

Corporate Governance of Banks: A critical analysis of Sri Lankan Law and practice

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Abstract— Banks play one of the most significant and essential roles in any financial system; the health of the economy and the soundness of banking system go hand in hand. In Sri Lanka the Capital market reforms have taken place since 1990s adopting the Anglo American structure of Corporate Governance. Notwithstanding the reforms several banks faced scandals in recent years, most significant being the failure in Pramukha Savings and Development Bank and the imminent failure in Seylan Bank. Further measures were introduced following the scandals for effective regulation of banks. Currently this area of law is mainly governed by the Banking Act No 13 of 1988 including directives issued thereunder, Companies Act No. 7 of 2007, Codes of best practice and Regulations issued by the Securities and Exchange Commission. The key problem which is sought to be addressed in this research is the banking failures in Sri Lanka. More specifically the study examines whether such failures can directly be attributed to the inadequacies of the corporate governance laws. The objective of the research is to find out the issues prevalent in the law on corporate governance of banking and its implementation with regard to the fact whether such laws co-exist with the traditional socio-political setting in Sri Lanka and to propose necessary amendments and improvements to the same. This research will be carried out based on primary sources viz. relevant acts, codes and international instruments and secondary sources viz. text books, journals, electronic resources, documents of SEC, Central Bank, CSE, Financial Sector Reforms Committee (FSRC) and Annual reports of the banks. The Study concludes that Sri Lankan law on corporate governance of banks is satisfactory and mainly in line with international standards and the problem lies within implementation of such laws since Anglo American Structure of Corporate Governance fails to co-exist with the traditional socio-political setting in Sri Lanka.

Keywords— Banks, Corporate Governance, Sri Lanka

I. INTRODUCTION

“Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”

- Shleifer and Vishny

Effective corporate governance is an integral part of the modern corporate world. It is important in both global and domestic environment to obtain the full benefits of global capital market, attract long term patient market, increase the confidence of the investors, reduce the cost of capital and ultimately to induce more stable resources of financing (OECD Principles of Corporate Governance).

According to OECD, “Corporate Governance is a set of relationships between a company’s management, its board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance”.

Corporate Governance of banks is of paramount importance to any economy and shall receive a significant and serious attention in any state, since a proper system of banks is directly co-related with the smooth functioning of the economy. The effects of failures of such banks are not limited to its investors and depositors but it can have adverse spillover effects on each and every stakeholder in the economy. The banking crisis in 2007-2008 that threaten to sink the entire global economy re-emphasized the special attention on corporate governance of banks both in developed and emerging economies.

Former studies suggest that the bank failures in emerging economies are largely due to poor risk diversification, inadequate loan evaluation, fraudulent activities and the overall poor corporate governance practices of banks (Winkler, 1998; Haque, Thankom and Kirkpatrick, 2011; Huizinga and Laeven, 2009; Basu, 2003; Sundarajan and Balino, 1991). It appears from these studies that the main

cause of bank scandals in developing economies is the absence of satisfactory mechanisms for the management, regulation, observation and supervision of banking activities.

Therefore the solution obviously rests within the implementation of a proper mechanism of corporate governance. The corporate governance model shall be consistent with the social, political, economic and historical realities of the country if it is to achieve its intended purposes. Further the stakeholders of the banks play a vital role in the enforcement of the corporate governance procedures and can act as observers of banking activities (Decisions, Recommendations and other Instruments of the Organisation for Economic Co-Operation and Development, 2004)

This research arises from an interest to find out the underlying causes to the banking scandals in Sri Lanka that frequently occurred in recent years causing grave repercussions to the stakeholders in such banks and weakening the public faith towards them.

In Sri Lanka, corporate governance laws have been reformed since 1990s. The salient feature of these reforms is its close alliance with the Anglo American or Anglo-Saxon Structure of Corporate Governance which is prevalent in U.S.A, U.K, Canada, Australia, and the most of other common wealth countries. Despite the reforms several significant banking scandals took place in recent years. The first one is the failure in Pramukha Savings and Development Bank and the second one is the imminent failure in Seylan Bank. This implies that there is a failure in the system of corporate governance relating to banks in Sri Lanka may it be in the system itself or in its implementation.

