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CORPORATE GOVERNANCE: RELEVANCE AND NEED FOR INDIAN BANKS WITH REFERENCES TO BASEL COMMITTEE ON BANKING SUPERVISION.

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Abstract*:*

Corporate Governance has fast emerged as a benchmark for judging corporate excellence in the context of national and international business practices. From guidelines and desirable code of conduct some decade ago, corporate governance is now recognized as a paradigm for improving competitiveness and enhancing efficiency and thus improving investors' confidence and accessing capital, both domestic as well as foreign. Banks are also the channels through which the country's savings are collected and used for investments. Corporate governance has become a dynamic concept and not static one.

Banks in India are the most significant source of finance for a majority of firms in Indian industry. Banks are also the channels through which the country's savings are collected and used for investments. India has recently liberalized its banking system through privatization, disinvestments and has reduced the role of economic regulation and consequently managers of banks have obtained greater autonomy and freedom with regard to running of banks. Corporate governance in banks has assumed importance in India post-1991 reforms because competition compelled banks to improve their performance.

Basel Committee on Banking Supervision states some Key CG Shortcomings that came to light during 2008 Crisis include: insufficient board oversight of senior management, inadequate risk management; and unduly complex or opaque bank organizational structures and activities

This research examines the practices of corporate governance attributes in banking sector and how they adhere to corporate governance practices. The results of this research indicate the practice of corporate governance is at nascent stage although corporate governance practices by Indian Banking Sector are more than a decade. Private and public sector banks and also co-operative banks are adhering to mandatory requirements of corporate governance attributes as a result it is bringing more transparency and minimizing the chances of fraud and malpractices. The data were collected through various published and unpublished reports and websites. The paper reveals that India has a good CG mechanism and disclosure practices on par with world counterpart.

Key words*:* *Corporate Governance, Banks, Investors Confidence, Supervision, Basel committee, etc*

Introduction:

In banking parlance, the Corporate Governance refers to conducting the affairs of a banking organization in such a manner that gives a fair deal to all the stake holders i.e. shareholders, bank customers, regulatory authority, society at large, employees etc. "CORPORATE GOVERNANCE is a system by which companies are directed and controlled". Reducing the risks normally faced by the company/ organization.

History reports that "the men who can manage men manage the men who manage only things, and the men who manage money manage all." So the bankers, watching the trends in agriculture, industry, and trade, inviting and directing the flow of capital, putting our money doubly and trebly to work, controlling loans and interest and enterprise, running great risks to make great gains, rise to the top of the economic pyramid. Corporate governance in banks involves the allocation of authority and responsibilities, i.e. the manner in which the business and affairs of a bank are governed by its board and senior management, including how they: set the bank's strategy and objectives; determine the bank's risk tolerance/appetite; operate the bank's business on a day-to-day basis; protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognized stakeholders; and align corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations. "Corporate Governance in Indian Banking Sector" will try to unfold the cause and effect of governance principles on banks. Although globalization of financial markets necessitates some basic international standards of corporate governance for financial institutions, it is also recognized that such uniform international standards may result in different levels of systemic risk for different jurisdictions because of differences in business customs and practices and institutional and legal structures of national markets.. Banks are "special" as they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but they also leverage such funds through credit creation. The role of banks is integral to any economy. They provide financing for commercial enterprises access to payment systems and a variety of retail financial services for the economy at large. The integral role that banks play in the national economy is demonstrated by the almost universal practice of states in regulating the banking industry and providing in many cases a government safety net to compensate depositors when banks fail. The large number

of stakeholders whose economic well being depends on the health of the banking system depends on implementation of appropriate regulatory practices and supervision. Indeed in a healthy banking system the regulators and supervisors themselves are stakeholders acting on behalf of society at large. Banks unlike insurance companies are highly leveraged entities and asset liability mismatches are an inherent feature of their business. Consequently, they face a wide range of risks in their day-to-day operations. Any mismanagement of risks by these entities can have very serious and drastic consequences on a stand alone basis which might pose a serious threat for financial stability. This dimension further strengthens our premise that effective risk management systems are essential for financial institutions and emphasizes the need for these to be managed with great responsibility and maturity. Good corporate governance, therefore, is fundamental to achieve this objective. Considering the importance of banking sector, the practice of corporate governance and how it helps banking industry in India in terms of bringing more transparency and overall growth of banking sector. Poor corporate governance in banks is not a new subject. This inefficiency has been around for a very long time. The banks did not fail due to lack of customers but due to how they were managed and governed. The main issue was that of independent directors. As we are marching forward towards global economy, there are many economic issues coming up in the process for developing, emerging and transitional economies. These can be correctly identified as structural changes in market institutions. It brought about much awareness among investors, bankers and public at large. Such economy faced a retarded growth in spite of having economic reform like privatization, liberalization and lifting licensing raj. Despite flow of money in such economy, the growth could not take its stand due to unbalanced approach.

