Codes and Standards for Banks and Financial Institutions:
The EBRD-OECD Policy Brief on Corporate Governance of Banks in Eurasia

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Tbilisi, 24 November 2009
The EBRD-OECD Policy Brief

- Developed in 2007-2008
- Discussion Table made of representatives of banking sector in the region
- Focus on corporate governance of banks
- Securities markets not well developed
- Banks as key vehicle for improving corporate governance of investee companies
10 Recommendations

1. Boards, board members and specialised committees
2. Bank’s strategic objectives, corporate values and high standards of professional conducts
3. Clear lines of responsibilities and accountability
4. Oversight by senior management and internal control functions
5. Internal audit and external auditors
10 Recommendations

6. Compensation

7. Transparency and disclosure of corporate governance information

8. Corporate governance of state-owned controlled commercial banks

9. Bank’s monitoring of the corporate governance practices of their corporate borrowers

10. The role of supervisors and next steps
On 30 April 2003, over 40 representatives from the banking sector in Eurasia and corporate governance experts from the EBRD, OECD, IFC and World Bank met at the EBRD’s HQ in London to discuss the findings of a policy brief on the corporate governance of banks in Eurasia (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Ukraine and Uzbekistan).

The Policy Brief on Corporate Governance of Banks in Eurasia (English [0.3Mb] and Russian [1.1Mb]) is the result of a 12 month study by a task force made up of representatives of banks, banking associations and regulators from the Eurasian region, supported by the technical assistance and expertise of the EBRD and OECD. The EBRD’s co-financing of the initiative is sponsored by the Early Transition Countries multi-donor Fund.

The Policy Brief identifies key corporate governance challenges affecting banks in that region and makes recommendations to address them. Its purpose is to support policy makers, banking supervisors, capital market regulators, banks and banking associations in their work of strengthening corporate governance practices.

Corporate governance in banks differs from the “ordinary” corporate governance of companies. This is due to the nature of the banking business (i.e. dealing with money), the need for protection of the weakest party in the chain (i.e. the depositor) and the systemic risks that a bank failure might cause. Bank failure might also undermine one of the core elements of the market economy, people’s confidence in banks – a painful experience that has already occurred during the transition period in Eurasia. In the large majority of countries in the region, the banking sector is the only advanced financial industry, while stock exchanges are inactive or characterised by low liquidity. Eurasian banks are in a position in which they can influence the corporate governance of their corporate borrowers. In this respect, banks are recommended to become role models for other companies in implementing high standards of corporate governance.

The task force identified several weaknesses in the corporate governance framework in the region. Implementation (or the lack thereof) is by far the major issue. It recommends for national authorities to actively review the legislation in place and understand how the rules are applied in practice. In order to strengthen corporate governance practice and easily monitor its implementation, the adoption of voluntary corporate governance codes, applied under the “comply or explain” mechanisms can be appropriate. The adoption of a code and the resulting enhanced standards and practices would contribute to making banks safer and more attractive to investors and depositors. (see more information on corporate governance codes in the EBRD region) The introduction of independent directors and specialised committees within the board (such as auditing, remuneration, nomination and risk management) can easily be encouraged by a code.

The task force has identified a series of areas where reform is needed. Recommendations address issues such as qualification of board members, disclosure of beneficial ownership, definition of clear boundaries of responsibility and accountability, internal and external audit, transparency and disclosure. The policy brief also identifies concrete actions. One for all, the abolition of the “Revision Commission” – an old Soviet style corporate body often without clear responsibilities and reporting duties – and the introduction of the “Audit Committee”, as an independent body, responsible for providing oversight of the bank’s internal and external auditors; approving the appointment, compensation and dismissal of external auditors and ensuring that management is taking appropriate corrective actions to address control weakness and non-compliance.

