

The logo consists of a red square with a white border, containing the letters 'ACCA' in white. This square is centered on a black background, which is itself enclosed by a gold border.

**ACCA**

Corporate  
Governance  
and the  
Credit  
Crunch

# Corporate Governance and the Credit Crunch

- The banking sector
- Root causes
- Corporate governance
- Remuneration and incentives
- Risk management
- Accounting, reporting and regulation
- ERM

# The Banking Sector

In 2006

- Profits \$788 billion
- 6% of global GDP
- Profit per employee 26x

In 2008

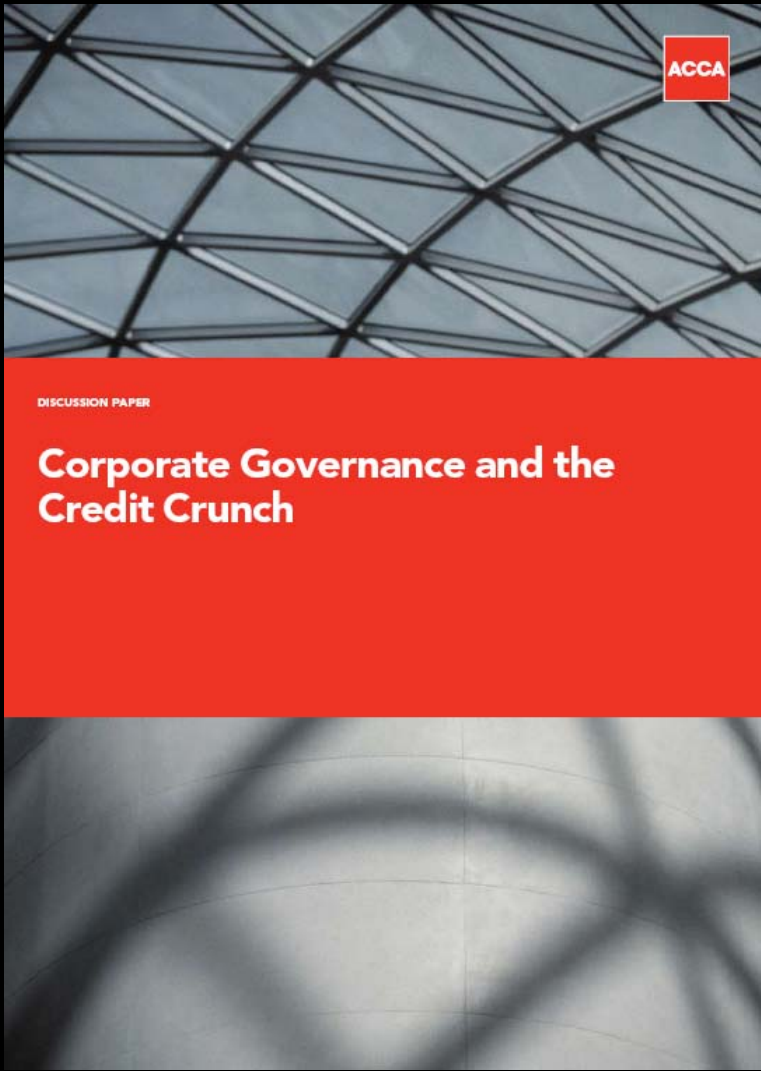
- Rescue cost \$2 trillion? (\$2,000,000,000)

# Root Causes

- Link between risk and remuneration
- Remuneration encouraging short termism
- Risk management lacking influence and power
- Reporting on risk and financial transactions
- Poor oversight
- Lack of accountability
- Money supply, regulation, and information asymmetry

# Contributory factors

- Complexity
- Leverage
- Interconnectedness
- Misalignment of interests
- Complacency
- Culture and greed



DISCUSSION PAPER

# Corporate Governance and the Credit Crunch




POLICY PAPER

# Corporate Governance and Risk Management Agenda



## Corporate governance


Principle 1 of The Agenda says:  
*Boards, shareholders and  
stakeholders share a common  
understanding of the purpose and  
scope of corporate governance*





## Corporate governance

Principle 2 of The Agenda says:  
*Boards lead by example.  
Boards should set the right tone and  
behave accordingly, paying  
particular attention to ensuring the  
continuing ethical health of their  
organisations*



## Corporate governance

Principle 3 of The Agenda says:

*Boards should set clear goals, accountabilities, appropriate structures and committees, delegated authorities and policies. They should provide sufficient resources to enable executive management to achieve the goals of the organisation through effective management of day-to-day operations and **monitor** management's progress towards the achievement of these goals*




## Corporate governance

When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing.