Failures of banks are particularly costly to a developing country like Sri Lanka, if it is a systematically important bank; there is a risk of the whole economy being collapsed. Sri Lanka, which has debts piled up for generations to pay, is not in any shape to bear such cost. Hence it is in the best interest of the country's economy that we have a proper legal system to control and monitor the banks. Therefore this research will evaluate the system of corporate governance in Sri Lanka as applicable to banks in the light of recent banking scandals. The study will further examine new measures introduced to govern the banks following the scandals and will evaluate whether they provide an effective

framework for the governance of banks. It will ultimately lay down suggestions to improve the value, effectiveness and reliability of the banking system.

A. Methodology

The research was carried out using the qualitative method of research. It is used because the opted research problem requires understanding, experiencing, describing and comprehensively analyzing the corporate governance structure applicable to the banks. Further deciding whether the failures in corporate governance contributed for the recent banking scandals in Sri Lanka requires an in-depth observation of the corporate governance process.

Theories and the legal framework pertaining to corporate governance of banks were examined based on primary sources viz. relevant acts (Banking Act No 13 of 1988 including directives issued thereunder, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Monetary Law Act No 58 of 1949, Companies Act No.7 of 2007), Codes (Codes of best practice issued by the Institute of Chartered Accountants of Sri Lanka and SEC) Regulations (Regulations issued by SEC) and international instruments and secondary sources viz. books, journal articles, research papers and online sources.

Semi structured interviews were used to have direct interactions with the key actors in the selected area of research i.e. Colombo Stock Exchange (CSE), the Central Bank of Sri Lanka (CBSL), Securities and Exchange Commission (SEC), Fitch rating companies, Sri Lanka Institute of Chartered Accountants (SLICA), Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs) in Sri Lanka. A range of issues was looked at in the interviews, including corporate governance reforms, recent scandals in Sri Lanka, regulatory frameworks, actual implementation and the role of the regulatory institutions and stakeholders of banks with regard to the corporate governance of banks. One of the basic limitations to carry out this method was the reluctance on the part of the officials to reveal the true information due to lack of trust, fear or any other reason most particularly in the highly politicalized public institutional structure in Sri Lanka. The gap between rhetoric and reality was bridged using secondary data gathered through examination of the documents of the SEC, CBSL, CSE, Financial Sector Reforms Committee (FSRC) reports and Annual reports of the banks.

II. CORPORATE GOVERNANCE OF BANKS

According to the literature, the importance of corporate governance arises due to the separation of ownership and management of modern corporate entities.

Kraakman (R. Kraakman, 2009) identifies three generic agency problems that may arise in business firms, each and every one of which shall be correctly addressed for the proper functioning of the firm. The first involves conflicts between firm's owners and hired managers, the second involves the conflicts between majority and minority shareholders and the third involves conflicts between the firm and the parties with whom the firm contracts. A strong corporate governance structure will mitigate the conflicts of interests between and among different stakeholders of the company and will safeguard their interests.

Good corporate governance in the banking sector is particularly important due to the unique role that they play in the economy. As held by Justice Micheal Kirby "Banks have played an integral part in society for hundreds, perhaps thousands, of years. They are the cornerstone in the economies. They provide backbone to many people's lives" (Gough v Commonwealth 1994).

Banks hold number of unique characteristics which mandates them to adopt proper mechanisms of Risk Management which can be identified as follows.

1. Firstly Banks equity is relatively small and its liabilities are greater. Therefore the banks must be keen to strike a balance between the conflicting interests of the depositors and borrowers.
2. Secondly the business of banks is highly dependent on the public faith and confidence of the public towards the banks. Loss of public confidence in banks could be contagious and could easily lead to systemic banking crisis situations.
3. The banks raise their funds not mainly through the shareholders but through the depositors. This places a special fiduciary duty on the banks towards its depositors.
4. The failure of one bank may result in the failure of other banks and other non-bank firms, thus

can have systemic consequences on the entire economy.

5. Banks play the role of the Agents of the payment system domestically and internationally therefore proper functioning and governance of banks are important to the stability and soundness of the payment system which is a pre-requisite for an efficient macro-economy.
6. 'When a bank makes a loan by crediting the borrower's demand deposit account it augments the nations credit supply' (United States v Philadelphia National Bank 1963) Thus the banks can have an effect on Cost of Money, Liquidity, Inflation, Interest Rates, Exchange Rates, Gross Domestic Product and every constituency of the economy.
7. The cost of irresponsible lending by the banks is usually borne by the depositors, tax payers, government and the entire society at large. The Asian Financial crisis in 1997 and the sub-prime mortgage crisis in 2007 provided good examples for the adverse effects of irresponsible lending by the banks.

