the basis for an effective corporate governance framework** *(added in 2004)*;
2. **The rights of shareholders;**
3. **The equitable treatment of shareholders;**
4. **The role of stakeholders in corporate governance;**
5. **Disclosure and transparency; and**
6. **The responsibilities of the board.**



Why do we care?

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- It improves access to capital
- It improves company's performance
- Bad corporate governance is a risk
- Recent crises linked to corporate governance issues

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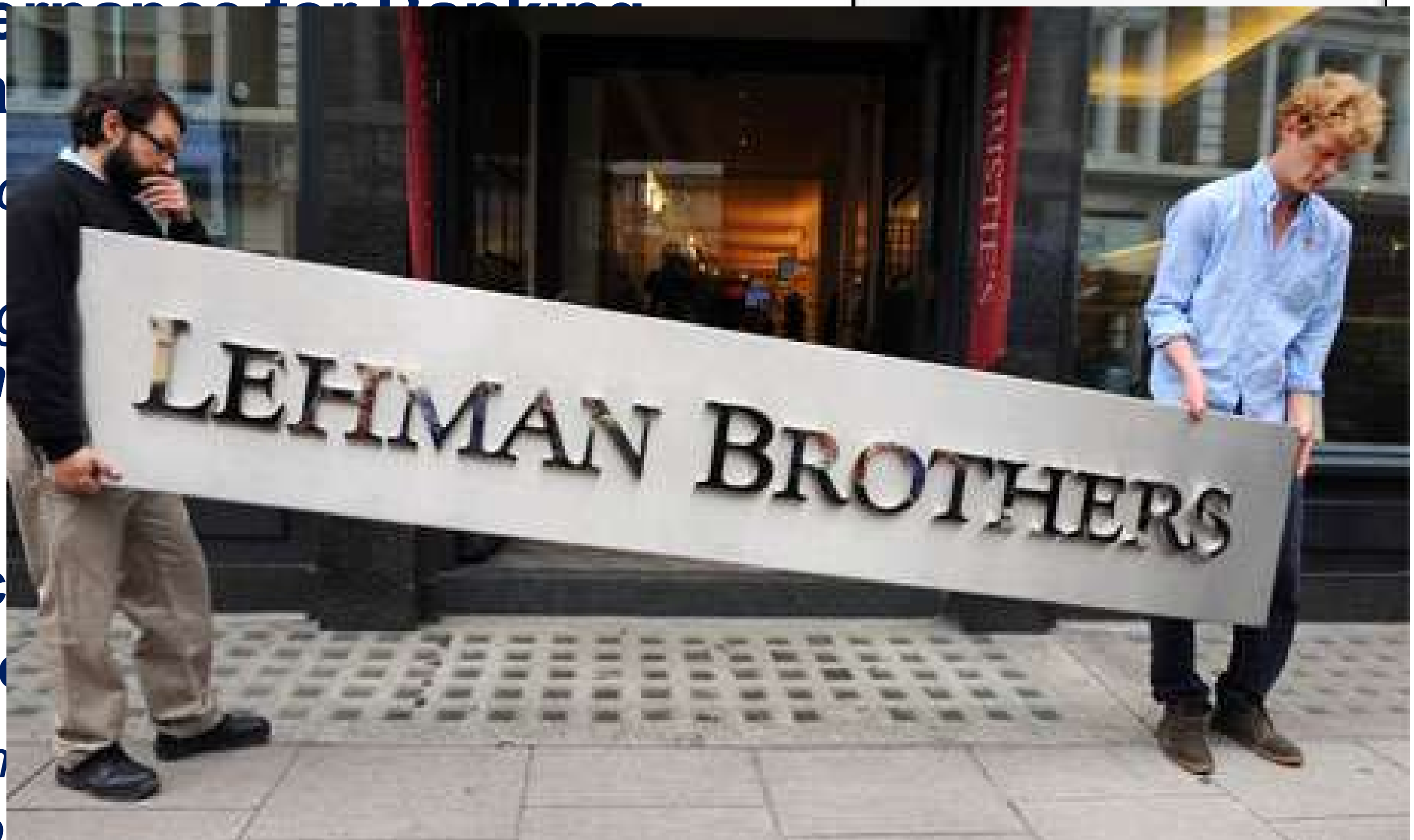

