EVOLUTION OF CORPORATE GOVERNANCE OF BANKS IN JAPAN: SOME LESSONS FOR OTHER COUNTRIES

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Abstract

This paper describes the evolution of corporate governance of banks in Japan. Banks had no serious problems and governance of banks was not paid so much attention until the banking crisis in the 1990s due mainly to the strict regulation by the government. However, it became apparent that non-performing loans had something to do with the governance of banks. The stakeholders of banks are different from those of non-financial institutions: the regulators and depositors play an important role as monitors of banks. The stakeholders as well as the banks' themselves have undertaken to enhance the governance system in order to increase accountability and transparency. In this process, competitive banking sector, adequate banking regulation, and deposit insurance with limited amount of depositor's protection system have become essential in strengthening the governance mechanism of banks.

Keywords: Corporate Governance of Banks; Stakeholder of Banks; Bank Regulation; Banking Crisis; Deposit Insurance
JEL codes: G01, G14, G21, G38

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Introduction

The corporate governance became a topic in Japan in around 1992 due to the burst of the asset inflation, spate of corporate scandals and bankruptcies. In those days, the research focused on the corporate governance of non-financial companies. Financial institutions and banks, as providers of funds and as one of the key stakeholders, acted only as a watchdog of non-financial companies and they were not research subject of corporate governance. The corporate governance of non-financial companies was discussed in relation to the main bank system, which was unique in Japan. However, the corporate governance of banks has become a topic since 1997. In other words, the issue was raised who would monitor the monitor. Research on the corporate governance of banks has begun, but the research has so far still been limited. Likewise, in other countries, the corporate governance of banks has been paid less attention as a research topic compared with non-financial companies.

However, as the financial crisis flares up and morphs into a sovereign debt crisis, the corporate governance of banks has become a hot topic. The underlying questions are whose interests should bank boards be serving and who would monitor the banks. In 2009, a review of corporate governance in UK banks and other financial industry entities was conducted. The review takes a position that the primary role of boards is to look after the interests of shareholders. On the other hand, both the Basel Committee on Banking Supervision and the European Commission are taking a view that the role of boards has to be broadened to include the interests of depositors and other stakeholders.

This paper has six main sections. In the first section, the common and bank specific aspects of corporate governance of banks and non-financial companies are clarified. In the second section, literature on corporate governance of banks is reviewed. The third and fourth sections discuss the evolution of corporate governance of banks in Japan by separating the periods before and after the banking crisis. Under these sections the role of regulatory authorities and depositors is also addressed considering the specific characteristics of banks. In the fifth section, basic oversight policy of the government is described. Some policy recommendations appear in the section sixth as part of concluding remarks.

Literature Review of Corporate Governance of Banks

While governance of nonfinancial firms has been studied widely, the corporate governance of banks has only recently been discussed in the literature in spite of its importance. Literature agrees that corporate governance of banks differs from that of a generic firm. BIS (2005) states that corporate governance for banking organizations is arguably of greater importance than for other companies, given the crucial financial intermediation role of banks in an economy, the need to safeguard depositors' funds and their high degree of sensitivity to potential difficulties arising from ineffective corporate governance. Macey and O'Hara (2001) argue that a broader view of corporate governance should be adopted in the case of banking institutions, stating that because of the peculiar contractual

form of banking, corporate governance mechanisms for banks should encapsulate depositors as well as shareholders. Given these specific features, the governance of banks is not only different from that of nonfinancial firms, but it is also more complex. Hence, for banks, there is a clear case to take a broader view of governance. Some research has already been conducted that takes into account depositors and/or borrowers and/or regulators and supervisors (Focus on European Economic Integration, 2010). Levine (2004) examines the corporate governance of banks from the conceptual point of view. He discusses the governance framework, special features of banks, constructive role of government regulations and provides policy lessons. He points out two special attributes of banks that make them special in practice: greater opaqueness than other industries and greater government regulation. He concludes that it is important to strengthen the ability and incentives of private investors to exert governance over banks rather than relying excessively on government regulators.