Chuck Prince former CEO of Citigroup

July 9 2007

<http://www.ft.com/cms/s/0/80e2987a-2e50-11dc-821c-0000779fd2ac.html>



## Remuneration and incentives

Principle 6 of The Agenda says:  
*Executive remuneration promotes organisational performance and is transparent. Remuneration arrangements should be aligned with individual performance in such a way as to promote organisational performance*



## Accountability

Principles 8 and 9 of The Agenda  
say:

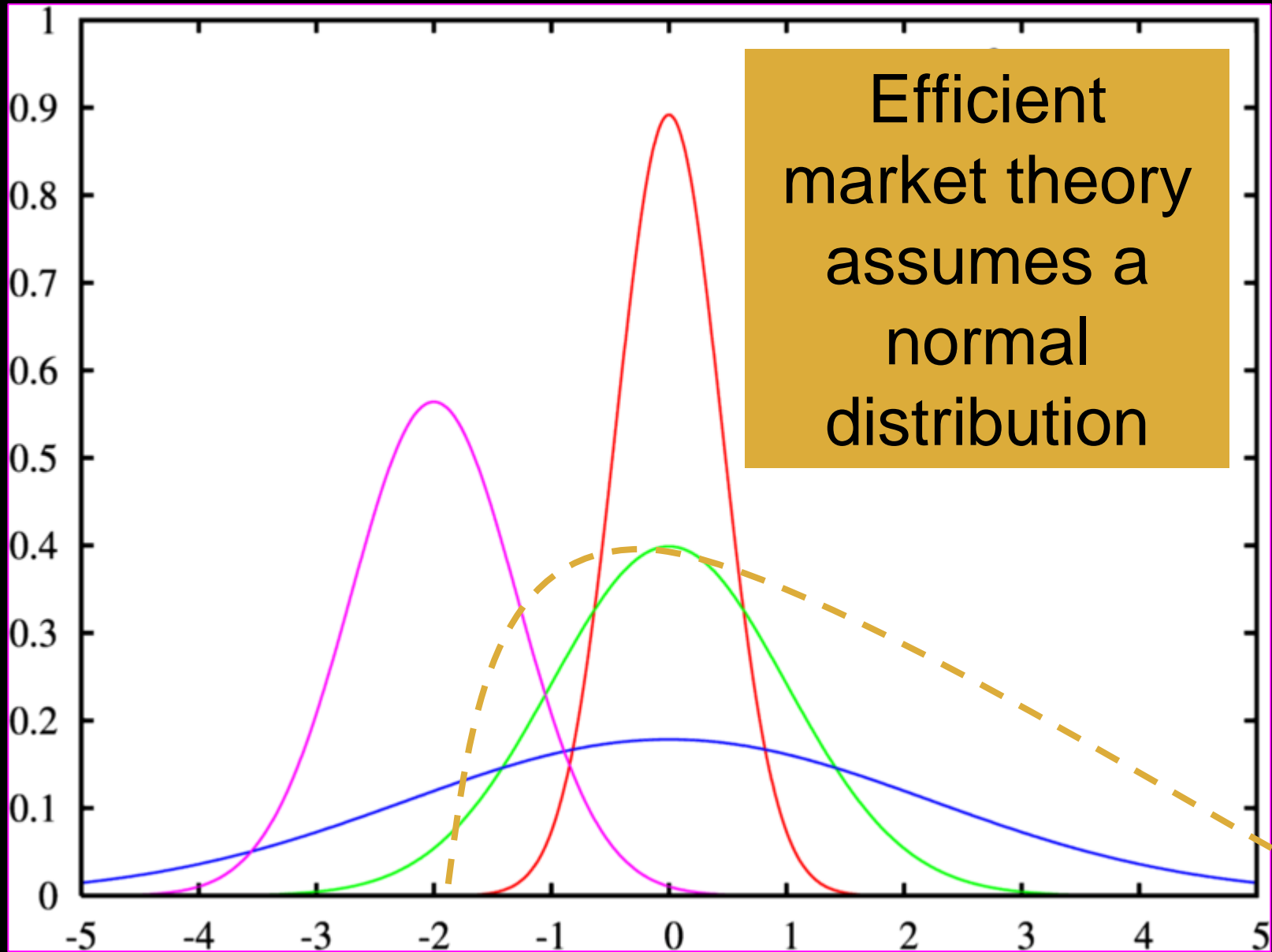
*Boards account to shareholders  
and, where appropriate, other  
stakeholders for their stewardship  
[and that] shareholders and other  
significant stakeholders hold boards  
to account*