As part of its ongoing efforts to address supervisory issues, the Basel Committee on Banking Supervision (BCBS) has been active in drawing from the collective supervisory experience of its members and other supervisors in issuing supervisory guidance to foster safe and sound banking practices.

So the researchers will identify the attribute of corporate governance and to what extent it is being implemented in India's banking sector.

Objective of the study:

1) To study the role of corporate governance in Indian banking sector in general

2) To understand Basel Committee's Principles for Enhancing Corporate Governance of Banks

Research methodology:

The research paper is conceptual in nature, to explain the role of corporate governance in Indian banking sector. The data was collected through the secondary sources like: research articles, books Magazines etc.

Limitations of the Research:

The limitation of the research is the lack of primary data collection due to difficulty in getting appointment with senior bank official in banking industry. The practical applications as related to the corporate governance adopted by the banks are not learned.

Literature Review

"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."*Preamble to the OECD Principles of Corporate Governance, 2004*

In a much wider term, corporate governance was defined as "the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on their investment" (Parekh, 2003).

The analysis of World Bank definition on corporate governance seems more appropriate as it analyzes from two different perspectives. From the company's point of view, the stress is put on the relations between the various stakeholders such as owners, management, employees, customers, suppliers, investors and communities. From another perspective in defining corporate governance is reliable path where the corporate governance structures can be established. So, a "nation's system of corporate governance can be seen as an institutional matrix that structures the relations among owners, boards, and top managers, and determines the goals pursued by the corporation". (World Bank, 2002).

The OECD'S (1999) original definition is: "Corporate governance specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through

which the company objectives are set, and the means of attaining those objectives and monitoring performance." According to the Economist and Noble Laureate Milton Friedman, "Corporate Governance is to conduct the business in accordance with owners or shareholders' desires, while conforming to the basic rules of the society embodied in law and local customs"(Economic Times, 2001). The Cadbury Report states "Corporate governance is the system by which companies are directed and controlled. The Boards of Directors is responsible for the governance of their companies". In India, the confederation of Indian Industry (CII) tried to fill in this gap by outlining a code of corporate governance in April 1988 followed by the Ramakrishna Commission on PSU corporate Governance and the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance in December 1999.

Security and Exchange Board of India (SEBI's) *Kumar Mangalam Birla Report* has been enshrined in clause 49 of the listing agreement of every Indian stock exchange. A beginning has been made in India for mandatory observance of corporate governance practices, through clause 49 of the Listing Agreement of the Stock Exchanges. The recommendations of the committee are mandatory. Sarkar and Sarkar (2000) provided evidence on the role of large shareholders in monitoring company value in the Indian context, whose corporate governance system is a hybrid one. Similar to other studies, this study also found that after a definite level of block holdings by directors the company value enhances.

The effectiveness of sound banking system can be recognized by the standard of transparency in their performance and the increased role of government and regulatory agencies to verify their actions (Topalova, 2004). As regards the issue of corporate governance in banking organization, Jalan (2001) has examined the issue of corporate governance in public versus private sector banks and thereafter Reddy (2002) has discussed the governance challenge in public sector banking. "Corporate governance in PSBs is important, not only because they dominate the banking industry, but also because, they are unlikely to exit from banking business though they may get transformed. To the extent there is public ownership of PSBs, the multiple objectives of government as owner and the complex principal-agent elationships cannot be wished away". Some important troubled areas are hindering the best governance practices in these banks. These grey areas are identified and elaborated in the following paragraphs (Reddy, 2002).

