INSIGHTS INTO CAPITAL MARKET CORPORATE GOVERNANCE CODES

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Abstract: *In the past 25 years corporate governance codes have been adopted in all the stock exchanges around the world. Despite the full ongoing process of adopting and implementing modern corporate governance principles around there still few studies that test the effect of the codes on the functioning of the capital market. The economic literature shows a whole series of factors that promote the adoption of codes of governance in emerging states such as: an increase in the volume and nature of the sources of financing available, companies reduce the cost of capital and increase in the value of companies, increase operational effectiveness due to the more efficient allocation and management of resources, more efficient operation of financial markets with an emphasis on preventing and combating financial crises. Despite the potential benefits of corporate governance codes on capital market functioning and development there are still many issues that still unclear regarding: the efficiency of mandatory vs. voluntary corporate governance codes, the public vs private monitoring debate or the effectiveness of corporate governance code in increasing the resilience of financial markets to shocks and crises.*
Keywords: *corporate governance, capital market, corporate governance codes*

1. INTRODUCTION

The inefficiency of traditional mechanisms of monitoring and control as well as scandals have led to the breakthrough appearance within the regulated market of a whole set of principles and rules that are intended to increase the effectiveness of the system of governance in that state. In its early forms of corporate governance, codes have been primarily a way to increase investor confidence in companies' management and improvement of the efficiency of the management of capital. The first code of governance emerged worldwide code *Cadbury (1992)* aimed at regaining the confidence of investors in the actions undertaken by the company and the company's corporate governance has become such a disciplinary mechanism under companies through which it was pursuing the primary objective of a firm: creating added value for shareholders through the efficient use of available resources.

Later worldwide under the impetus of exogenous and endogenous factors and appear under regulated capital markets a whole range of corporate governance codes designed to enhance the degree of protection afforded to investors but also to ensure a better operation of capital markets. Through the establishment of general principles of corporate governance *of the OECD (1999)* lay the foundations for the elaboration of the world of a series of corporate governance codes that are intended to increase the protection of shareholders and the legal system of a state but also to increase the efficiency of the internal mechanisms of operation of capital markets.

The first studies the economic literature considers that the adoption of the first corporate governance codes worldwide has been driven by domestic political factors or after a series of scandals of renowned while real convergence of codes of corporate governance is missing. Therefore, the process of adoption of governance codes in all States of the world can be seen as a mere formality, which aims to align global practices. In reality, the process is a different one, which determines the development of governance codes, which provide a range of opportunities and advantages for investors, while some ineffective governance systems creates difficulties and drawbacks for others.

At present, the governance codes are present in almost all markets covered and the focus is no longer falls solely on the adoption of codes in capital markets but new directions aimed at the adoption of codes of governance aimed at certain categories of companies or investors. Currently arise concerning governance codes of certain types of companies (state, controlled by families, SMEs), financial institutions, non-governmental organizations or even codes of governance aimed at institutional investors. Therefore, the generalization of the presence of codes of corporate governance worldwide raises the question of their effectiveness and in particular their impact on both the microclimate from a company but also the functioning of capital markets. Thus, the purpose of this paper is to review the implications of the adoption of codes of corporate governance on the capital markets.

The rest of this paper is organized as follows: Section 2 provides a brief introduction behind the theoretical views behind agency theory, Section 3 characterizes corporate governance codes, Section 4 concludes.

2. THEORETICAL CONSIDERATION

The adoption of corporate governance codes in the past 25 years in all stock exchanges around the world is a normal reaction of policy makers and regulators around the inherent risks and flaws in tradition corporate governance monitor and control instruments. The potential benefits and drawbacks of managerial controlling policies require imply that there isn't an explicit solution for every environment but rather it requires a unique additional care from policy makers when assessing the changes in the regulatory framework of capital markets *(Cărăușu, 2015)*.

Thus, the main aim of the elaboration and adoption of codes of corporate governance is to supplement and increase the protection of investors under the impulse and coordination of social and political factors *(Aguilera, Cuervo-Cazurra , 2004; Haxhi, van Ees, 2010, Cumo et al., 2016)*.