The policy brief only sets out the start of the process. Now attention must be focused on effective implementation to the recommendations. The EBRD’s Legal Transition and Financial Institutions Teams are already working in Armenia for the development of a voluntary corporate governance code, also applicable to banks. The policy brief will be one of the guiding benchmarks for the new code’s preparation. The Armenian code should then be endorsed by the Central Bank and applied by banks which will report on their compliance. As a result, corporate governance legislation of banks can be benchmarked with practice and enhanced standards - introduced and monitored.

- Agenda: English [0.1Mb]
- Introductory Remarks to the Policy Brief, by Irakli Kovzanadze, Chairman of the Task Force on Corporate Governance of Banks in Eurasia, Finance and Budget Committee, Parliament of Georgia, English [0.1Mb] - Russian [0.1Mb]
- The Outline of the Policy Brief, by Motoyuki Yuda, Senior Outreach Advisor, OECD, English [0.1Mb] - Russian [0.2Mb]
- Corporate Governance in Eurasia: Where do we stand?, by Gian Piero Cigna, Principal Counsel, EBRD, English [0.2Mb] - Russian [1.2Mb]
- The Policy Brief: A Task Force Member View, by Roger Glade, Counsel of Experts of the National Commission for the Securities Market, English [1.2Mb] - Russian [0.4Mb]
Право на этапе перехода – 2009. Корпоративное управление в банках | Турция

В последнем издании журнала основное внимание уделяется двум темам - корпоративному управлению в банковском секторе и Турции, которая в ноябре 2008 года стала страной операции ЕБРР. В докладе "Право на этапе перехода" за 2009 год даются оценка отдельным компонентам коммерческого права в Турции, рассматривается основные проблемы переходного этапа, сопутствующие переходу. В докладе содержится информация о недавней структурной реформе и анализируются связанные с ней правовые аспекты.

Full Publication: Право на этапе перехода – 2009. Корпоративное управление в банках | Турция (0.5Mb)

Published: May 2009

Pages: 53

Prices: Free

Related information: Legal transition programme
Corporate Governance: International standards
The EBRD endorses international standards, developed by international financial institutions to promote transparent and efficient capital markets and sound corporate governance practices.

The 12 Key Standards for Sound Financial Systems

In October 1998, the Ministers of Finance and the Governors of the Central Banks of the G7 countries requested Mr Hans Tietmeyer, at that time President of the Deutsche Bundesbank, to start consultation and to propose a series of recommendations, aimed at promoting stability in the international financial system and to improve the cooperation between national and international supervisory bodies and international financial institutions.

In February 1999, the Tietmeyer Report led to the creation of the Financial Stability Forum, which has designated 12 key standards for sound financial systems, broadly accepted as representing minimum requirements for good practice.

The 12 Key Standards for Sound Financial Systems are:

3. Special Data Dissemination Standard/General Data Dissemination System (IMF)
5. Principles of Corporate Governance (OECD)
6. International Accounting Standards (IASB)
7. International Standards on Auditing (IFAC)
8. Core Principles for Systemically Important Payment Systems (CPSS) and Recommendations for Securities Settlement Systems (CPSS-IOSCO)
10. Core Principles for Effective Banking Supervision (BCBS)
11. Objectives and Principles of Securities Regulation (IOSCO)
12. Insurance Core Principles (IAIS)

Successful implementation of international standards strengthens domestic financial systems and encourages sound regulation and supervision, greater transparency, efficient institutions, markets, and infrastructure.

Corporate Governance

The Principles of Corporate Governance published by the Organisation for Economic Co-operation and Development (OECD) were originally issued in 1999 and are considered the international benchmark for corporate governance. The Principles were revised in 2003 to take into account developments since 1999. The new Principles were agreed by OECD governments in April 2004. They cover six key areas – (i) ensuring the basis for an effective corporate governance framework; (ii) the rights of shareholders; (iii) the equitable treatment of shareholders; (iv) the role of stakeholders in corporate governance; (v) disclosure and transparency and (vi) the responsibilities of the board. There are explanatory annotations for each area that also indicate the range of policy measures which have proved useful in achieving the new Principles.

The EBRD is using the OECD Principles as a benchmark for its corporate governance assessment and legal indicator survey.