After reflections on some tentative lessons from the current crisis for banks' good corporate governance Mülbert (2009) maintains the following: Deposit insurance and prudential regulation, while aimed at compensating for deficits in the monitoring and control of banks, both act to exacerbate the particular problems that are inherent in banks' corporate governance. From this perspective, banking regulation and banks' corporate governance interact as the driving forces of a vicious circle that produces ever more regulation. Lane (1993) stresses the importance of market discipline by saying that financial markets provide signals that lead borrowers (in this case banks) to behave in a manner consistent with their solvency. Three classes of private bank-stakeholders: depositors, debt holders and equity holders can signal market discipline. Depositors can either demand a higher return or withdraw their deposits if the bank risk increases.

Similarly, debt-holders can demand a higher yield on bank debt, thereby increasing the cost of funds for riskier institutions and equity holders can sell their shares, putting pressure on share prices and placing management under increased scrutiny. For this to happen, investors must consider themselves at risk in the event of default and must be able to effectively observe bank risk thanks to reliable and timely information disclosure (Hamalainen, Hall and Howcroft 2005). Laeven and Levine (2008) conducted the first empirical assessment of theories concerning the relationships among risk taking by banks, their ownership structures, and national bank regulations. They found that the relationship between bank risk and capital regulations, deposit insurance policies, and restrictions on bank activities depends critically on each bank's ownership structure, such that the actual sign of the marginal effect of regulation on risk varies with ownership concentration.

The Common and Bank Specific Aspects of Corporate Governance

A generally accepted definition of corporate governance has yet to be developed. European Commission's Action Plan on Company Law and Corporate Governance[1].takes a slightly broader view: 'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders, and should facilitate effective monitoring. From a narrower view which takes into investor's point of view, Shleifer and Vishny (1997) define the corporate governance as follows: It deals with the ways in which suppliers of finance to companies assure themselves of getting a return on their investment. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes.

This concept of corporate governance is applicable to banks as well as to non-financial companies. Like non-financial companies, banks have shareholders, debt holders, boards of directors, competitors, etc. In this respect, banks are no different from non-financial companies. They are expected to enhance the corporate value while improving the corporate governance. But, banks have special roles in the economy by mobilizing financial resources and allocating them to the productive sectors. If they function well, they contribute to the growth of the economy, but if they can not fulfill their expected role they would adversely affect the economy. Bank failures can pose significant public costs and consequences due to their potential impact on deposit insurance mechanisms and the possibility of broader macroeconomic implications, such as contagion risk and impact on payment systems (BIS, 2005). The importance of banks to national economies is underscored by the fact that banking is virtually universally a regulated industry and that banks have access to government safety nets. It is of crucial importance, therefore, that banks have strong corporate governance (BIS, 1999).

Since the depositors are one of the important stakeholders, the interests of depositors should be protected, and for this reason, amongst others, the importance of corporate governance of banks differs from that of other companies and needs special attention. The depositors are the creditors of banks as they supply financial resources for the banks. The boards and management of banks, therefore, have to take into account the interests of these non-shareholding stakeholders, i.e. depositors (OECD, 2006). As such, the government regulates their activities so that banks perform their functions efficiently.

[1] See Communication from the Commission to the Council and the European Parliament, Modernizing Company Law and Enhancing Corporate Governance in the EU, COM (2003), 284, p. 10.

Government's regulations on financial activities by banks have varied over time and location.

As pointed out by Furfine (2001), banks are generally more opaque than other firms. Although information asymmetries plague all sectors, evidence suggests that these informational asymmetries are larger with banks. These differences between the banks and non-financial firms motivate researchers to study bank specific aspects of corporate governance because banking business has a tint of significant public nature.

Corporate Governance of Banks before the Banking Crisis

Financial system not only allocates funds to the economic sector which needs them, but also provides a disciplinary mechanism to deter moral hazard that occurs when information is asymmetric. Traditionally, Japanese banks had played an important role in monitoring client firms as main banks. Main banking system functioned well until the collapse of the bubble in the early 1990s. In Japan, banks were usually the nexus of a cross-share holding entity known as the keiretsu, which is a set of companies with interlocking business relationships and shareholdings. Fama (1985) indicated a banks' close relationship with client firms and he considered banks as corporate insiders. The main banks in Japan had even closer relationships with their firms, and were well known for their practice of hands-on control of corporate finance and governance (Aoki, Patrick and Sheard, 1994). Since main banks usually had equity holdings in the client firms under the main banking system, they were in a position to mitigate the agency problem between shareholders and debt-holders.