Interdependence between corporate governance and efficient functioning of financial markets is a result of an outbreak in the past 25 years has a series of *corporate governance codes*, which had as *the initial* objective of supplementing *and increase the protection of investors in companies.* Some of the main types of changes, that corporate governance codes induce can determine aspects such as: regulations and rules concerning the manner of organization and functioning of companies from one country, requirements regarding what criteria must be satisfied the admission to trading in a regulated market,

rules and norms regarding the relations are established between all categories of stakeholders, etc..

From the point of view the corporate governance, codes theoretically are defined as "*a set of principles and rules or norms adopted on a voluntary or mandatory of the companies listed on a regulated capital market*" *(OECD, 2013, p.7).*

The definition of corporate governance codes reveals widely varied typology codes of corporate governance rules, as they are both on a voluntary or mandatory, some of them having been transposed into national law, and their low attendance because they aimed primarily businesses listed, however, corporate governance codes and can even be applied and unlisted companies.

3. CORPORATE GOVERNANCE CODES

Regulators and policy makers tend to improve the legal framework of stock exchanges around the world due to the beneficial influence of corporate governance codes in capital market functioning and development. Scholars, policy makers, acknowledge the beneficial role of corporate governance codes in current economic environment and practitioners so in the following section we will try to emphasize: (1) what are the sources of corporate governance codes; (2) what are the factors that influence corporate governance codes; (3) the evolution of corporate governance codes; (4) types of codes; (5) the role of corporate governance codes in the functioning and development of capital markets.

3.1 Principles of corporate governance codes

Any concept of requires a theoretical foundation which permits the implementation of a policy in a certain environment. From this perspective, theoretical basis of corporate governance codes originate mainly from two primary sources: corporate financial governance principles developed by Adrian Cadbury (1992) and principles corporate governance of the OECD (OECD, 2015).

While corporate governance principles set out by Adrian Cadbury set the foundations of the elaboration of codes of corporate governance in a regulated market, the actual source of the codes are corporate governance principles developed by OECD in their first form since 1999 (OECD, 1999). The latter versions in 2004 and the current version from September 2015 (OECD, 2015) represent the standard in the field, with regard to the elaboration of codes of corporate governance worldwide. The general theoretical and synthetic nature of the principles of corporate governance of the OECD were the theoretical foundations for the development of a whole series of codes of good practice adopted initially on a voluntary basis within the capital markets. These initial recommendations were subsequently converted into rules and even legislation aimed at establishing relations be established between what all types of stakeholders.

Currently the OECD corporate governance principles are of a general nature and not one imperative and the main purpose for the drafting of a set of general principles that apply to all countries of the world regardless of specifics institutional or economic nature

of a particular state. The third version of the OECD principles of corporate governance in the year 2015 developed a new principle and the restructuring of some principles. In the current version the principles (OECD, 2015) are as follows:

1) Ensuring the basis for an effective corporate governance framework is aimed at defining corporate governance role in promoting free market and the efficient allocation of resources at the level of the market and the economy.

2) The rights and equitable treatment of shareholders and key ownership functions refers to the insurance company assumes for the exercise of all rights conferred on shareholder such as voting rights, the right to sell and buy shares freely, the right to participate in the profits of the company, etc.

3) Institutional investors, stock markets and other intermediaries is a new principle of governance of the OECD aimed at the need to present strong economic incentives in the investment process, especially the role of institutional investors in promoting corporate governance codes and principles.

4) The role of stakeholders in corporate governance: the recognition of the rights of all categories of stakeholders through legislation or through mutual commitments and encourage active cooperation between companies and stakeholders on the creation of wealth, jobs and financial sustainability of the company.

5) Disclosure and transparency: should involve all the information related to the company including financial results, its shareholding structure, performance and mechanisms internal corporate governance.

6) The responsibilities of the board: the role of the board is to ensure company's strategic piloting, and effective monitoring of the operations of managers assuming their own actions towards the shareholders of the company.