From the Medici of Florence and the Fuggers of Augsburg to the Rothschilds of Paris and London and the Morgans of New York, bankers have sat in the councils of governments, financing wars and popes, and occasionally sparking a revolution. (*Will & Ariel Durant - Lessons of History (pg.54-55)*

1) Why Banks are Special?

- Highly leveraged, systematically important institution: On average, a Bank has USD 100 of Depositors & Third Parties for every USD 9 of Shareholder's Funds.
- Payment & Settlement System Participant: Banks are the core of the payment and settlement system, which is the lifeline of all economic activity.
- Main Artery of credit flow: Banks are the main artery that keep the credit flow to the economy going. And, Banks quickly transmit their problems system-wide to other banks and financial institutions.
- Business complexity: Large geographical spread, large transaction volume, large transaction value, high dependence on technology, increase process outsourcing.
- Financial Product Complexity: Complexity of financial products, particularly financial risk transfer products and resulting difficulty in identifying and measuring potential risk.
- Impact of Bank Failure or Bank Run: Bank failure or run has significant public costs and macro economic implications including contagion risk, impact on payment system, impact on depositors and deposit insurance, etc. Importantly, potential adverse impact of bank failure or bank run on other stakeholders (depositors, wider economy, tax payer bailout) manifold the potential adverse impact on shareholders. Thus, pay-off of increasing banks shareholder value through increased risk taking is asymmetric, skewed in favor of shareholders and against other stakeholders. Banks enjoy implicit public safety net: As systematically important institutions banks get safety net of deposit insurance and eventual tax payer bailout.

Banking regulator uses the following mechanisms to keeping Banks safe

Given Banks' role as highly leveraged institutions engaged in complex business, acting as the main artery of credit flow to the economy, and also the lifeline of all economy activity through participation in payment and settlement system, banking regulator is tasked with the job of

"keeping banks safe". This casts monumental onus on banking regulator to evolve or prescribe governance standards for Banks.

- Mechanisms to keeping Banks safe:
  - Ownership structure prescription
  - Board of Directors prescription – Composition, appointment, compensation, committees, etc.
  - CEO, Senior Management: Right to approve and remove CEO/Senior Management
  - Prudential norms for Risk Based Capital
  - Prudential norms for Income Recognition, Asset Classification, Provisioning, Valuation
  - Prudential norms on Exposure Limits
  - Restrictions on connected lending
  - Activity restriction (products, branches, etc.)
  - Disclosure and transparency prescriptions
- In a notable measure, the banking regulator, instead of depositors, debt or equity shareholders, take the role of monitoring banks.

Corporate Governance in Banks:

Banks exist because they are willing to take on and manage risks. Besides, with the rapid pace of financial innovation and globalization, the face of banking business is undergoing a sea-change.

Banking business is becoming more complex and diversified. Risk taking and management in a less regulated competitive market will have to be done in such a way that investors' confidence isnoteroded.Even in a regulated set-up, as it was in India prior to 1991, some big banks in the public sector and a few in the private sector had incurred substantial losses. The depositors collectively entrust a very large sum of their hard- earned money to the care of banks. It is found that in India, the depositor's contribution was well over 15.5 times the shareholders' stake in banks as early as in March 2OO1.

The depositors are very large in number and are scattered and have little say in the administration of banks. In other corporate, big lenders do exercise the right to direct the

management. In any case, the lenders' stake in them might not exceed 2 or 3 times the owners' stake. Banks deal in people's funds and should, therefore, act as trustees of the depositors. Regulators the worlds over have recognized the vulnerability of depositors to the whims of managerial misadventures in banks and, therefore, have been regulating banks more tightly than other corporate. To sum up, the objective of governance in banks should first be protection of depositors' interests and then be to "optimize" the shareholders' interests. All other considerations would fall in place once these two are achieved. As part of its ongoing efforts to address supervisory issues, the Basel Committee on Banking Supervision (BCBS) has been active in drawing from the collective supervisory experience of its members and other supervisors in issuing supervisory guidance to foster safe and sound banking practices. The committee was set up to reinforce the importance for banks of the OECD principles, to draw attention to corporate governance issues addressed by previous committees, and to present some new topics related to corporate governance for banks and their supervisors to consider. Banking supervision cannot function effectively if sound corporate governance is not in place and, consequently, banking supervisors have a strong interest in ensuring that there is effective corporate governance at every banking organization. Put plainly, sound corporate governance makes the work of supervisors infinitely easier. Sound corporate governance can contribute to a collaborative working relationship between bank management and bank supervisors. Recent sound practice papers issued by the Basel Committee underscore the need for banks to set strategies for their operations and establish accountability for executing these strategies. In addition, transparency of information related to existing conditions, decisions and actions is integrally related to accountability in that it gives market participants sufficient information with which to judge the management of a bank