Undoubtedly the best method of risk management that can be adopted by the banking sector which addresses all these characteristics, issues and vulnerabilities is the implementation of a proper and effective mechanism of corporate governance.

III. SRI LANKAN LEGAL FRAMEWORK RELATING TO CORPORATE GOVERNANCE OF BANKS

In Sri Lanka there are 25 Licensed Commercial Banks (LCB), including locally incorporated banks and foreign incorporated banks with local branches and 9 Licensed Specialized Banks (LSB) including savings banks, development banks and long term lending/development banks. As at the end of the year 2014 the banking system which accounted to 58% of the total assets of the financial system, dominated the financial system in Sri Lanka (CBSL).

Sri Lanka has 6 systematically important banks (2 State owned banks and 4 privately owned banks) upon which the stability of the financial system is highly dependent and which represented 75 per cent of the LCB sector assets, 63 per cent of the banking sector assets, and 36

per cent of the entire financial system's assets as at the end of 2014 (CBSL).

The CBSL acts as the government watch dog of the banking sector in Sri Lanka. The Banking Act and the Monetary Law Act empowers the CBSL to license, regulate and supervise the banks in the interest of the general public. Under these laws, the CBSL shall undertake the followings.

1. Licensing of new commercial and specialized banks
2. Issue prudential directions, determinations, orders and guidelines to banks, under the statutes
3. Conduct Continuous Supervision and Examination of banks
4. Enforce regulatory actions and the resolution of weak banks

(CBSL)

Discharging the first function, the CBSL license the Public Companies registered under the Companies Act as LCBs and LSBs if their Articles of Association set out 'the carrying on of banking business as a primary object' provided they meet the capital requirement specified in the Act. (LCB – Rs. 10 billion, LSB – Rs. 5.0 billion) As far as the branches of foreign banks are concerned such banks shall have an assigned capital of not less than Rs. 5.0 billion and in addition the Head Office of a foreign bank, which proposes to establish a branch in Sri Lanka, may be required to remit to Sri Lanka a sum of money as determined by the Monetary Board with the approval of the Minister in order to be licensed (CBSL). This requirement is important since it induces the banks not to take unnecessary risks, ensures that the bank has enough funds to cover up its debts if the bank is forced to close and it acts as a shield against the deficit in cash flows.

The CBSL has adopted the Basel capital adequacy standards for all licensed banks effective from January 2008. Accordingly, all banks are required to follow the Standardised Approach for credit risk, Standardised Measurement Approach for market risk and Basic Indicator Approach/ the Standardised Approach for operational risk in computing capital charge for capital adequacy purposes (CBSL). With the effect from 2015 CBSL upgraded its capital adequacy standards to be in line with the Basel III capital adequacy ratio thus corresponded with the timely international

standards. These requirements on Capital Adequacy Ratio ensure that the banks make provisions conforming to the expected value of the losses and prevent a bank's financial problems from spreading and threatening financial stability. It will ensure confidence in the banks without endangering the banks' role as providers of capital.

The Bank Supervisory Department of CBSL carries out the regulatory and supervisory functions relating to LCBs and LSBs based on the Basel Committee Standards for Bank Supervision. This assures a bank supervision which is in conformity with the globally accepted standards. Further CBSL issues necessary directives, determinations, orders and guidelines on the licensing, winding up and operations of the licensed banks, resolution of poorly functioned banks and implementation of regulatory actions. This ensures that CBSL will always have a keen eye on the activities of the banks and will take development and corrective measures as and when necessary.

The continuous supervision of banks by CBSL is based on the periodic information provided by the banks on weekly interest rates of deposits and advances, monthly returns on assets and liabilities, income and expenditure, classified advances and provisioning for bad and doubtful debts, statutory liquid assets, quarterly returns on capital adequacy, investments in shares, accommodation granted to related parties, interest spreads, foreign currency exposures, maturity gap analysis and annual returns on audited financial statements and abandoned properties (CBSL).

CBSL has introduced a rating system called CAMEL rating system which focuses on Capital adequacy, Asset Quality, Management, Earnings and Liquidity and also on the compliance by the banks with other statutory and legal requirements as an internal supervisory rating mechanism. This rating system helps to categorize banks according to their performances, to identify the relative strengths and capabilities of the banks and to take necessary actions with regard to the poorly functioned banks.