Changes to the principles of governance of the OECD in the year 2015 are the result of a comprehensive process of reconsideration and analysis of the effectiveness in the context of the recent financial crisis. Since the year, 2010 were the voices that have advocated the need for reconsidering the principles (OECD, 2010, pp. 8-31) due to the deficiencies observed in practice. In the new version of the principles are addressed more clearly issues such as new remuneration mechanism of managers, risk management systems, redefinition of the role of the Board as elected to establish a new chapter focused institutional investors, capital markets and other intermediaries. Just implementing new principles in modern governance systems will highlight subsequently the effectiveness of new principles establish in the year 2015.

3.2 Factors of influence of corporate governance codes

The liberalization of financial markets is one of the main factors that has spurred the adoption of international corporate governance codes due to intensifying competition for sources of financing *(Yoshikawa, Rasheed, 2009)*. However, empirical studies reveal that the degree of openness of an economy has a reverse influence upon the convergence of global governance, while the preference for new technologies and best practice rules from outside tend to be the main vector for the spread of governance codes *(Aguilera, Cuervo-Cazurra, 2004)*.

What forces drive forward propagation of corporate governance codes, aimed at a combination of *endogenous* and *exogenous factors*, which require improvements of the system of governance of a country. Internal forces seeking to increase the effectiveness of the system as a whole, while foreign forces aiming at obtaining a legitimacy in a capital markets. As a result, corporate governance codes occur mainly in countries that offer a low level of protection of shareholders, as the internal force while the presence of institutional investors is what foreign force to promote the adoption of codes. In the case, legal systems based on common law internal force is missing, that is why we are witnessing, rather, to an improvement of the system than to developing new governance codes *(Aguilera, Cuervo-Cazurra, 2004)*. This process, suggest that the entire mechanism for the adoption of codes of corporate governance is one dynamic that is reassessed and refined in the light of the mutations from the socio-economic climate. Therefore, the adoption of codes of governance within the civil law-based countries is determined rather by factors of legitimacy and not efficiency *(Zattoni, Cuomo, 2008)*.

Regardless of what factors contribute to origins of the drafting of new codes of corporate governance, in the specialized literature reveals a number of *key factors to promote the adoption of codes of corporate governance*. Of these the most important are widely regarded *(Claessens, Yurtoglu, 2013)* as*:* the increase in the volume and nature of financing sources available companies; reducing the cost of capital and increase the value of companies; operational efficiency due to more efficient allocation and management of resources; more efficient operation of financial markets with an emphasis on preventing and combating financial crises. All these factors constitute the main vectors, which focused the attention of policy-makers to adopt and especially to modernize governance codes.

3.3 The evolution of corporate governance codes

Modern corporate governance codes presents a whole series of mutations and transformations in relation to corporate governance code first Code A. Cadbury (1992) which have a voluntary nature, and which was limited in terms of the objectives and instruments. In general, corporate governance codes were designed in the first instance in the form of *best practice recommendations,* but further by the global economic context has imposed their transformation from simple referrals in *obligations*, which must be observed by all companies listed on a regulated market or even all companies' state. A key factor why the phenomenon was spurred the involvement of institutions and international bodies such as the OECD, the Commission What European or World Bank are interested in the stability of the financial system.

Implementation of voluntary governance codes aimed at generalization in the world to the concept of "*comply or explain"*, because corporate governance code represents a general set of principles, norms and rules of conduct why are meant to complement the legal norms of a State or of a regulated market. Therefore, companies listed on a regulated market may be invited or even forced to adhere to a particular set of governance principles, while refusing membership to them requires motivating the decision taken. However, most of the companies listed cannot be forced to follow all

provisions, as the codes of governance are rather recommendations and not necessarily part of the general legislation for the operation of capital markets from a state.

The use of a concept "*comply or explain"* may raise the issue of a state of contradiction between the goal and the means of the codes, because in essence the codes represent a set of principles, that aim to establish better practices in a company aiming but it does not possess the means to intervene directly in a company's climate. In reality, this situation is contrary to economic practice because the listing on a regulated market requires even indirectly to gradual accession to the general principles of that market because *refusing to comply to rules is charged by the investors in the capital market by reducing the price of the shares on the stock exchange*. Enlightening in this direction is the study of *(Goroncharov et al., 2006)* on the capital market from Germany where companies, which recorded a higher degree of compliance with the German code of governance, had an additional premium of EUR 3.24 compared to than companies that have a low degree of compliance.