Important factors of Bank Corporate Governance

- Banks are more difficult to monitor
    - Moody's and S&P disagreed on only 15% of all 'firm' bond issues, but disagreed on 34% of all financial bond issues
- Banks are more vulnerable
    - Recessions increases spreads on all bond issues, but increases spreads on riskier banks more than for 'firms'

   - Partly result of a flight to safety, but also greater vulnerability of banks compared to non-financial firms
- In practice, banks with weak corporate governance have failed more often
   - Accrued deposit insurance, good summary measure of riskiness of banks, higher for weaker CG
   - State-owned banks enjoy even larger public subsidy, that is often misused: poor allocation, large NPLs, e.g., Indonesia, South Korea, France, Thailand, Mexico, Russia
   - Fiscal costs of government support up to 50% of GDP, large output losses from financial crises

Basel Committee on Banking Supervision:

The Basel Committee on Banking Supervision issued for consultation a set of principles for enhancing sound corporate governance practices at banking organizations. Some Key CG Shortcomings that came to light during 2008 Crisis include: insufficient board oversight of senior management, inadequate risk management; and unduly complex or opaque bank organizational structures and activities

Corporate Governance in Banks Post 2008 Crisis: Basel Committee on Banking Supervision (BCBS) Perspective on Key Focus Areas

- **Board practices**
   - The board's overall responsibility for the bank includes its business and risk strategy, organization, financial soundness and governance. The board should also provide effective oversight of senior management. To fulfill this responsibility, the board should exercise sound objective and have and maintain appropriate qualifications and competence, individually and collectively; follow good governance practices for its own work as a board; and be supported by competent, robust and independent risk and control functions, for which the board provides effective oversight.
- **Senior management**

- Under the direction of the board, senior management should ensure that the bank's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the board..

- **Risk management and internal controls**
  - A bank should have a risk management function (including a chief risk officer (CRO) or equivalent for large banks and internationally active banks), a compliance function and an internal audit function, each with sufficient authority, stature, independence, resources and access to the board;
  - Risks should be identified, assessed and monitored on an ongoing firm-wide and individual entity basis;
  - An internal controls system which is effective in design and operation should be in place;
  - The sophistication of a bank's risk management, compliance and internal control infrastructures should keep pace with any changes to its risk profile (including its growth) and to the external risk landscape; and effective risk management requires frank and timely internal communication within the bank about risk, both across the organization and through reporting to the board and senior management.
- **Compensation**
  - The bank should fully implement the Financial Stability Board's (FSB - formerly the Financial Stability Forum) *Principles for Sound Compensation Practices* (FSB Principles) and accompanying *Implementation Standards* (FSB Standards) or the applicable national provisions that are consistent with the FSB Principles and Standards.
- **Complex or opaque corporate/SPV Structures**
  - The board and senior management should know, understand and guide the bank's overall corporate structure and its evolution, ensuring that the structure (and the entities that form the structure) is justified and does not involve undue or inappropriate complexity; and

- Senior management, and the board as appropriate, should understand the purpose of any structures that impede transparency, be aware of the special risks that such structures may pose and seek to mitigate the risks identified.

- **Disclosure and transparency**
  - Transparency as a tool to emphasize and implement main principles for good corporate governance.