All LCBs and LSBs are subject to the statutory examinations under Banking Act and the Monetary Law Act which focuses on an assessment and an identification of banking risks, management of these risks and an assessment of adequacy of resources to mitigate these

risks. CBSL focuses on the weaknesses, deficiencies of LCBs and LSBs and their non-compliance with regulations and seeks to ensure that the corrective action is taken by the bank.

Further, under the provisions of the Accounting and Auditing Standards Act, banks are required to make its accounts in accordance with the SLAS and SLAuS introduced by SLICA in full convergence with the pronouncements issued by the IASB and IFRS subject to some minor modifications and to have an independent and professionally qualified auditor holding the certificate issued by SLICA to practice (*Sri Lanka Accounting and Auditing Standards Act 1995 S.6 & s.7*). These provisions together with the codes of best practice and Companies Act no 7 of 2007 establish impartial, independent and transparent auditing and accounting practices which are significant to maintain the corporate governance of banks. Further Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) monitor the compliance with the SLAS and the SLAuS by the Banks licensed under the banking act (*Sri Lanka Accounting and Auditing Standards Act 1995 s.25*) in practice.

Further the banks are required to publish their quarterly and annual Auditing Financial Reports in newspapers in all Sinhala, Tamil and English languages. This requirement ensures the transparency of the banking activities and the access to information of banks by all the stakeholders of such banks as well as by other interested parties and prevents frauds and mismanagement by the directors of the banks.

Apart from these regulations the Corporate Governance mechanisms contained in the Companies Act is also applicable to the banks. Under the Act the Board of Directors shall comply with their duties towards the company and its shareholders namely; the duty to act in good faith and in the interests of company, duty to comply with Act and company's articles, Directors standard of care and the Use of information and advice (*Companies Act No. 7 of 2007 s. 187, s. 188, s. 189, s. 190*). Further it lays down that a company shall not enter into any major transaction, unless such transaction is approved by special resolution with the consent of all the shareholders of the company (*Companies Act No. 7 of 2007 s. 185*)

The codes of best practice emphasize that the directors of the banks shall make immediate disclosure of the related party transactions. This requirement assures the

transparency, reduces the private benefits by the management and enlists capital and labour markets as well as financial analysts and media in deterring suspect transactions with the threat of lower share prices and the risk of reputational harm (R. Kraakman, 2009)

The above analysis on the legal framework pertaining to corporate governance of banks in Sri Lanka reveals that Sri Lanka has a strong legal framework to govern the banking sector and to protect the interests of all the stakeholders concerned there with. Yet one cannot fully agree that the corporate governance of banks in Sri Lanka is 100% effective and the recent banking scandals reveal that there is a failure in the corporate governance mechanism that goes beyond the legislations.

IV. THE TWO BANKING SCANDALS AT A GLANCE

The two banking scandals which had taken place in recent years in Sri Lanka are the failure in Pramukha Savings and Development Bank (PSDB) and the imminent failure in Seylan Bank which can be summarized as follow.

A. Pramukha Savings and Development Bank

PSDB was started in 1997 as a License Specialized Bank. At the time PSDB was incorporated there was no proper legal framework or precedent on how a private sector LSB should carry out its functions. Under the law of Sri Lanka at that time only the LCBs were given parate execution rights and PSDB as a LSB had no parate rights. PSDB however lent to customers but when the borrowers defaulted payments on loans it had no means to recover such loans other than resorting to civil law litigation which was impractical to a banking institution.

Due to the high percentage of non-performing loans which amounted to 75% of the total loans of the bank, negative net worth of Rs. 230 million and the inability to maintain the minimum statutory liquid assets ratio of 20, CBSL decided to liquidate the bank and cancel the license given to the bank in October 2002. This left the deposits of nearly 15,000 depositors in oblivion.

B. Seylan Bank

Seylan bank which commenced operations in 1988 is a systematically important LCB in Sri Lanka. The Controlling shareholder of the bank was Ceylinco Consolidated Group of Companies. Seylan was one of the well performed companies owned by CCGC and the bank invested the funds of its depositors in other companies

owned by the CCGC, most significantly in the Golden Key Credit Card Company (GKCC).