The main directions that have concerned the harmonization of codes of governance had two main vectors based on the need of reforms initiated by the Government or a public institution and the need for reform at the company. If the reforms initiated by public bodies the main areas concerned were: the adoption of new codes of governance, legislative changes of the invoice (imposition of unrelated directors, increasing the transparency of companies, protection of minority shareholders, the loosening of the mergers and acquisitions) and changes to the level of legislation aimed at institutional investors and remuneration based on performance. In what concerns the reform of company level main directions were pursued: increasing the number of independent managers, increase the volume of information provided and the extension of remuneration schemes based on share options (Yoshikawa, Rasheed, 2009).

One aspect, which can mask the process of convergence of codes of governance, is the low level of comparability between the two codes in different periods, because the comparison of legal norms aimed at particular similarities and differences, not may distort the whole process. In judicial practice, when it follows a comparative analysis between two legal notices shall be aimed at, in particular, differences and not similarities, which can change frequently based on reporting between two different times. As a result, mutations analysis of codes of governance over time is very difficult due to inconsistency of the reporting criteria, because of customs from the judiciary *(Brown et al., 2011).*

3.4 Types of corporate governance codes

Transformations of governance codes from best rules of practice to parts of the legislation of regulated markets meant the gradual adoption of specific mechanisms for the implementation of the codes of the contents, their status legal or their origin. Therefore, a strict delimitation of corporate governance codes is hard to accomplish precisely, but can be used a number of criteria in the analysis of governance codes. The *(European Commission, 2009, pp. 23-25)* argues that we use the following criteria for grouping and analysis of codes of governance: the nature of governance and the entity code responsible for the implementation of the codes.

A. in terms of the **originators of corporate governance codes** in practice we encounter more situations:

a) ***code is developed only by a public institution***: what is a rule, and responsible for the supervision and monitoring of compliance of the code of governance of a State;

b) ***code is drafted a mix between public and private bodies***: with the help of the specialist committees made up of government experts and representatives of the administration of the market regulators, as well as of representatives of the employers and/or shareholders of a given country. Usually the codes developed as a mix between public and private bodies were developed in the first phase of the initiative and the private is given together with another public body;

c) ***code is drawn up by private bodies***: who seek to promote best practices of governance within a regulated markets. The main categories of private entities are involved in the development of global codes can be: bodies for the management and administration of the capital market. For example, in Romania of the BSE code of governance (2000) was originally developed by the groups of persons concerned and the second code of governance from Romania BVB (2008) has been prepared by the management of capital market of Romania Bucharest Stock Exchange along with a group of professional associations.

B. based on the criterion of **legal status and the criterion applies, or explains** the codes of governance can be divided into the following categories:

a) ***voluntary governance codes, which do not have consequences for the state of listing on a regulated market***: offering a set of principles and rules of conduct in the governance of companies but who do not require any kind of restrictions companies listed. They were one of the first codes of governance, which have emerged based on private initiatives, but they are all less likely to be encountered in modern capital markets. E.g. BSE Code (2000) is an initiative of a for the private Center for studying Focus-University of Bucharest, which proposed for all companies listed at BSE Bucharest a set of governance principles but without consequences direct listing of State companies;

b) ***governance codes that involve only signing a comply or explain document***: who invite all companies listed to sign a declaration "*comply or explain*" regularly, but that has no effect on the State of the listed company. The invitation for the signing of the declaration applies or is carried out by bodies explains private administrators of regulated markets not involved directly. As a rule, this category of governance codes rely on voluntary compliance to companies that accept new principles of governance because of the publicity that you acquire companies in the wake of signing the Declaration applied or explained. An example of this type of code is in Denmark;

c) ***governance codes what compels through signature and status at least partial compliance with codes of governance***: involving the completion of a declaration of the type applied by all or explaining companies listed on the basis of the provisions of the listing of a regulated market. In principle, the administration of the regulated market orders through the conditions of listing all companies to sign a declaration apply or explain, and if companies do not comply they can be removed from trading.

d) ***Code of governance in public and semi-semi-private***: what has transformed into a part of the provisions of the corporate governance codes in general legislation regarding

regulated capital markets while the other aspects of the code of governance are present by signing a declaration of type apply or explain what is developed by the management of the regulated market;

e) ***Code of governance which has the status of legislation***: that by means of a regulatory compliance with the principles of governance of the companies present in that State, whether they are listed on a market regulated or are unlisted companies. E.g. the Czech Republic, France, etc.

