WSBI and ESBG are:

- International and European banking associations
- Representatives of savings and retail banks
- Forums for interest representation, cooperation, training and consultancy
Mission

To represent and to promote savings and retail banks, and to facilitate cross-border banking projects

WSBI

Throughout the world

ESBG

Throughout Europe
WSBI Membership

111 members (banks and banking associations) from 92 countries

Institutions represented: 6237

Branches/Outlets: 383,355

Total assets: €10,399 bln

Non-bank deposits: €6,433 billion

Non-bank loans: €2,163 billion

Employees: 2,064,660

(Statistics as of 1 January 2008)
ESBG Membership

29 Member organisations (*banks and banking associations*) from 26 European countries

- Banks represented: 883
- Branches: 82,354
- Total assets: €6,061 billion
- Non-bank deposits: €2,949 billion
- Non-bank loans: €1,699 billion
- Employees: 924,938

(Statistics of 1 January 2008)
Presentation themes...

1. Placing the debates in context
2. Review of the main debates taking place internationally and within the EU relating to corporate governance
3. Implications for boards of banks
4. Implications for accession countries and/or SEE subsidiaries of EU based banks
The main debates

Main weaknesses identified in debates surrounding corporate governance and the financial crisis:

- Board practices and shareholder rights
- Risk management
- Remuneration policies
The financial crisis: what went wrong?

Widespread consensus on root causes:

- Ample liquidity; global imbalances; search for yield; increasing leverage
- Financial innovation gone astray
- Flawed incentives structure
- Poor risk management
- Supervisory deficiencies
- International governance deficiencies

European Commission, Economic & Financial Affairs
OECD Principles of Corporate Governance (revised Apr 2004):

1. Ensuring the basis for an effective corporate governance
2. The rights of shareholders
3. The equitable treatment of shareholders
4. The role of stakeholders in corporate governance
5. Disclosure and transparency
6. The responsibilities of the board
The players...
OECD: Corporate Governance and the Financial Crisis – June 2009

- The principles continue to provide a good basis to address identified corporate governance weaknesses
- The challenge is to encourage and support effective implementation of the standards
What the players are saying...

**G 20: Pittsburgh 24-25 September 2009**

- Strengthen regulatory systems to rein in the excesses that led to the crisis
- Act together to raise capital standards
- Implement international compensation standards
- Improve over-the-counter derivatives market
- Large global financial firms to be held to account for risks
What the players are saying...

G 20: Meetings of Finance Ministers and Central Bank Governors

- Basel Committee to develop stronger standards by end 2010
- Corporate governance reforms to ensure:
  - Board oversight of risk and compensation
  - Board knowledge of the structure and risk appetite of an institution and understanding of its complexity
  - Remuneration policies and practices support financial stability and long term value creation
  - Disclosure and transparency of the level and structure of remuneration for those whose actions have a material impact on risk taking
What the players are saying...

**Financial Stability Board – FSB (created by G 20, 2 April 2009)**

- Principles for sound compensation practices (significant financial institutions only):
  - A board remuneration committee should exist as an integral part of governance structure.
  - Variable compensation should not limit the firm’s ability to strengthen its capital base.
  - The variable compensation pool should take into account the full range of current and potential risks.
  - An annual report on compensation should be disclosed to the public.
What the players are saying...

**Basel Committee on Banking Supervision:**

- 1999 Guidance on enhancing corporate governance for banking organisations
- 2006 revised version
- May 2009 Task Force for updating the 2006 guidance with lessons from the crisis – a consultation is to be expected in March 2010
- Current discussions emphasise: the role of the chair of a bank’s board + transparency of the corporate structure
What the players are saying...

**European Commission DG Internal Market**

- Effectively, implement in Europe the principles decided by the Basel Committee; review of Capital Requirements Directive early 2010 – leading to CRD III
- Likely to include 2 points relating to:
  - Complex securitisation and trading book
  - Remuneration
- March 2009 Communication pre-announced Commission report on current practices in corporate governance
  - report scheduled for April 2010 - might be followed by legislative proposals

Broad scope including vast areas of corporate governance of financial institutions
What the players are saying...

Committee of European Banking Supervisors (CEBS)

  - Corporate structure and organisation
  - Responsibilities of the management body
  - Internal control (risk, compliance, internal and external audit)
  - Public disclosure & transparency
- Implementation of CEBS rules is under review
- Report to be published beginning 2010, eventually followed by guidelines; recognition that ‘one size does not fit all’
Implications for boards of banks...

- Increased Board liability (?)
- More constructive engagement with shareholders
- Board capacities / skills to be strengthened (better expertise and knowledge, better definition of roles and assignment of tasks, no conflicts of interest, enhanced role of non-executive director)
- Reinforcement of the role and powers of Chief Risk Officer
- Board oversight of remuneration policy and practices
Corporate structures and rules vary from country to country; subsidiaries of EU based banks have to respect the rules of the host country.

In the EU, corporate governance is fully the responsibility of member states.

International/European standards of corporate governance do not prescribe specific models, but lay down principles, guidelines and thresholds to be complied with by national frameworks – these also constitute reference points against which OECD, IMF, World Bank prepare country assessments.
Corporate governance will probably not affect accession other than via the ‘acquis communautaire’.

So far the corporate governance ‘acquis’ consists mainly of recommendations and guidelines; it cannot be however excluded that the EU will adopt also binding legislation in the near future (see also discussions on modernising company law and enhancing corporate governance in the EU).
Savings and retail banks (ESBG members) were generally not involved in the risk taking activities that precipitated the crisis.

Nevertheless, all businesses and activities have been affected

Two brief case studies:
- Erste Group Bank AG
- Swedbank
More than 17 million clients in CEE

Key market statistics
- Total population: 120m
- Bankable population: 92m
- Number of Erste Group clients: 17.3m
  - whereof within EU: 16.2m

Minority shareholding
- Applies the Austrian Code of Corporate Governance
- Annual publication of a report documenting compliance with the Code
- Supervisory board comprises a balanced composition of well qualified expert know-how
- Board includes a member specifically responsible for risk management. Risk policy seeks to achieve an appropriate balance between risk and return
- Compensation complies with the code; current internal review of remuneration policies re ethics, morality and sustainability taking place; management board of Erste Group waived its performance related compensation in 2008
Swedbank outside Sweden and the Baltics
Example: Swedbank Ukraine

- Separate legal entity, result of merger between 2 banks in order to strengthen governance
- New CEO (appointment not linked to crisis) is making board changes locally, as is normal
- Risk structure locally reflects group risk structure; local Financial Restructuring and Recovery Unit addresses non-performing loans, reports to central unit in Sweden
- Remuneration policies brought into line with the Group; fixed salaries, no variable components for the time being
For further info:
www.savings-banks.com
www.esbg.eu/PositionPapers.aspx

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