In 2005 CBSL imposed restrictions on the expansive lending by Seylan bank and at the same time media stories arised that the director board of Seylan Bank is using the deposits of its customers to cover up the liquidity problems in GKCC. This resulted in the fear and distress among the depositors of the bank and they rushed to the bank with a view of withdrawing their funds. The bank faced the risk of bank run and the chairman attempted to ensure the depositors that their funds are safe, but to no use.

Seylan which was not in any shape to pay back a huge amount of money at once ran into an imminent failure. At that time CBSL intervened and appointed Bank of Ceylon to bring the operations of Seylan bank under its control.

The above discussion provides a glimpse of the two banking scandals taken place in recent history in Sri Lanka. The next part of the research will carry out an in-depth analysis on the underlying causes for the aforesaid scandals and for the failures in corporate governance legal framework relating to banks in the country.

V. UNDERLYING COURSES FOR THE SCANDALS

A deep exploration in to the banking scandals discussed in part IV and the practical implementation of corporate governance laws reveals several Corporate Governance mechanisms which have been neutralized by the traditional social, political, economic and historical setting in Sri Lanka.

A. The dominating shareholders

"A company dances to the will of dominant shareholders shows nothing but the tragic fate of everyone concerned with the company including the majority shareholders themselves"

The shareholder regime that exists in Sri Lankaas in most of the other developing countries is known as controlling shareholder regime, where a large block-holder controls the corporation by owning a majority of shares. According to the majority rule which laid down in the case *Foss v Harbottle* the decision of the majority shareholders will prevail over minority shareholders and the minority shareholders are required to accept the decisions made by the majority shareholders.

Likewise most of the banks are dominated by an individual person, family members, relatives or separate corporate entities belonging to the same individual. Usually in Sri Lanka 80-20 rule of ownership applies with regard to the banks where the 80% of the shares are held by 20% of the shareholders and the remaining 20% of the shares are held by 80% of the shareholders. Further the majority shareholders may form different companies both regulated and unregulated under their direct or indirect ownership to make a control pyramid to confer power over the bank.

This regime is on hand beneficial. The concentrated ownership is beneficial for corporate valuation, because large shareholders are better at monitoring managers (Jensen and Meckling). Notwithstanding the benefits this model may adversely affect the interests of other stakeholders, the corporation and the economy as a whole as there is the tendency of dominant shareholder abusing his dominant position.

Usually in Sri Lanka where the Boards of Directors are also consistedof close alliances of the dominating shareholdersit acts not in the interest of the company, but in their own individual interests which will be detrimental to all other stakeholders of the bank.

In these two banks board meetings, annual reports, and other corporate governance mechanismsdid not serve its intended purposes rather they had been ceremonial and a marketing mechanism. Therefore eventhough Sri Lanka has necessary laws to control the conduct of the directors and make them accountable to the shareholders they are being crippled in the traditional ownership context in Sri Lanka.

B. The weak role of the minority shareholders

'Get up, stand up, stand up for your rights. Get up, stand up, Don't give up the fight'.

-Bob Marley

The second basic reason for the failures in the corporate governance in Sri Lanka is the poor role played by the minority shareholders. Even though they are provided with the mechanisms to protect their rights they are reluctant to resort to such mechanisms. One of the basic reasons behind this is the higher legal costs that a plaintiff will have to bear in the Sri Lankan legal context. The second reason is the lack of faith on the part of minority shareholders on the judicial system in Sri Lanka

which was exceedingly under the influence of the executive in recent past.

Due to these reasons there is no proper implementation of the existing minority shareholder protection mechanisms and where there is no implementation the laws are of no value.

C. Bank Governance

"Politics is a cloak; once you've worn it, No one can affect you"

The third underlying cause for the failures in corporate governance of banks is the disregard of apparent non-compliances and breaches of statutory provisions and regulations in the politicalized socio-legal context in Sri Lanka.

The governor of the CBSL is appointed on the basis of political affiliations. The recent banking history in Sri Lanka reveals that the CBSL is usually led to serve the interests of the government in power and not the interests of the banking sector or its stakeholders. (The best example is the bank consolidation plan suggested by the previous government). Therefore the role of CBSL as the government watchdog of the banks is highly doubtful.

On the other hand most of the dominating shareholders and directors of banks are usually the descendants of the elite families in Sri Lanka, whose ancestors played a great role in the hegemonic politics in the country. Therefore they naturally receive the political protection and safeguards.