Corporate Governance in Banking Industry: BCBS Perspective

- Corporate governance in banks involves the allocation of authority and responsibilities, i.e. the manner in which the business and affairs of a bank are governed by its board and senior management, including how they:
  - set the bank's strategy and objectives;
  - determine the bank's risk tolerance/appetite;
  - operate the bank's business on a day-to-day basis;
  - protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognized stakeholders; and
  - align corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations

Governance Mechanisms for Banks

- Ownership structure
- Board of Directors – (composition, qualification, responsibilities, corporate culture (tone at the top), own practices, functioning and structure, oversight, over senior management)
- Corporate Culture matters..: Culture & Character determines how people behave when they are not being watched
- Senior Management Selection
- Risk Management & Internal Controls
- Executive Compensation
- Know your Corporate & SPV Structures
- Disclosure & Transparency

Bank Ownership Structure & CG: BCBS perspective

- There are unique corporate governance challenges posed where bank ownership structures are unduly complex, lack transparency, or impede appropriate checks and balances. Challenges can also arise when insiders or controlling shareholders exercise inappropriate influences on the bank's activities.
- The Committee is not suggesting that the existence of controlling shareholders is in and of itself inappropriate; in many markets and for many small banks this is a common ownership pattern. Indeed, controlling shareholders can be beneficial resources for a bank.
- It is nevertheless important that supervisors take steps to ensure that such ownership structures do not impede sound corporate governance. In particular, supervisors should have the ability to assess the fitness and propriety of significant bank owners as well as board members and senior managers.

State Ownership of Banks & CG : BCBS perspective

- The general principles of sound corporate governance should also be applied to state-owned or state-supported banks, including when such support is temporary.
- In these cases, government financing or ownership (even if temporary) may raise new governance challenges. Although government financing or ownership of a bank has the potential to alter the strategies and objectives of the bank, such a bank may face many of the same risks associated with weak corporate governance as are faced by banks that are not state-owned or supported. Exit policies from government ownership or support may present additional challenges that require attention in order to ensure good governance.
- Likewise, these principles apply to banks with other types of ownership structures, for example those that are family-owned or part of a wider non-financial group, and to those that are non-listed (including, for example, cooperative banking organizations).

Basel Committee's Principles for Enhancing Corporate Governance of Banks

The Basel Committee recognizes that primary responsibility for good corporate governance rests with boards of directors and senior management of banks.

I) Ensuring For Good Board Practices

- Are the bank's board members qualified?
  - Right mix-of-skills in banking, finance & risk mgmt., cg, etc,.
  - Are the right election procedures in place
  - Can directors commit sufficient time and energy
- Do they have a clear understanding of their role?
  - Setting overall strategy and managerial oversight, not day-to-day
  - Fiduciary duties of care and loyalty
  - To act in the interest of the company and all shareholders
  - Fit and proper tests; succession planning
- Are the able to exercise independent judgment
  - Free from any conflicts of interest, and thus able to monitor financial reporting, remuneration and nomination procedures
- Right board size, leadership and procedures in place?
  - Do key committees exist: audit, risk, cg/nomination, remuneration
  - Ability to obtain material information in timely manner
  - Do tough, but quality discussions take place

II) Responsibilities of the Board

Board has ultimate responsibility for bank's business strategy, risk strategy and financial soundness, as well as how the bank organizes and governs itself. It should approve and monitor overall business strategy taking into account bank's long term financial interest, its exposure to risk, its ability to manage risk effectively; and approve and oversea implementation bank's risk strategy, risk management policy, internal control system, corporate governance framework, principles and corporate values, including code of conduct, whistle blowing procedures communicated throughout bank

- Interests of stakeholders should be taken into account
- Best if explicit rather than implicit, but corporate culture and 'tone at the top' are key (practice vs. theory).
- Key ethical issues to address: corruption & bribery, self-dealing, unethical behavior and conflicts of interest

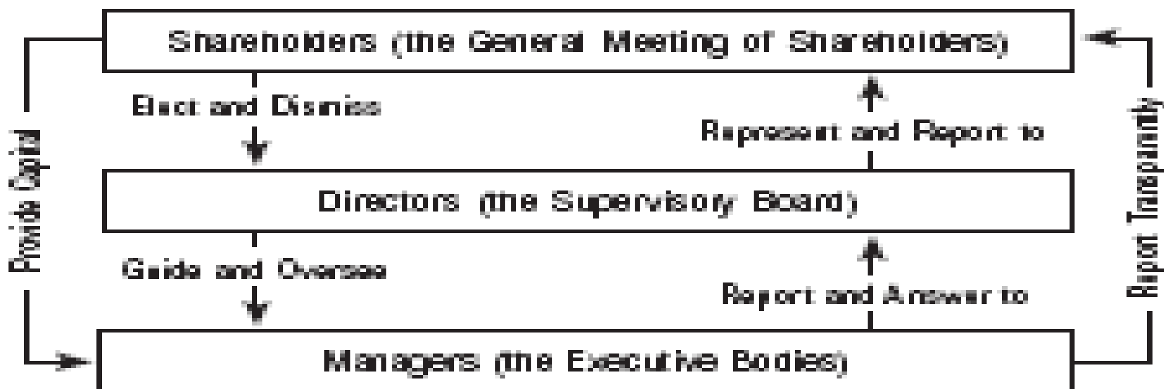
III) Corporate Culture, Values & Code of Conduct