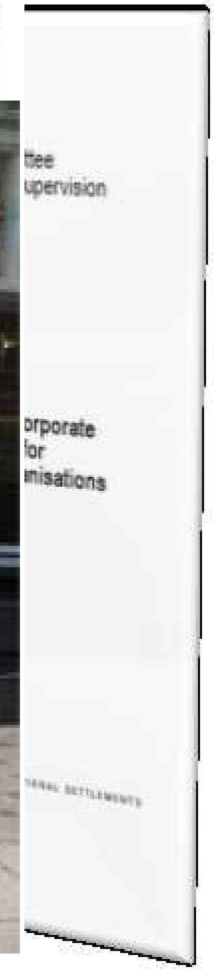

Princ Corpo

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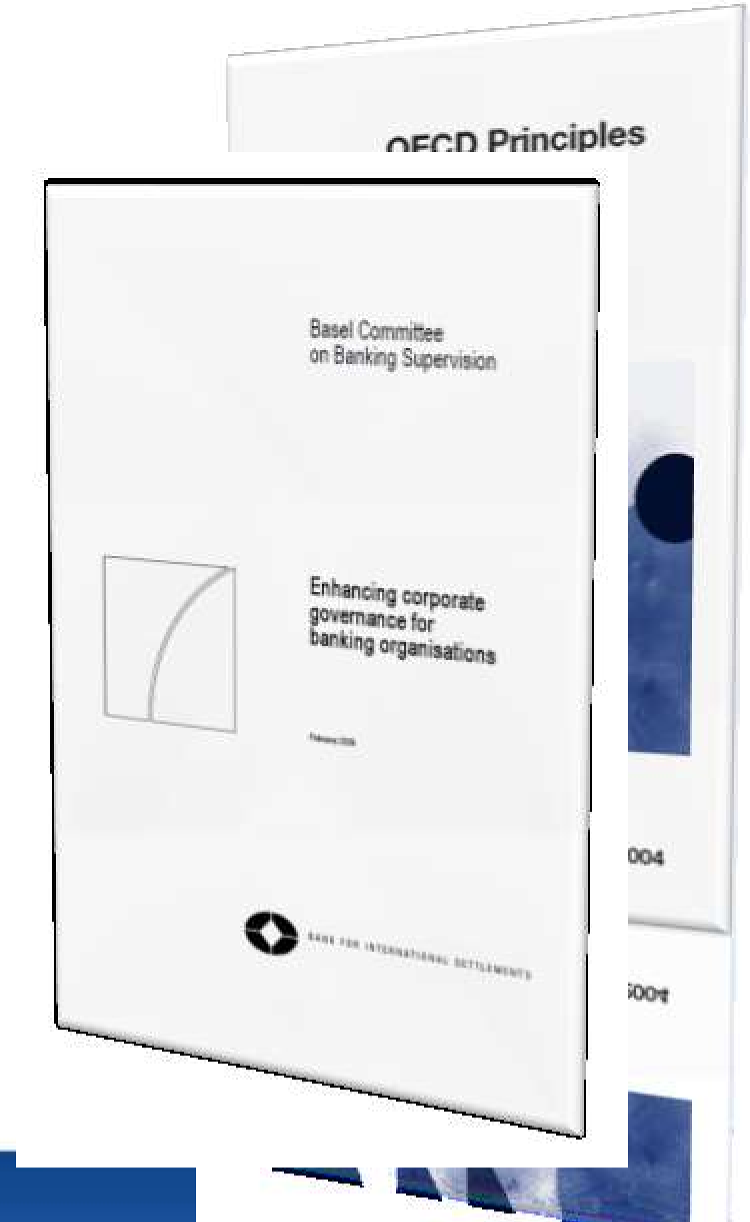
alignment of compensation with risk management (X, XI)

Corporate Governance and Corporate Governance of Banks

- **Weakest party in the chain (primary concern): minority shareholders vs. depositors (stakeholders)**
- **“Equity Governance”** *(maximizing shareholding value)* **vs. “Debt Governance”** *(avoid excessive risk taking)*
- **Different Focus: transparency and disclosure vs. risk governance (including the three lines of defense)**



How banks are directed and controlled?

