



THE FUNDS GOVERNANCE AS SEEN BY... EMMANUEL BÉGAT

A keystone of efficiency

Financial regulators have insisted in recent years to add independent governance to most entities of the financial sector. In a way quite similar to what is currently developing in the fields of space mining and the blockchain, Luxembourg may be a leader in this emerging industry.

What is governance? The dictionary reads: *“Establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organisation. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organisation.”*

Governance is therefore the set of rules and methods that ensure that a system continues functioning in an appropriate manner; it focuses on the manner in which decisions are made. Not on the goal of such decisions.

Governance may be embodied at various levels such as government (authority within a geopolitical system), chiefdom, tribe, corporation, etc.

What does independent governance bring to an organisation? Since governance entails accountability, processes and monitoring, there might be good governance without independence. In other words, independence is not a prerequisite of good governance. However, independence is a booster in board-

rooms, by contributing significantly at three levels at least. Firstly, since independence is not linked to the concerned organisation, it does not represent the latter's internal views. Being exposed to a variety of corporate cultures, processes, issues and solutions allows independent board members to give new momentum to an organisation by proposing ways to achieve increased efficiency and better practice.

Secondly, independent governance positively challenges boards and executives. “Does this make sense?”; this powerful challenge often proves to be the only question that no one has raised.

Thirdly, independent governance allows to benefit from a shared pool of expertise and forward-thinking attitude. Independent governance acts as the watchman charged with detecting reefs before the ship is wrecked.

Nowadays, it is not possible any longer to perfectly know all regulations applicable to an environment, as this was not so long ago.

Besides pure technical knowledge, a governance professional will ask the right questions at the right time, and identify key challenges ahead. He/she will identify the situations where specialists need to be involved. Every day, a greater number of institutional and private investors consider governance as a key criterion when performing due diligence on investments. The role of professional governance extends to protecting the interest of stakeholders, which encompasses the protection of the structure itself.

Finally, governance professionals will listen to stakeholders, manage potential situations of conflicts of interest, participate to business development and to maintaining a viable asset/liability structure on the long term. ♦

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Emmanuel Bégat
Partner & chief operating officer
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This contribution was written by Emmanuel Bégat, Eric Chinchon and Michael Lange.