The banks were not concerned about the corporate governance until the collapse of the asset inflation because they could obtain reasonable profits, and stakeholders were silent on the corporate governance of banks. During the asset inflation years of 1989-1992, the lending volume of banks increased considerably mainly for the purpose of investing in property and stock investment. It was said in those years that credit appraisal of a firm became too loose or non-existent so as to increase lending volume. Japanese banks were characterized by highly dispersed share ownership structure, and because of cross-shareholdings financial and capital market pressure was weak except for some cases. In addition, depositors did not have to worry about the business condition of individual banks since there was a deposit guarantee system in place. Under the circumstances, banks were free from the influence of the creditors.

Traditionally, the Japanese corporate governance system placed emphasis on balancing the interests of various stakeholders: shareholders, creditors, managers, employees, suppliers, customers, and communities. Boards of Japanese companies were dominated mostly by insiders. For example, many directors and executives in Japanese companies were former employees of those companies. In such circumstances, the boards could not effectively exercise their rights to monitor management. Bank managers were able to protect their position and to appoint their successors, as the boards, agent of shareholders, had little exercised their right of corporate governance. Consequently, governance mechanism of banks before the banking crisis did not function well.

Corporate governance of listed firms in Japan is centered on the Commercial Code, which is the body of law that regulates the relationship between management and shareholders. This was revised a number of times in the past with the aim of reinforcing the governance system. In 1993, it introduced what became known as the "kansayaku" system, which obliged a company to introduce a board with a minimum of three statutory auditors (kansayaku) including one outside auditor. In addition, shareholders' rights were also increased by: (a) the reduction of the minimum percentage of shares owned by those entitled to demand to inspect accounting records from 10% to 3% and; (b) by reducing the legal fee for shareholder class-action lawsuits to 8,200 yen[2]. Prior to 2001, kansayaku were the sole authority mandated to carry out audits to judge whether directors had lawfully executed the businesses of their company, as it was not legally required to put in place an outside director. Although governance of banks was slightly enhanced thanks to the revision of the Commercial Code, it had room for further improvement.

Accordingly, intense competition in the financial markets could become an important element in disciplining the bank managers. In spite of this, the government used the regulations to limit the competition of the financial market. Financial authorities had legally the right to exert their influence on banks to some extent, but in reality it was very difficult to assess the condition of banks, as described by Levine (2004). Because of information asymmetries, it was not so easy to assess the quality of loans and the real financial condition of banks, which frequently varied from the balance sheets. Financial authorities in Japan had great difficulties in assessing the quality of loans and the overall soundness of individual banks. The regulatory authorities had imperfect monitoring ability. Thus, we can reasonably say that the main reason for the poor governance of banks was attributed to less competition and market discipline, and little governance by the regulators, creditors and shareholders.

Corporate Governance of Banks after the Banking Crisis

However, due to the swelling non-performing assets in the wake of the burst of the asset inflation in the early 1990s, Japanese banks were not able to maintain the main banking function. As a result, close relationship with client firms have virtually disappeared. While banks provided a

[2] About US$97.62 based on the exchange rate as of December 24, 2010.

disciplinary mechanism to client firms, bank's own monitoring became an issue. This issue arose because were partly responsible for the creation and demise of the asset inflation leading to bad loans without much to credit risk assessment. However, bad loan problem sometimes posed difficult question. Generally speaking, bad loans are initially classified as a healthy condition of loan portfolio, and finally become bad loans. Actually it not so easy to blame who is responsible for bad debt problem, either borrowers or banks, albeit quite often risk assessment capability of banks is questioned.

