



6th SOUTH EAST EUROPE CORPORATE GOVERNANCE ROUNDTABLE

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Enforcement of Corporate Governance Rules

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CENTRE FOR
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ISTANBUL



**Session 2: Enforcement of Corporate Governance Rules –
Role of Securities Regulators**

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- 1- Efficiency and effectiveness of enforcement increase, if the regulator has insights what he or she is enforcing. To be able to do that;
 - a. The regulator should really understand the market dynamics,
 - b. The regulator should have information about the way of doing business in the market,
 - c. The regulator should have intuition about the market reactions in specific situations, Here in the first place, the regulator should have good communication and intelligence capabilities among market participants and with respect to market practices. Secondly, the staff should meet frequently with market participants. Another key issue is the structure and the quality of the staff. There should be a right balance among the staff with respect to market experience, academic back ground and competence.
- 2- The regulator should regulate, if it is able to enforce. If the regulator has limitations to enforcement, it should either prefer not to regulate or increase its enforcement powers in a very short period of time. Otherwise market discipline will start disappearing day by day, making difficult to convert the market situation, while increasing the enforcement costs.
- 3- Enforcement should be risk based and oriented. The regulator should have a risk card that is developed according to past experiences. The staff should be able and has powers to judge and decide the costs and benefits of enforcement referring to that risk analysis. If the benefits are not clear or limited, the enforcement staff should concentrate its activities on more risky activities which may really give harm to market integrity. In that respect, the regulator can delegate less value added activities to other institutions, SRO's or to market forces and concentrate on key issues,
- 4- The regulator can declare and communicate good and bad examples via its web site or designing panels and conferences. It is important for the market participants what is considered to be best practice, what is not and why (the reasons for). Sometimes it may be more convenient and easy to give examples than leaving it to market participants to understand and interpret legal documents. But this should be done very very carefully. Otherwise you may not receive the benefits and even give harm to the system.

Effective enforcement should be backed by economically meaningful legal penalties. Sometimes the economic benefits of not conforming to laws may exceed the corresponding legal penalty. This situation is of course not acceptable, if the objective is establishing an effective market discipline.