

Corporate governance models need to have local flair, says governance organisation

Dec 09 2011 Ajay Shamdasani in Hong Kong

Corporate governance in Asia needs to be tailored for local conditions in Asia, according to the International Centre for Financial Regulation (ICFR). Speaking at a corporate governance event held yesterday at Hong Kong's British Consulate-General, Charles Taylor, the ICFR chief operating officer, said models promoted by the U.S. and UK were not necessarily the best for Asian nations. Asia was also urged by the organisation to play a larger role in international policymaking through bodies such as the G20 and Financial Stability Board (FSB).

The ICFR is a London-based independent organisation focused on best practices in all aspects of financial regulation internationally. It counts some of the world's largest financial institutions among its members.

"Asian corporate governance has to be different in each particular market," said Taylor, who is also the ICFR's chief financial officer. "We're not here to preach to you that the U.S. and UK corporate governance systems are the ones you should adopt. We don't promote one system over others," he told the audience.

Taylor stated that good governance meant different things to different people. For example, he recounted that when the issue was raised at one of the group's recent events in Abu Dhabi, the term "corporate governance" was ambiguous to people in the region. "I think that it has simply come to mean good business for them," he said.

Common values

While Taylor said that corporate governance approaches differed from region to region, there were common values to strive for. "One size does not fit all, but generally, there is some agreement on what constitutes good governance," he said.

At its core, Taylor said, corporate governance was the notion that management and boards of directors needed to accept the inalienable rights of shareholders as owners of a company and to commit to running their companies in accordance with such values — for their owners' benefit. He explained that since corporate governance was board-driven, board members needed to have specifically defined roles and understand their responsibilities.

To that end, Taylor emphasised that a combination of legislation and well-written company codes of conduct were essential for good governance. "All directors need to know their responsibilities and accountabilities," he said.

Taylor also suggested that auditors played "an intrinsic part in the process of good governance" and raising shareholder value. Referring to the examples of problematic Chinese companies listed in the U.S. and euro zone companies in peril, he said that good corporate governance made a company more attractive to investors and would command a higher share price premium. Citing a 2009 survey from consulting group McKinsey, Taylor noted that there was strong indication that sound governance practices enhanced stock prices.

Asia needs to be more active

Barbara Ridpath, the ICFR's chief executive, said that the region needed to participate more in the G20 and FSB to ensure that regulatory convergence was appropriate for Asia, and to take into account the different levels of regional financial and regulatory development.

According to Ridpath, the region risked missing out on shaping rules if it did not play more of a role now. "Asia could always adopt later, but in that case it could get unsuitable rules, and be penalised by markets for being late, which seems to me the worst of options. Better to engage actively," she told Thomson Reuters.

Even though Asian economies weathered the global financial crisis of 2008 better than their Western peers due to better capitalised banks, Ridpath warned against complacency in letting regional financial regimes go it alone and evolve at their own pace. "The markets are too interconnected and interdependent to just withdraw. Better to explain what Asia learned from its earlier travails in a way that influences outcomes," she said, alluding to the 1997 Asian financial crisis.

However, on a note of confidence, she said that she was "pleased to see resources being put in place to do just this".

Ridpath emphasised that the ICFR was concerned that a failure to cooperate on regulation would deepen the crisis in both Europe and Asia. "Asian economies can't ignore the euro zone crisis. It will affect financial markets in Asia, and particularly bank lending, but if we can shape cross-border solutions to regulatory challenges, with stronger intra-Asian co-operation and a leading Asian voice in bodies such as the FSB, good regulation can act as an engine of growth for all of Asia," she said.

Systemic risk

Ridpath also said compliance officers and in-house counsel at banking and financial institutions needed to be wary of systemic risk. "Look for the unintended, unexpected, or second order outcomes that spin off from the euro zone uncertainty," she warned.

Similarly, stressing global interconnectedness, Taylor told Thomson Reuters that compliance managers needed to not only know their own jurisdiction's financial regulations, but also about what had been passed in key markets such as the U.S. and UK. "There's a fair amount of legislation like the Dodd-Frank Act, the UK Bribery Act and FATCA [Foreign Account Tax Compliance Act] which has extraterritorial effects," he said.

Accordingly, Taylor said that it was not just a matter of compliance personnel and lawyers at financial institutions knowing the law and regulations – they also needed to be looking continuously for additional research in their areas of responsibility to stay up-to-date. "They need to be forward-looking in terms of what's out there in consultation papers and the timetables associated with them," he said.

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