- One tier system: Montenegro
- Two tier system: Albania, Bosnia Herzegovina, Croatia, FYR Macedonia, Serbia
- Option to choose: Bulgaria and Romania
- Which one is better?

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Key challenges

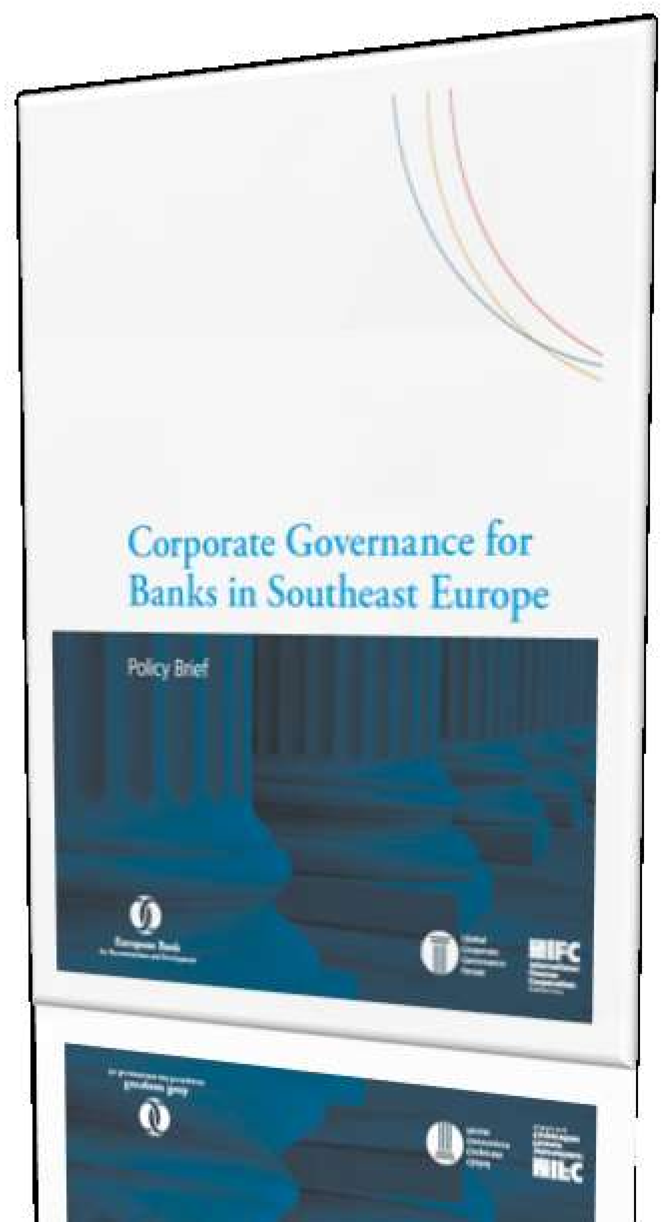
- **Systemically important subsidiaries** *(all countries)*
- **The "strategic" role of the board** *(Bosnia (Federation), Bulgaria, FYR Macedonia, Romania and Serbia)*
- **Board, committees and independent <u>and</u> qualified directors** *(all countries)*
- **Defining the risk appetite** *(all countries)*
- **The value of non financial disclosure** *(all countries)*

Policy Brief on Corporate Governance of Banks

European Bank
for Reconstruction and Development

Transposing the "standards" in the region. Key recommendations:

- **Strengthening the strategic role of the board** *(especially in systemic important subsidiaries)*
- **Call for qualified and Independent "Board Committees"** *(when needed)*
- **Need for creation of robust lines of defense** *(internal control/compliance-risk management/internal audit)*
- **Need to strengthen risk governance** *(setting risk appetite, CRO, risk expertise at the board level…)*
- **Need to improve disclosure** *(especially non financial disclosure)*



Thank you

QUESTIONS?

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