

Hawkamah and the MENA-OECD Corporate Governance Working Group Issue Policy Brief on Corporate Governance of Banks in the MENA region

The Hawkamah Institute for Corporate Governance and the MENA-OECD Corporate Governance Working Group, in association with the Union of Arab Banks, today issued a landmark Policy Brief on Corporate Governance of Banks in the Middle East and North Africa (MENA) region.

The Policy Brief makes key recommendations responding to corporate governance and lessons learned from the financial crisis globally. The recommendations are targeted at policy makers, banking supervisors, banking associations and individual banks in the region. The document was released at a press conference held during the Fourth Annual Hawkamah-OECD Conference, a two-day regional event organised by Hawkamah in cooperation with the Organisation for Economic Co-operation and Development (OECD).

The newly issued Policy Brief recommends the introduction of more detailed governance codes at the national level and urges bank regulators to develop their own corporate governance expertise and issue specific guidelines for assessing banks. The document urges bank regulators to outline the criteria for assessing the corporate governance practice of banks; establish corporate governance divisions; and give high priority to the harmonisation of regulatory frameworks, coordination of supervisory responsibilities and sharing of information on bank reviews.

The Policy Brief stresses that board member liability and specification of board member duties should be high on the

policy agenda. The document places high importance on developing the skills of directors through training programmes that address the professional, ethical and technical demands imposed by increasingly complex industry practices.

Supervisors should be specific in establishing the elements of public disclosure for banks, while also working on changing the mentality of bank executives who view disclosure strictly from a compliance point of view, rather than as an effective tool for managing stakeholder relations and adding value to the business, the Policy Brief says. The document suggests that related party transactions should be reviewed and monitored by a sufficient number of directors capable of exercising objective and independent judgment. The Brief further recommends that the review process should include approvals of individual transactions that may pose a risk for the bank even if they are not flagged by the regulator.

Dr. Nasser Saidi, Executive Director of Hawkamah said: "Strengthening the banking sector's legal and regulatory standards and improving its transparency and disclosure is critical to the sustainable growth and stability of the region. The Policy Brief on Corporate Governance of Banks identifies key corporate governance challenges affecting banks in the region and makes recommendations for strengthening their governance practices. The Policy Brief's recommendations go beyond merely strengthening governance practices within the banking sector and seek to transform banks into agents of corporate governance change in the larger economy."

The Policy Brief was developed after over two years of discussions conducted by the MENA-OECD Task Force, comprising representatives of the public and private sectors from across the region including regulators and central banks. The document drew from various international corporate governance frameworks including the OECD Principles of Corporate Governance, revised in 2004; the OECD Guidelines on Corporate Governance of State-Owned Enterprises issued in 2005; and the Basel Committee's guidelines on Enhancing Corporate Governance in Banking Organisations.

Dr. Grant Kirkpatrick, Senior Economist at the OECD noted: "The global financial crisis has revealed significant deficiencies in the corporate governance practices of banks all over the world. The Policy Brief on Corporate Governance of Banks constitutes an important step to applying policy lessons from the financial crisis to the region."

The document is expected to serve as a key reference point for improving corporate governance standards and practices in MENA banks. It is also expected to provide a basis for ongoing dialogue on policy design, implementation, enforcement, and assessment of future progress towards good corporate governance among MENA bank, regulators and central banks. The recommendations, targeted at the ownership and regulatory characteristics of the MENA region, can be implemented by a variety of institutions in the region – listed or unlisted, private or state-owned, conventional or Shari'a compliant.

The preparation of this Policy Brief was coordinated by the OECD Secretariat and incorporates contributions from numerous individuals and institutions. The Hawkamah Institute for Corporate Governance and the Union of Arab Banks played instrumental roles in developing the Policy Brief. The project was implemented with the financial support of the Global Corporate Governance Forum and the Japanese government.

The last day of the Fourth Annual Hawkamah-OECD Conference also saw the release of the benchmark "Study on Insolvency Systems in the Middle East and North Africa". Developed jointly by Hawkamah, the World Bank, OECD and INSOL International, the study represents the first-ever regional, comparative survey of insolvency systems in the MENA region. The study surveys 11 jurisdictions in the MENA region, including the Dubai International Financial Centre (DIFC), Egypt, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, UAE, and Yemen.

This regional annual gathering, being organised by Hawkamah in cooperation with the Organisation for Economic Co-operation and Development (OECD), was held at the Dubai International Financial Centre from 9 to 10 November, 2009. The event saw

regional and international experts on corporate governance reviewing the progress in reforming corporate governance frameworks in the MENA region and ways to enhance their implementation.

Speakers at the annual gathering included: Mr. Mahesh Uttamchandani, Head of the World Bank Insolvency and Creditor's Rights Initiative; Dr. Grant Kirkpatrick, Senior Economist at the OECD, Mr. Carl Rosen, Executive Director of International Corporate Governance Network, Mr. Simon Coplestone, Abu Dhabi Commercial Bank's Board Secretary, and Mr. Sohail Zubairi, CEO of Islamic legal consultancy, Dar Al Sharia, Mr. Salah Hussain, Vice Chairman, Bankers' Association, Bahrain, Mr. Carl Rosen, Executive Director, International Corporate Governance Network, Ms. Lanae Holbrook, Senior Vice President, General Council and Head of Market Regulation, NASDAQ Dubai, Dr. Dawood Al Bulushi, Director Corporate Governance, Qtel Qatar, Dr. Mohammed Omran, Vice Chairman, Egyptian Stock Exchange, Mr. Jalil Tarif, CEO, Amman Stock Exchange. The 200 participants attending the two-day annual meeting included a number of corporate governance experts from across the region.