C. Other aspects, that allow classification codes (2013, OECD, pp. 13-14) addresses the following general criteria: the authority responsible for the supervision, financing mechanism of supervisory authorities, the mechanism for appointing members of the supervisory body and the form of organization of the supervisory bodies. According to the (OECD, 2013) codes of governance can be divided as follows:

a) ***supervisory authority:*** what can take the form of Supervisory Bodies or the administration of the regulated market, Central Bank, Ministry of finance, Ministry of Justice, the authority of The financial supervision of a State, or a mix of these;

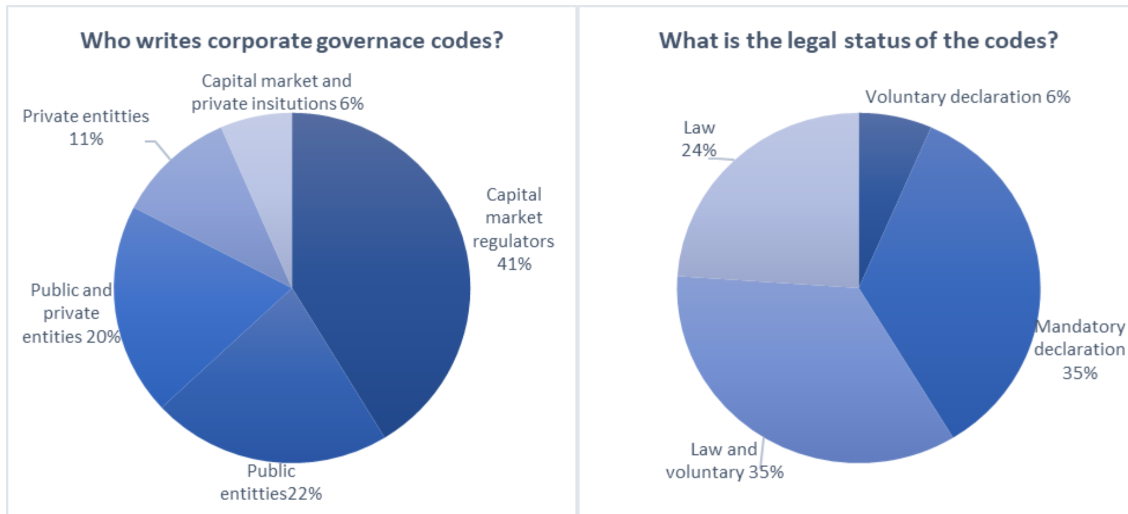
b) ***sources of financing of the supervisory authority***: ranging from a full financing from public funds (e.g. Japan), in own sources consist of fines and fees from listed companies (e.g. the United Kingdom) or a mix between own financing or public (e.g. Spain);

c) ***appointing the members of the mechanism from the supervisory organ***: what can be called directly by a public institution of a State (e.g. USA), members may be elected directly by the companies listed (e.g. Greece) or a mix between the public and election of the members of the appointments by companies (e.g. New Zealand);

d) ***organizational form of supervisory bodies***: what can take the form of a Board of Governors, Board of Directors, Directorship, supervisory Ministry or Commission.

A key factor governing the adoption of codes of corporate governance bodies of capital markets regulation is the legal and institutional system existing in that country, because governance codes corporate are meant to complement the judicial system and its potency may last at some point in a country. This involves several aspects such as: the type of legal system present in that country; how is it regulated the ownership rights of shareholders and including the creditors; lack of corruption in general; general reporting mechanisms and transparency regarding corporate governance.