## Risk management

Principle 4 of The Agenda says:

*Boards should ensure their strategy actively considers both risk and reward over time. ... Consideration of risk should be a key part of strategy formulation. Risk management should be embedded within organisations so that risk is considered as part of decision making.... Boards need to understand the risks faced by the organisation, satisfy themselves that the level of risk is acceptable and challenge executive management when appropriate*



Efficient market theory assumes a normal distribution

## Risk management

Principle 7 of The Agenda says:  
*'The organisation's risk  
management and control is  
objectively challenged,  
independently of line management'*



## Accounting and reporting

Principle 8 of The Agenda says:  
*'boards should account to  
shareholders and, where  
appropriate, other stakeholders for  
their stewardship'*



## Questions for accountants

- What is the purpose of accounts?
- Is too much expected?
- What responsibility do accountants have for how accounts are used?
- Are expectations of users realistic?
- Focus on reporting cash?
- How to show risk?
- Is there an audit expectation gap?



Regulation



ERM: what works  
what kills it?

Top  
level support

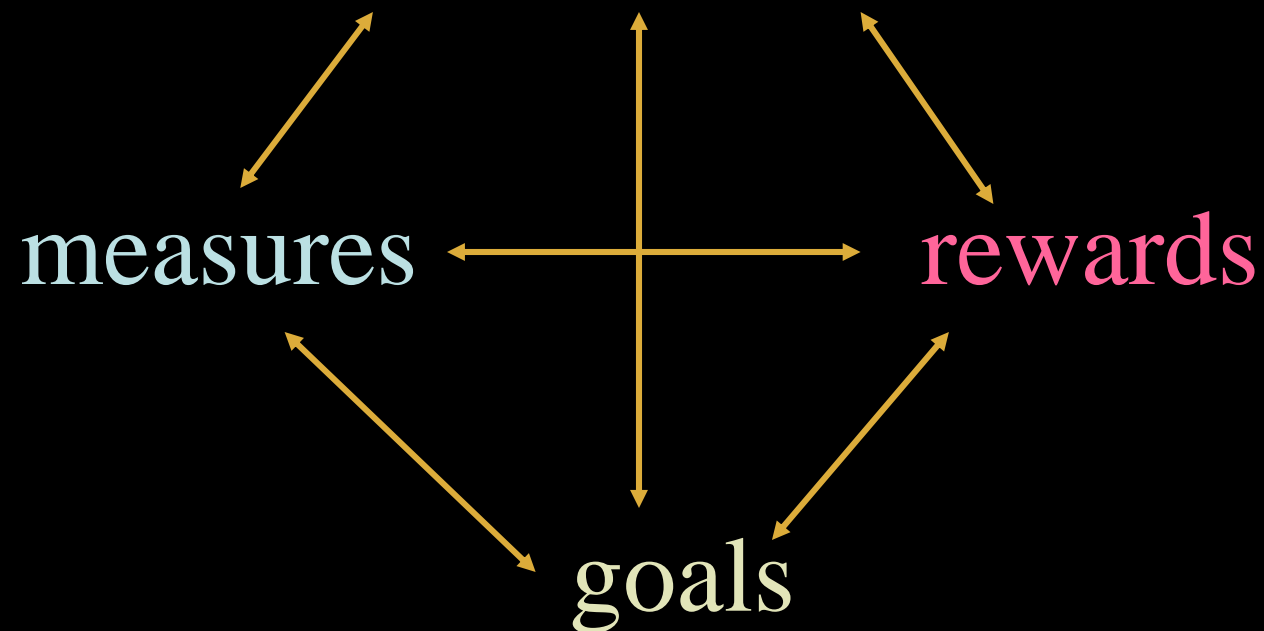
*Lack of ~  
Externally driven?*

Linked to  
strategy

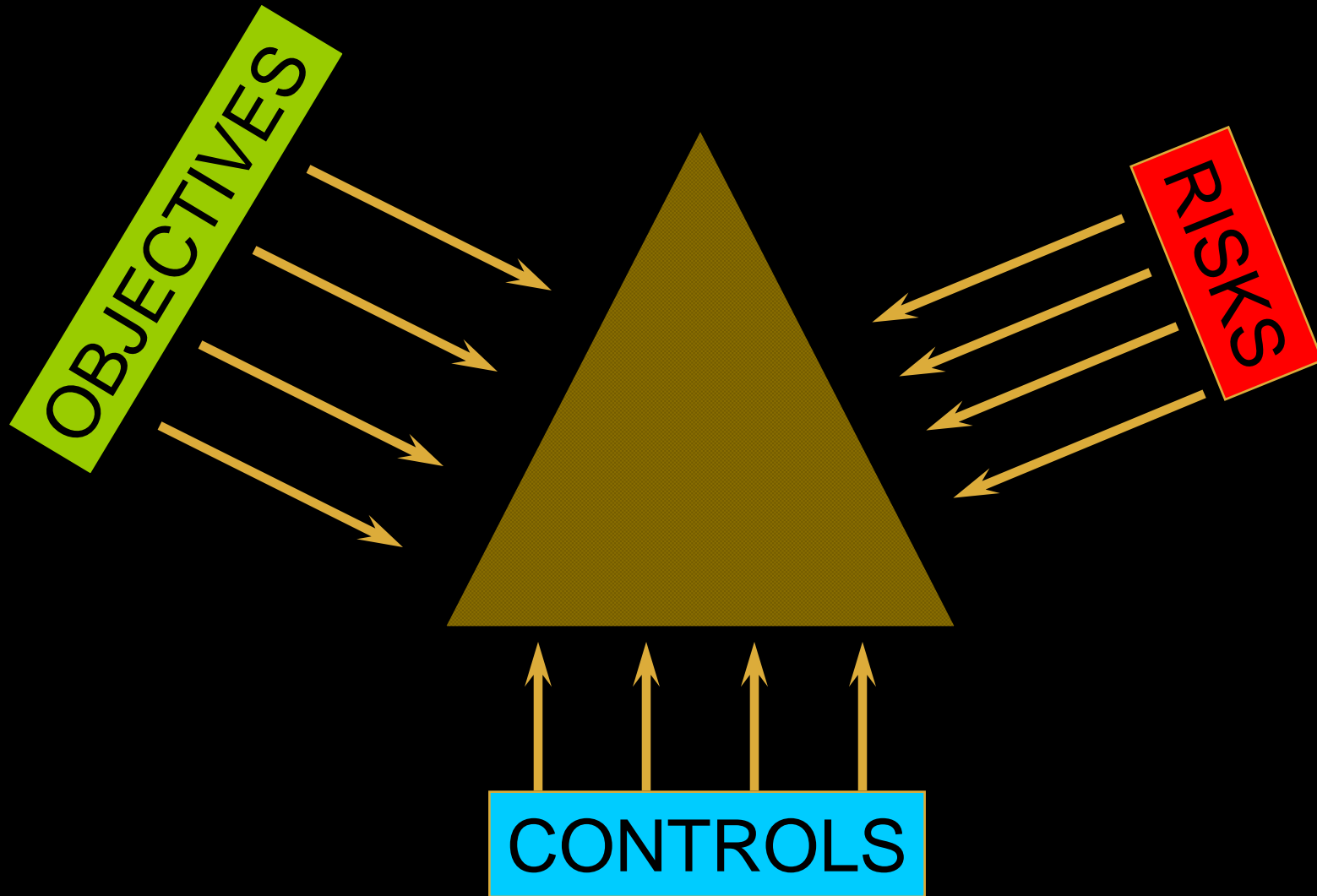
*Silos*

# Alignment

responsibilities



# Objectives, risk & control



# Big picture

*Over focus  
on detail*

Understandable  
& Simple

*Complex or  
obscure*

# Constructive challenge


*Lack of ~*

Everyone  
involved

*Done by  
specialists*

Root causes  
identified

*Compliance  
focus*



Official policies specify what management says should happen. Culture determines what **ACTUALLY** happens, and which rules are followed, bent or ignored.