Since the middle of 1990s, significant changes have occurred in the business environment of banks. Cross-shareholdings were dissolved, large companies have shifted their financing activities from banks to the capital market, and the scope of deposit protection was somewhat reduced. During the latter half of 1990s, a series of bankruptcies occurred in the banking sector, resulting in the selection of individual banks by depositors unlike before and severe inter-bank selection took place. This exerted a significant influence on bank management. Banks had to take into account the governance mechanisms in the conduct of banking business. However, following the collapse of the bubble, it was ironic that banks could not put in motion the capacity of corporate governance due to bad loan problems despite the increased need for corporate governance. This was primarily attributed to the difference of interests between bank managers and shareholders. Bank managers tended to hide the true picture of their bank's loan portfolio by extending additional loans rather than disclosing the bad loans. Besides, the financial stabilization policy of the government to protect depositors, albeit slightly reduced, lowered the degree of market discipline on banks. It was claimed that governance problems of banks and bank bad loan problem was very complicated and intertwined, but it was clear that weak governance was responsible for the problem. Kawai (2003) pointed out that the presence of a credit culture to assess and price credit risks of borrowers was also an important factor behind banks' overextension of collateral-based but risky loans, all of which was aggravated by weak prudential and supervisory frameworks. No drastic measures were taken to solve the bad problem either by financial institutions or regulatory authorities until it became apparent that without the resolution of the NPL (non-performing loans) problem, the governance of banks could not be advanced. In order enhance the governance of banks, it was considered essential to separate the governance problem and the problem of bad loans. Banks had to address both issues. They had to establish the bank's own governance process while dealing with bad loans with a view to strengthening the competitive edge. The authorities could not grasp the NPL and disposal of bad loans since banks had considerable discretion over disposal of bad loans. In this sense, the delay in disposal of bad loans was fairly related to the governance of the bank.

The government position in relation to the non-performing loan problem was that it was the responsibility of the banks until it came to realize the seriousness on this matter. With hindsight, it is clear that this attitude on both the banks and the government made it more difficult to solve the bad loan problem. With an aim of rebuilding balance sheets of banks the government had to inject a huge sum of money for the recapitalization of banks. The volume of injected capital was somewhat decreased because there were some moves by some banks to actively raise funds themselves to make up the shortfall of capital in order to prevent state intervention. This was regarded as management reform initiatives of banks to improve governance while saving financial injection from the government.

At the same time, in 1998 a decision was taken to establish the Financial Supervisory Agency (FSA) to strengthen the financial system by separating from the Ministry of Finance, which was equipped with powers of bank supervision. Prudential regulations have also been strengthened, including loan classification and loan loss provisioning, capital adequacy requirements, prompt corrective action, and a deposit insurance scheme. Kawai (2003) emphasized that the financial authority must establish a clearly defined regulatory and supervisory framework that is based on market principles to regulate and supervise banks and to resolve ailing banks. This was necessary because the financial markets have become more competitive, integrated and global.

Primarily through the recapitalization of banks, the financial sector has gradually shown stability. As a result of banking sector stabilization, the government on all deposits beyond the limit of the deposit insurance system was phased out in 2002. The deposit insurance system was to limit protection on time deposits only up to 10 million yen[3] per depositor per bank. It was designed as to stimulate depositors' incentives to closely monitor the soundness of banks. The full implementation of the limited deposit insurance scheme has exerted a great impact on the corporate governance of banks. The recapitalized banks were called upon to improve the corporate governance by following the restructuring The FSA is empowered to exercise greater discretion the corporate governance of banks if they can not meet restructuring targets by more than 30 percent by taking such measures as the resignation of the bank CEO and the suspension of bonuses to directors.

The unwinding of cross-shareholdings and the weakening role of banks, together with a number of corporate scandals, led to the reconstruction of the corporate governance system in Japan which became a issue; not only among companies and on the Stock Exchange, but also among government agencies and academic researchers. The government has taken steps to

[3] Equivalent to about US 120 thousand dollars based on the exchange rate as of December 24, 2010.

reform the governance system, but it is not like the Anglo-American way of corporate governance. Mizuno and Tabner (2009) describe the transformation of corporate governance in Japan. A significant revision of the Commercial Code took place in 2002. It permits a company a selection between maintaining the existing board structure (company with a corporate auditor system) and adopting a board structure similar to the Anglo-American companies, with audit, compensation, and nominating committees that have a majority of independent directors. A non-statutory executive officer system was also introduced in 2002. The objective of introducing it is to enhance corporate governance by separating execution from the decision-making function. In financial year 2004, approximately 60% of firms excluding the three committee-based structure adopted it, and this ratio rose to more than 65% in financial year 2007 (Mizuno, 2010). Further, in 2005, Company Law, formerly part of the Commercial Code, was enacted to adapt to the changing business environment. New Company Law obliges Japanese companies to establish a policy on internal control system. Disclosure of executives' remuneration has been encouraged in annual reports since financial year 2003. It was found that although all firms disclosed total executives' remuneration, none of them disclosed individual executives' remuneration.