Figure 1. The structure of corporate governance codes in EU and OECD in 2015



Source: analysis and processing based on information from author European Commission (2009), OECD (2013) and your own analysis

Within the Member States of the EU and/or OECD there is no common standard concerning the entity responsible for the development and drafting of codes of governance, but the prevailing governance codes drawn up by the management bodies of the capital markets with a percentage of total 41% of governance codes. Important part of the codes drawn up by public bodies with 22% of the total and joint bodies with 20%. The legal structure of character chart reveals that the prevailing codes are based on the principle of "comply or explain" with a percentage of 74% while the codes to have a mandatory character being drawn up in the form of laws is much lower for only 24%. In addition, it can be seen that there is a common denominator in terms of governance, and any country has to select self-enabled human being the manner of implementation of the code of governance in relation to institutional and system features legal in that State.

At present, the governance codes are present in almost all markets covered, and the focus is no longer falls solely on the adoption of codes in capital markets but new directions in at the adoption of codes of governance refer to certain categories of companies or investors. Cuomo et al. (2016) remarked that currently arise many governance codes for certain types of companies (State, controlled by families, SMEs), financial institutions, non-governmental organizations or even codes of governance aimed at institutional investors.

3.5 The role of corporate governance codes in the functioning and development of capital markets

A key factor to promote the adoption by States of certain codes of corporate governance is to increase the functionality of financial markets and to increase foreign investments. In general, in countries where corporate governance systems are ineffective,

the functionality of financial markets is reduced and the flow of foreign investment is much lower. The main channel that disrupts the proper functioning of financial markets is the lack of transparency. If the information with a private character allow people from inside to obtain higher yields investors and financial analysts do not have the information necessary to evaluate the effectiveness of the companies, or just aren't interested in evaluating its because the people inside obtain higher yields anyway.

The gradual adoption of corporate governance codes and high degree of diversity of these two aspects are recognized within the literature. Therefore, codes of governance plays a key role in ensuring investor protection, combating transactions by insiders or affiliated parties and increasing transparency and reporting on the effectiveness of the information. All of these mechanisms ensures an increase in the efficiency of capital markets functioning.

The central role, the system of State governance, contributes not only to the efficient operation of capital markets, but may be even a factor inhibitor for the emergence and spread of financial crises manifestation. Thus, the codes of governance indirectly contributes to enhancing the effectiveness of the existing governance systems by increasing the powers of entities in monitoring and supervising the functioning of capital markets.

Legal and institutional system of a State can exercise a direct influence on the figure evolves into a price the shares in the capital market. The relationship between increasing transparency in the reporting of information by the companies allow investors to assess more accurately the prices of shares traded in the market. In this direction, the system of State governance and governance codes from a capital market can exert a direct influence on the following aspects of the mechanism of formation of prices in the market: (1) the reaction of markets capital transactions from within or between affiliated parties; (2) reducing the price volatility of the shares; (3) the payment of an additional premium when purchasing a company which complies with the highest standards of governance.

In the case of capital markets to adopt modern corporate governance codes the increases of volume and quality of the information disseminated regarding issues such as: transactions between insiders, the transactions between affiliated parties the publication of all information regarding the progress of the past, present and future of a company allows a more accurate assessment of a company *(Firmduc et al., 2006)*. By default, increasing the degree of information regarding issues such as transactions between affiliated parties is associated with an increase in the degree of protection afforded to investors, which is usually present in the more developed capital markets or more liquid markets *(Firmduc et al., 2013)*. In general, increasing transparency and the volume of information disseminated by the corporate governance codes, increase awareness of financial markets.

An indirect implication of codes of corporate governance on the efficient functioning of capital markets is reducing the fluctuation of prices of shares in companies providing additional protection of shareholders, in particular during periods of crisis economic downturn. Volatility price reduction actions in periods of economic crisis is an interesting phenomenon observed empirically during the economic crisis in East Asia when companies were driven by directors with full powers had lower returns with 10-

20% than those which had adopted the modern governance criteria's *(Mørck et al., 2000)*. Also, *Claessens and Yurtoglu (2013)* observed that increasing investor protection and the degree of transparency of a State can reduce volatility in emerging markets

The importance of corporate governance codes for capital markets must relate to the possibility that they pay a higher premium for investing in a company that respects the governance criteria higher than a similar. Even though both companies are listed on the capital market, providing a high degree of protection to investors, including the highest present tends to be a factor key in choosing companies for some investors *(Chen et al., 2009)*.