- *Corporate Culture:* Demonstrated corporate culture that supports and incentivizes professional and responsible behavior is an essential foundation for good governance. Board should take lead in establishing *"tone at the top"* and in setting professional standards and corporate values that promote integrity for itself, senior management and other employees.
- *Code of Conduct:* Bank's *Code of Conduct* should articulate acceptable and unacceptable behaviors

Corporate Values & Communication: Bank's corporate values should recognize critical importance of timely and frank discussion and escalation of problems to higher levels within organization. *Inter alia,* to mitigate Bank's reputational risk, employees should be enabled to confidential communicate, with protection from reprisal, legitimate concerns about illegal unethical and questionable practices (e.g. Whistle Blower Policy)

IV) Setting and Enforcing Clear Lines of Responsibility and Accountability

- Clearly define authorities and responsibilities between shareholders, the board & management
- Also important in group structures:
  - Board at group level responsible for overall strategy, oversight of subsidiaries, and risk/internal control structure of entire group
  - Board at subsidiary level retains cg responsibilities for subsidiary itself
  - Key issue: Open & transparent intra-group policies to deal with conflicts of interest among entities w/i group

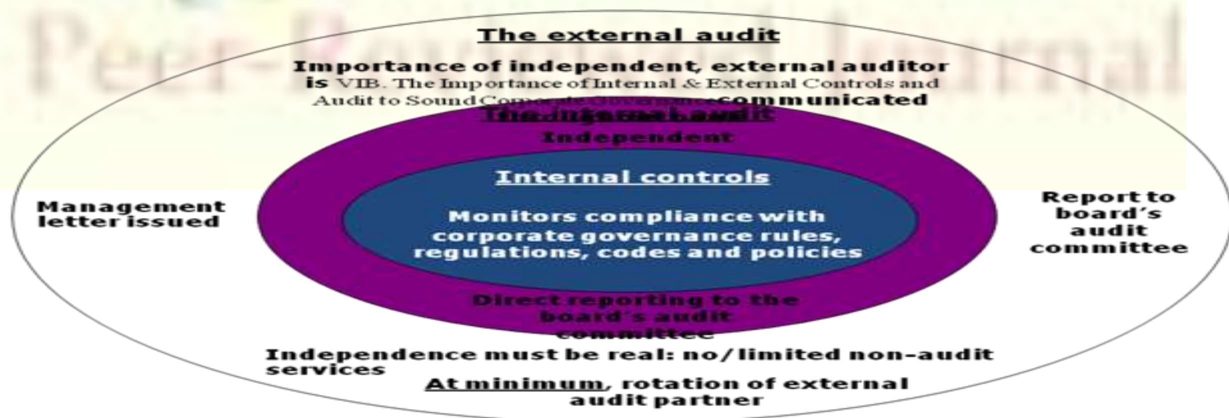


V) Ensuring For Appropriate Oversight by Senior Management

- Except where required otherwise by applicable law or regulations, the board should select and, when necessary, replace senior management and have in place an appropriate plan for succession.
- The board should provide oversight of senior management as part of the bank's checks and balances. In doing so the board should:
  - monitor that senior management's actions are consistent with the strategy and policies approved by the board, including the risk tolerance/appetite;
  - meet regularly with senior management;
  - question and review critically explanations and information provided by senior management;
  - set formal performance standards for senior management consistent with the long-term objectives, strategy and financial soundness of the bank, and monitor senior management's performance against these standards; and
  - ensure that senior management's knowledge and expertise remain appropriate given the nature of the business and the bank's risk profile.
- The board should also ensure that the bank's organizational structure facilitates effective decision making and good governance. This should include ensuring that lines of responsibility and accountability-- which define clearly the key responsibilities and authorities of the board itself, as well as of senior management and those responsible for the control functions-- are set and enforced throughout the organization.
- The board should regularly review policies and controls with senior management and internal control functions (including internal audit, risk management and compliance) in order to determine areas needing improvement, as well as to identify and address significant risks and issues. The board should ensure that the control functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