In March 2010, the Financial Service Agency announced that, for listed companies, individual names and amounts of compensation of executives who receive more than 100 million yen[4] must be disclosed. As a result of this measure, the company submitting the financial statements has to ensure a transparent system of financial compensation from the accounting period of financial year 2010. Independence of outside directors is crucial for good corporate governance. For this reason, the Tokyo Stock Exchange announced a new listing rule in December 2009 obliging firms to ensure the independence of one or more officers, meaning that at least one independent outside director and/or auditor is required. However, it was found that 15% of firms listed on the TSE were not able to abide by the new listing rule by the end of March 2010. Among the independent officers of the firms, 75% of them belong to the category of auditors and the rest to directors. Defensive measures against corporate takeover have become a major topic of voting since 2005. In April 2006, the Pension Fund Association (PFA) of Japan made its position clear on defensive measures against corporate takeover. According to the PFA, defensive measures against corporate takeovers might lead to self-protection of corporate managers. Defensive measures against corporate takeover without an approval at a general shareholders meeting have to be sufficiently explained. If this is not carried out, the PFA would oppose the appointment of directors. In addition, as a condition for approval for introducing defensive measures against corporate takeover, the PFA demand checks by outside directors and a 2–3 year sunset provision.

In accordance with the above changes in law on corporate governance, Japanese banks have taken necessary steps by either adopting a corporate structure with a corporate auditor system or a board structure with three committees. The three mega banks (Mitsubishi-UFJ, Mitsui Sumitomo, and Mizuho), established after a number of mergers, have adopted a corporate structure with a corporate auditor system, while Risona holdings, the no. 4 big bank group, have adopted a board structure with three committees. However, all the three mega banks have introduced outside directors and a non-statutory executive system with a view to increasing transparency and accountability. Moreover, three mega banks and Risona holdings do not take defensive measures against corporate takeover. (Table 1). While three mega banks, Risona holdings, and other banks have strengthened the corporate governance by putting in place outside directors, it remains to be seen whether the new governance mechanism would function well as anticipated.

[4] Equivalent to about US 1.2 million dollars based on the exchange rate as of December 24, 2010.

Table 1: Summary of governance system of three mega banks and Risona holdings

No	Items	Check-items	Mitsubishi-UFJ	Mitsui Sumitomo	Mizuho	Risona
1		Adoption of three committees structure	—	—	—	◎
2		Adoption of corporate auditor structure	◎	◎	◎	—
3		Introduction of non-statutory executive officers	◎	◎	◎	—
4	Board of directors	Introduction of outside directors	◎	◎	◎	◎
5		No. of directors	16	11	9	10
6	Mgt. incentives	Introduction of stock option	◎	◎		—
7	Executives' remuneration	Disclosure of total executives' remuneration	◎	◎		◎
8		Disclosure of each executive's remuneration	—	—	—	—
9	Outside director	Number, Independence	3, ◎	3, ◎	3, ◎	6, ◎
10	Outside auditor	Independence	◎	◎	◎	◎
11	Defensive measures against corporate takeover	Yes or No	No	No	No	No

Note: ◎ denotes applicable.

Basic Oversight Policy

In December 2009, the government announced the basic oversight policy of banks and defined the role of supervisors as follows:

(1) The main objective of banking supervision is to prevent bank failures. "Bankruptcy" refers to the general situation of default. In the case of banks, the protection of depositors becomes the main purpose. The reason for bank bankruptcy in spite of bank managers not wishing to go out of business can be explained as under:

a. Significant changes in business environment. (occurrence of non-expected risk)

b. The naiveté of banks with respect to loans risk (risk assessment of expected risk has defects)

c. Lack of risk preparedness. (lack of capital, insufficiency to shift the cost of credit to lending rate

d. Fatal mistake in the conduct of business. (incident on the system and wrongdoing inside the banks)

(2) What can not be done by supervisors.

a. To predict or to prevent significant changes in the business environment.

b. To make a more detailed risk assessment of bank loans than banks.

c. To avoid business mistakes of banks.