Connection between the sources of financing and corporate governance codes are determined primarily by legal foundations in that state since the protection necessary for investors, a development more of financial markets, increasing the volume and sources of external financing and the quality of the investors.

The linkage between the system of corporate governance in general and greater access to sources of finance was supported by studies *at Porta et al (1997, 1998)*, which they presented in a uniform manner the existence of a link between the system in a non-legal and development of financial markets and economic growth. The fundamental contribution of the two articles focused on two key issues: the elaboration of specific indices for measuring individual characteristics offered by the legal system from the perspective of protection provided by financiers (shareholders and creditors), and demonstrating that the legal system based on common law generally ensures additional protection for investors in relation to systems based on civil codes.

Subsequent studies were based on indexes developed by *La Porta et al. (1997)* have demonstrated the importance of the legal system from the perspective of the development of financial markets, especially the key role, played by the institutional system and mechanisms for oversight from a country or market regulated. Some of the most important aspects of subsequent studies have drawn stark: direct link between the legal system and the development of financial markets and economic growth *(Beck et al, 2000)*, companies in states with ineffective governance structures have inadequate capital structure because of a lack of financial sources of financing *(Claessens, Laeven, 2007)*.

Once with increasing volume and nature of sources of financing are witnessing the phenomenon of a related *reduction in the cost of capital for companies and capital markets that have more developed systems of governance (Chen et al., 2009).* One of the main determinants in the context of determining the cost of capital for a company is its specific risk and the way in which it is valued by the equity market. From a theoretical point of view, the risk can be lowered by reducing information asymmetry, which implies a higher degree of transparency on the part of companies in relation to potential investors. That is why, together with increasing the transparency of corporate governance determined the cost of capital for a company must be reduced.

In economic literature, numerous articles and studies highlight the importance of the adoption of corporate governance systems by companies. Generally used indicators for quantifying the importance of corporate governance through indices such as Tobin's q, which his is calculated as the ratio of the market value of supra accounting value of assets held by the company. Some of the most relevant studies in this direction are:

American companies adopting corporate governance codes are stricter in their own initiative have higher market values than companies working in similar fields and results similar financial *(Gompers et al., 2003).* Similarly, Europe's top 300 companies with governance criteria higher market values were much higher *(Baue et al., 2004)*, companies have adopted more dispersed share ownership but more solid governance criteria have higher market values than similar companies both developed States especially in emerging States *(Coles et al., 2012)*.

The economic literature offers a whole series of studies that prove the importance of compliance with higher standards of governance as a means to increase the efficiency of capital at the level of the company is reflected in its performance. By joining a set of rules for good practices, internal mechanisms of operation of a company grow in efficiency, which is reflected in its subsequent performance.

4. CONCLUSIONS

The aim of this paper was to establish some insights into the characteristics of corporate governance codes of stock exchanges around the world.

The inefficiency of traditional mechanisms of monitoring and control as well as scandals have led to the breakthrough appearance within the regulated market of a whole set of principles and rules that are intended to increase the effectiveness of the system of governance in that state. In its early forms of corporate governance codes have been primarily an increase in investor confidence in companies' management and improvement of the efficiency of the management of capital. Gradually, the codes of governance are adopted in worldwide by all States of the world transforming from simple rules of conduct in the parts of the regulation of capital markets.

The economic literature shows a whole series of factors that promote the adoption of codes of governance in emerging States such as: an increase in the volume and nature of the sources of financing available, companies reduce the cost of capital and increase in the value of companies, increase operational effectiveness due to the more efficient allocation and management of resources, more efficient operation of financial markets with an emphasis on preventing and combating financial crises. All these factors constitute the main vectors, which focused the attention of policy-makers to adopt and especially to modernize governance codes.

Despite the potential benefits of corporate governance codes on capital market functioning and development there are still many issues that still unclear regarding: the efficiency of mandatory vs. voluntary corporate governance codes, the public vs private monitoring debate or the effectiveness of corporate governance code in increasing the resilience of financial markets to shocks and crisis.

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