Australian Journal of Corporate Law (AJCL)
Volume 35 Part 1
(editorial and articles included in this part are linked to the LexisNexis platform)

CONTENTS

Editorial

Articles

This article investigates how artificial intelligence and related technology augments corporate governance practices and the potential for further augmentation as artificial intelligence continues to expand its capacity in corporate board rooms. Adopting Davenport and Ronanki's framework for artificial intelligence systems, the investigation shows that most of the current artificial intelligence applications that aid governance fall in the process automation classification (board portals, risk and auditing systems, legal compliance), with some inroads having been made in cognitive insight (risk management, internal audit, legal compliance). Systems that exercise cognitive engagement are still immature but show real promise. The central conclusion is that technology may lend real benefit to governance practice. The consequential gaps in the current statutory formulation of the business judgment rule could be easily remedied by legislative amendment or even by means of expansive judicial interpretation. However, consistent nurturing of a culture of compliance and ethical behaviour remains a human endeavour.

In the past decades, most jurisdictions around the world have required or recommended public companies to increase the number of independent directors sitting on their boards as a means of protecting outside investors from the opportunism of insiders. However, despite the efforts to increase the presence, power and number of independent directors, this article argues that most countries around the world have failed to create a credible system of independent directors. This failure is due to the fact that regulators and policymakers do not seem to take into account the role and power that the CEO — in companies with dispersed ownership structures — and the controlling shareholder — in companies with concentrated ownership structures — may play in the appointment, remuneration, and removal of independent directors. Therefore, the influence of corporate insiders in the appointment and removal of independent directors undermines the credibility of these actors to protect outside investors from the opportunism of insiders. In companies with dispersed ownership structures, letting the shareholders decide on the appointment and removal of independent directors may increase the credibility of independent directors. For this reason, this practice — followed by most jurisdictions around the world — makes sense in companies with dispersed ownership structures, as is the typical case of large corporations in the United Kingdom and the United States. Nonetheless, in companies with controlling shareholders, which are the most common types of firms around the world, leaving the decision to the shareholders' meeting will mean that the controlling shareholders will have the power to ultimately appoint and remove independent directors. Therefore, outside investors will have reasons to believe that, in those decisions in which the interest of the corporation may differ from those of the controlling shareholders, independent directors will favor the interests of the latter at the expense of minority investors. As a result, regardless of whether such a situation of opportunism ultimately exists or not, there will be a reasonable lack of confidence that may harm firms' access to finance and the development of capital markets. This article seeks to address this problem by suggesting a new system of appointment and removal of independent directors that, while preserving the ability of the controller to appoint the majority of the board, provides greater confidence and protection to minority investors in addition to promoting other benefits for the decision-making process in the boardroom.

It is timely to consider the challenges faced by corporate counsel — and the corresponding legal issues — in the light of recent developments in Australia, including the recommendations of the Financial Services Royal Commission and legislative developments such as the Banking Executive Accountability Regime. In recent years, the language of morality has crept into the discourse concerning the role that corporate counsel are expected to perform. At the same time, the complex and often overlapping maze of professional, statutory and common law obligations and duties through which they must navigate has become thicker. This article considers some of the critical questions concerning the role and regulation of corporate counsel and what reforms might be appropriate in the light of recent experience. The article concludes by suggesting that the need for clarity in the professional rules governing corporate counsel is greater than ever before.

Healthy corporate governance is ideal for the life and health of a company. However, when a company is distressed, corporate governance becomes even more important. This article has evaluated the Insolvency and Bankruptcy Code 2016 of India in the context of fundamental tenets of corporate governance to determine the efficiency and overall balance that the new corporate insolvency law brings for the different stakeholders of a company.

Companies of all sizes fall into financial distress. At such point, some are governed by the directors and some move into a more formal external administration conducted by an insolvency practitioner. There are similarities and significant differences in what the law imposes on directors and insolvency

practitioners. This article looks at the components of corporate governance for financially distressed companies in Australia, exploring who controls the entrants and exits, the timing, the diversity and the other components of those who manage financially distressed companies and draws international comparisons where relevant. Additionally, in exploring these components, it questions whether any inequalities can be justified and, if so, how they could be managed. A particular focus is on the Australian period when a company has entered a deed of company arrangement and relevant comparisons with other jurisdictions are made.