VI)(A) Risk Management & Internal Control

- Banks should have an effective internal controls system and a risk management function (including a chief risk officer or equivalent) with sufficient authority, stature, independence, resources and access to the board.
- Risk management vs. internal controls
- Internal controls are designed, among other things, to ensure that each key risk has a policy, process or other measure, as well as a control to ensure that such policy, process or other measure is being applied and works as intended. As such, internal controls help ensure process integrity, compliance and effectiveness. Internal controls help provide comfort that financial and management information is reliable, timely and complete and that the bank is in compliance with its various obligations, including applicable laws and regulations.
- In order to avoid actions beyond the authority of the individual or even fraud, internal controls also place reasonable checks on managerial and employee discretion. Even in very small banks, for example, key management decisions should be made by more than one person ("*four eyes principle*").
- (B)**The Importance of Internal & External Controls and Audit to Sound Corporate Governance**



VII) Ensuring that Compensation is In-Line with a Bank's Values, Strategy & Control Environment

- Link board and management remuneration to long-term business strategy of bank

- E.g. LT performance targets vs. st-volume or profitability
- Options should only be granted under appropriate terms (time limits to hold/trade) and shareholder approval

➢ Differentiate between executive & non-executive pay

- Both should enable the bank to attract & retain top talent, but former has stronger linked to performance while latter to responsibility and time commitment

➢ Independent remuneration committee sets remuneration ➔ Board discusses and validates ➔ shareholders (ideally) approve final package

VIII) Conducting Corporate Governance in a Transparent Manner

➢ Shareholders & other stakeholders can only effectively monitor directors & managers if bank is transparent!

- Particularly important for banks' objectives and structure

➢ Material and timely disclosure is key, notably on:

- Full set of financials (incl. notes)
- Board and senior mgmt. structures
- Basic organizational structure
- Incentive structures (remuneration)
- Bank-level corporate governance code and code of ethics
- Nature and extent of transactions with affiliates and related parties

➢ Disclose in annual report and publish on website

IX) Know Your Structure

➢ Establishing off-shore SPVs—although possibly serving legitimate business needs—pose real oversight and reputational risks

- Require close attention by board
- Risks need to be carefully analyses
- Purpose, structure, volume of SPVs needs to be defined and disclosed
- Clear policies for such structures need to be developed
- Audit committee needs to pay close attention

Conclusion

Realize the strength of the banking sector; banks are important and effective tool for Financial Inclusion and powerful alchemy for social reforms and transformation. Practicing of

Corporate Governance is in the ultimate interest of the bank which is necessary to enjoy the confidence of stakeholders and Regulators. Corporate Governance may not be solution on each and every problem of the bank. It may not a “Panacea” but it is certainly a “Pranayam” for good health of the cooperative bank. The Major challenge before Banks today, is to build up and enhance their capacity to integrate themselves with their national and global counterparts without sacrificing their own cultural ethos. The Corporate Governance plays very crucial and vital role in this endeavor.

The Basel Committee on Banking Supervision is issuing this revised supervisory guidance for assessing the effectiveness of the internal audit function in banks, which forms part of the Committee's ongoing efforts to address bank supervisory issues and enhance supervision through guidance that encourages sound practices within banks. Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source& improve risk management and governance, strengthen banks' transparency and disclosures. Sound corporate governance is an important element of bank safety and so "the financial crisis has underscored how insufficient attention to fundamental corporate governance concepts can have devastating effects on an institution and its continued viability. It is clear that many banks did not fully implement these fundamental concepts. The obvious lesson is that banks need to improve their corporate governance practices and supervisors must ensure that sound corporate governance principles are thoroughly and consistently implemented". In spite of limitation of the study, the secondary sources of data help us to pinpoint the effectiveness of corporate governance in banks. Thus Corporate Governance Practices become very important for increasing trust & confidence among stake holders in Banks.

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