(3) What can and needs to be done by regulators.

a. To establish a rule on a minimum capital amount for a cushion against unexpected risks.

b. To make sure to check the bank's auditors regarding the proper method of evaluating expected risk (in the case of Japan, the authorities have the right to give licenses to auditors).

c. To ensure that banks perform the duties of supervising the debtors as creditors and make recommendations to rectify it, if required.

d. To make sure that the regulators conduct sufficient stress tests for market risk.

e. To check the code of conduct for bank employees (to make sure that the code of conduct has been established, whether it is appropriate, and check whether it is observed).

f. To make sure that the measures are being taken to back up the system breakdown.

(4) Other roles in banking supervision

a. Licensing of banks

b. Suspension order of banking business for non-compliance of banking decree

c. Improvement of the quality of financial services

(5) Supervisory system

a. If there are multiple supervisors, to tie-up and collaborate between them

b. To maintain and to improve financial knowledge of government officials

c. Relationship with external auditors

While the above basic oversight policy defined the role of supervisors, the Basel Committee on Banking Supervision has published two editions of a guideline entitled 'Enhancing corporate governance for banking organizations' from a regulator's point of view which puts emphasis on the role of the board of directors and senior management. In other words, effective oversight of a bank's business by the board and management contributes to the efficient and cost-effective supervisory system. The expected role of the board of directors and senior management is described as follows:

- set corporate objectives;
- operate the bank's business on a day-to-day basis;
- meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders (including, inter alia, supervisors, governments and depositors);
- align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations; and
- protect the interests of depositors.

Concluding Remarks

This paper sheds light on the corporate governance of banks in Japan. There was practically no problem in the banking sector for a couple of decades before the banking crisis due to strict financial regulations. But, banks had taken more aggressive approach in extending loans after the financial liberalization. Financial liberalization itself is a global trend and offers business opportunities for the banks. The problem lies in the fact that corporate governance by various stakeholders could not address properly the banking behavior arising from the financial liberalization. Banking sector accumulated untenable amounts of non-performing assets due to easy lending. It, therefore, had to be overhauled from the viewpoint of governance mechanism, while at the same time taking injection of capital from the government to stabilize the financial system. Governance of banks can be implemented not only by monitoring, but also by buying their shares by bank employees to give an incentive mechanism which is closely associated with the bank's management. Introduction of outside experts and promotion of young and talented bankers to the bank's management might be effective in improving governance of banks.

Competition is crucial in enhancing corporate governance. Non-competitive financial market structure potentially causes moral hazard. It is expected that the transparent corporate governance works in such business areas of mega banks and investment banks as sophisticated financial services because of intense global competition among the financial institutions. On the other hand, the retail sector of banks in which traditional lending is important, the corporate governance might not work in the same way as in the areas of sophisticated financial services. Since there are too many regulatory standards for the banks, it is advisable to reduce them to some extent and instead, create substantively meaningful standards for banks to abide by. This would lead to ensure flexibility in the governance of banks. If there are situations in which the bank regulators are not able to fully grasp the bank's loan portfolio, it might be better to leave the running of banks to the management and shareholders at their own risk after establishing certain safety nets. In this regard, competitive banking sector, deposit insurance with limited amount of depositor’s protection system become essential in minimizing moral hazard while providing safety net to depositors. Management of deposit insurance varies between countries depending upon the financial structure and the historical background.

While it is true that the role of banking inspectors is vital for governance of banks, it is practically impossible to inspect all the loans of banks because of a huge number of borrowers. In this respect, if there are falsifications by banks, penalties have to be imposed to ensure governance. The fiduciary duties of the board can not be overemphasized which include both the duty of care and the duty of loyalty. The fiduciary duties of bank’s board are presumably more important than those of other non-financial firms due to the bank’s acceptance of deposits from the population. Policy makers have to recognize that sound corporate governance of banks cannot be developed effectively without tackling institutional constraints and weaknesses. Increased information disclosure is required in order to reduce the opacity of banks, and to facilitate the creditors to assess and price bank risk. There is no doubt that corporate governance mechanism varies widely among countries. Nonetheless, sound corporate governance of banks can be attained if appropriate monitoring by bank’s directors and supervisors as well as shareholders and creditors is enforced.

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