Politics played a great role in both Seylan and PSDB scandals. The examination of Seylan scandal revealed that the chairman of the bank was known for the violation of banking laws and regulations for years but was noticed by CBSL only in 2006. As far as PSDB is considered it was refused to be licensed by the then governor of CBSL, but the CBSL was forced to grant the license to PSDB by the then president at a time when the character and integrity of the PSDB chairman was highly controversial and outrageous.

It appears that where the hands of politics are raised over the administration of justice, relevant officials are either directed by private benefits or they are more

concerned about not being a political victim rather than prudently exercising the duties at their office.

D. Auditing

"Every penny in the company has an owner, who has the right to know the fate of that penny"

Impartial and transparent auditing and accounting practices are significant to maintain the corporate governance of banks. However, there is always a difference between the theory and reality.

In Sri Lankan social setting most of the directors, executives, auditors, accountants all belong to the elite social class who share drinks together in the leisure. Therefore no matter what the laws and regulations states about independent auditors, in a situation where the dominant shareholder has the control over the company he always chooses his colleagues to be the auditor. The auditing of private companies is usually given to the audit firms with personal contacts. In this context auditing is nothing but a nicely painted lie.

E. The Director Board

"When the director board consists of family members the company affairs become family affairs"

In the controlling shareholder regimes the majority shareholders may take various steps to retain the power within them. One of the basic methods of achieving this purpose is forming a board of directors consisted with family members and friends. The examination of the annual reports of the banks disclosed that approximately 80% of the banks are controlled by the family members. The chairman, CEO and the members of the board usually belong to the same family and the Chairman and CEO positions were generally held by the same individual regardless of the existing laws and regulations.

Further there is a huge gap between the annual and corporate governance reports of the bank and the reality. The inspection of these reports revealed that the corporate ownership structure is not properly revealed in the reports. There are many in-law relationships, friendships and other alliances between and among the majority shareholders and directors (including non-executive directors) which are unknown to the shareholders or public and which cannot be traced from the annual or corporate governance reports of the banks

In summary the political influences and family affairs continue to affect the corporate governance legal structure in Sri Lanka relating to banks which is particularly supported and strengthened by the ignorance or unwillingness on the part of other stakeholders to compel the banks to comply with the laws and regulations.

VI. RECOMMENDATIONS

1. Eliminating the political influence.

The political influences on the affairs of the banks shall be eliminated and the banks shall be allowed to operate independently. The non-compliances with the laws, rules and regulations by the board of directors of the banks shall be taken seriously and they shall be punished accordingly.

2. Empowering Minority Shareholders.

The excessive powers held by the majority shareholders shall be controlled, checked and balanced in such a manner that they will not be able to abuse their dominant position. Minority shareholders shall be made aware and encouraged to resort to minority shareholder protection mechanisms conferred by the law.

3. Increasing board performance.

The bank supervisor, CBSL shall conduct workshops, seminars and training programmes to increase the awareness among the directors on their responsibilities and the adverse consequences of the violations of their duties.

4. Preserving the Independency of the Auditing process.

The directors and shareholders shall be thoroughly advised to appoint an independent auditor as the auditor of the bank and auditors who provide false information or who hides the true financial position of the banks shall be penalized under the provisions of Accounting and Auditing Standards Act.

5. Enhancing disclosure and transparency

The mentality of the executives of the banks who sees disclosure and transparency merely as a compliance requirement shall be changed and they shall be made aware to consider the transparency and disclosure as a means of managing the affairs of the stakeholders of the bank.

6. Making the court proceedings speedy and less time consuming.

The judicial proceedings shall be made more prompt and less time consuming. The judges shall be hasty to go deep into the matter in question and provide with a proper judgement on time.

The implementation of the above recommendations will fill the gap between the law and practice relating to the corporate governance of banks in Sri Lanka and will contribute towards a sound banking sector. It will ultimately preserve the stability of the financial system and will enhance the national development.

VII. CONCLUSION

The study reveals that Sri Lanka has a satisfactory legal system for the corporate governance of banks which is in line with international standards. However this legal structure does not co-exist with the traditional social, economic and political setting in Sri Lanka. Implementation of such laws in this context makes a certain group of people immune to the laws. The recent banking scandals in Sri Lanka can be attributed to the failures in the implementation of corporate governance laws. Therefore the corporate governance structure relating to banks shall be reformed to go in line with social, political and cultural realities of the country.

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