COSO 1992



A close-up, monochromatic photograph of an elephant's trunk, showing the characteristic wrinkled texture. The image is in shades of blue and grey. The text "Risk appetite" is overlaid in white, sans-serif font in the upper left quadrant, and the word "tolerance" is overlaid in white, italicized serif font in the lower right quadrant.

Risk appetite

*tolerance*



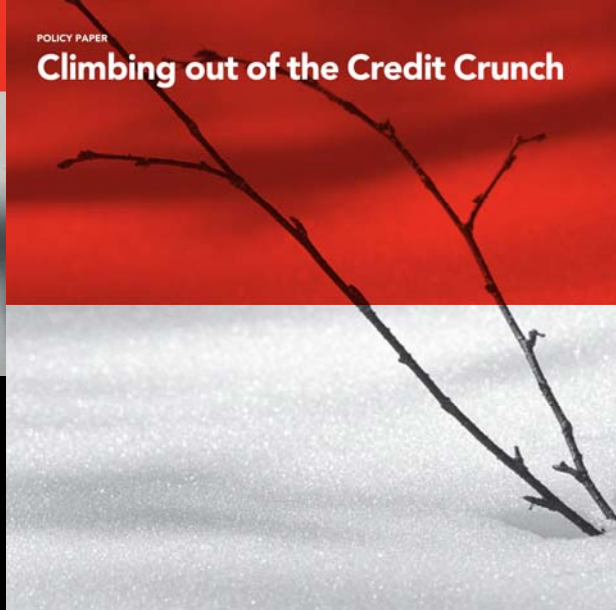
DISCUSSION PAPER

## Corporate Governance and the Credit Crunch



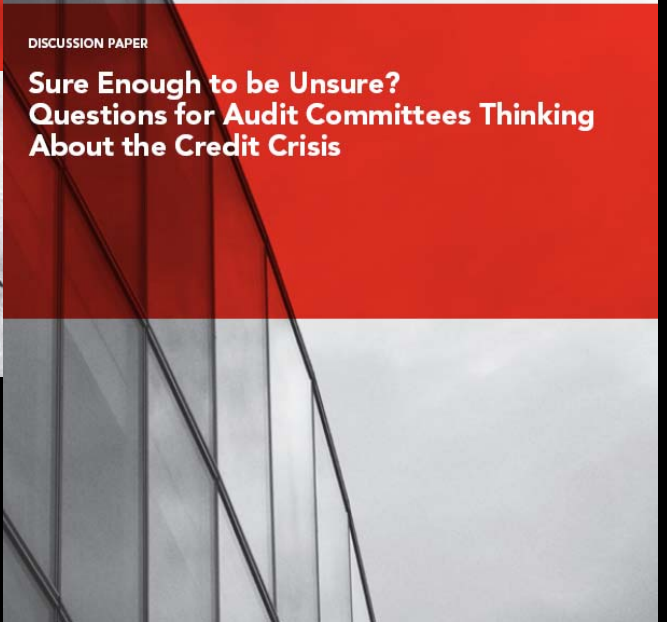
POLICY PAPER

## Climbing out of the Credit Crunch



DISCUSSION PAPER

## Sure Enough to be Unsure? Questions for Audit Committees Thinking About the Credit Crisis



[www.accaglobal.com/governance](http://www.accaglobal.com/governance)

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