Chapter 6

CORPORATE GOVERNANCE AND THE GLOBAL FINANCIAL CRISIS: THE REGULATORY RESPONSES

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6.1 Introduction

It has been suggested that the financial crisis was caused essentially by opportunistic behaviour permitted by poor regulation, weak corporate governance and inadequate risk management. The consequences of the crisis will be a sea-change in how corporations are regulated in the finance sector, in the standards of corporate governance demanded, and in the effectiveness of the application of risk management. This chapter highlights the corporate governance causes of the financial crisis, and analyses the international corporate governance reforms resulting from this experience.

A brief overview is offered in this chapter of some of the causes of the crisis, focusing on the failures in corporate governance in the context of inadequate risk management and weak regulation. This is followed by a summary of the regulatory reforms proposed in international forums and in three countries: the US, UK and Australia. These proposals are extremely wide-ranging and, thus, our focus is on the corporate governance reforms proposed in the immediate aftermath of the crisis. As the crisis originated in the financial sector, many of these proposals are finance-specific, but not all, and the tighter regulatory and risk management standards will undoubtedly impact the governance of all corporations in the post-crisis period. Although regulatory reform will be applied most urgently to the financial sector, it should be expected that any corporate governance reforms will ultimately become best practice for all corporations. The two issues considered paramount

in almost every forum are risk management and how the remuneration policy influences the willingness to take excessive risks.

There has been considerable debate in the US and the UK over potential changes to the overall supervisory framework. The various regulatory bodies have been vying for power which does not assist the development of effective regulatory systems. However, the emerging regulatory response to the crisis is likely to include:

- improvements in the governance of risk management and related disclosure;
- supervisory focus on executive remuneration and its alignment with corporate risk;
- specific prudential regulation and accounting standards for complex financial products;
- expanding the scope of regulatory oversight to include credit rating agencies and hedge funds;
- new focus on systemic risk and cooperation between supervisory bodies.

6.2 Causes of the Financial Crisis

The beginnings of the financial crisis occurred early in 2007 as the limits of the credit explosion were reached. By 2008, with a seemingly endless sequence of collapses of financial institutions, it became clear that there would be a severe impact on the wider global economy with a serious global recession inescapable:

> "Starting in the summer of 2007, accumulating losses on US subprime mortgages triggered widespread disruption to the global financial system. Large losses were sustained on complex structured securities. Institutions reduced leverage and increased demand for liquid assets. Many credit markets became illiquid, hindering credit extension" (Financial Stability Forum, 2008).

The Organisation for Economic Co-operation and Development (OECD) was one of the more influential international organisations examining the causes of the crisis. It provides a setting for governments to "compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies" (OECD website, 2009). Falling squarely within this remit is the search for solutions to the financial crisis.

An OECD report on the causes of the crisis explained that it was instigated at two levels:

> "…by global macro policies affecting liquidity and by a very poor regulatory framework that, far from acting as a second line of defence, actually contributed to the crisis in important ways" (Blundell-Wignall *et al.*, 2008).

Central to the regulatory framework criticised here is the Basel Capital Accord, introduced by the Basel Committee on Banking Supervision. The 1988 Accord, commonly known as Basel I, was revised and re-issued in June 2004 as Basel II. Blundell-Wignall and Atkinson (2008) identify the transition to Basel II as one of the triggers of the crisis because the revised capital standards favoured mortgages and freed up bank capital. Alone this may not have triggered a crisis; however a series of other de-regulatory policies implemented in 2004 combined to set the scene for the disaster to come:

- the Bush administration's 'American Dream' legislation that facilitated zero equity mortgages, extending loans to those without the means to repay them;
- the imposition of greater capital requirements on Fannie Mae and Freddie Mac, the two government sponsored mortgage giants which opened a gap in the market for other banks to provide sub-prime mortgages; and
- Securities and Exchange Commission ("SEC") rule changes that allowed investment banks to increase their leverage ratio (Blundell-Wignall *et al.*, 2008).

This de-regulated environment encouraged a new banking business model, particularly in the US, with the number of residential mortgage-backed securities (RMBS) rising exponentially. A newly developed and risky banking business model was then accommodated by a less-than-perfect financial system. As Blundell-Wignall *et al.* (2008) explain:

> "Many of the reforms underway focus on securitisation, credit rating agencies, poor risk modelling and underwriting standards, as well as corporate governance lapses, amongst others, as though they were causal… but in the most part these are only aspects of the financial system that accommodated a new banking business model…"

More robust corporate governance may have counteracted or, at least, mitigated the excessive risk-taking being encouraged by the prevailing business

model, perhaps curtailing to a degree the willingness to engage in excessive leveraging and to invest in the most exotic securities. However, the basic cause of the crisis was the enthusiastic attraction to the new banking business model of many US and European banks, and the fact that many fringe financial companies were entirely committed to this model.

Compounding the problem was the consistent failure of the credit ratings agencies to adequately assess the risk associated with particular financial institutions and financial instruments, in order to give investors a better understanding of the risks they face. The question asked by many when the financial crisis erupted was how could asset-backed securities containing subprime mortgages and other high-risk debt possibly be given AA credit ratings by Standard and Poor's or Moody's? The answer is, again, that financial innovation has outpaced regulatory prowess.

The ratings agencies, instead of rigorously monitoring the growth of financial markets and instruments, have become junior partners in this enterprise. Coffee (2006), in his critique of the failure of the gatekeeper professions in US corporate governance including auditors, corporate lawyers, and securities analysts, raises serious issues regarding rating agencies: their entrenched market oligopoly; the conflict of interest in the agencies receiving their revenue for the issuers of debt products; their capacity to understand the underlying assets and cash flows involved in complexly structured finance products; and the fact that ratings agencies do not review how the risk profile of debt products may change in different market conditions.

Blundell-Wignell *et al.* (2008) note that it was the investment banks that performed particularly badly, and put forward four hypotheses that might explain the deficiencies of corporate governance in such firms:

- the culture of investment banking is hard to control from the board room;
- the business is complex, and the products are inherently more difficult to understand than simple banking products, making risk control practices much more difficult;
- there was a lack of ownership of long-term strategic risk, perhaps associated with board structure and the independence of the directors;
- remuneration incentives were part of the business model drivers, with bonuses linked to up-front revenue and the current share price.

In testing these hypotheses against the banks that failed, Blundell-Wignall *et al.* (2008) found "no simple indicator of good governance linked to independence, compensation and remuneration" concluding that

good governance "is likely to be complex and idiosyncratic to the firm". However, research by RiskMetrics (2009) reveals some fundamental problems in the governance of the Wall Street investment banks. The Wall Street banks were a bastion used to retain the combined CEO/Chairman (at Morgan Stanley, Citigroup, Merril Lynch, Bank of America, Washington Mutual, Bear Stearns, Wachovia, JP Morgan, Lehman Brothers, Wells Fargo and Goldman Sachs, the roles were combined in 2006–2008).

This meant that dominant figures, such as Richard Fuld at Lehman Brothers, could be autocratic about strategic objectives, performance targets and reward systems (whether they understood what was really happening in their banks or not). In 2008 when it was too late to avert disaster, Bear Stearns and Citigroup made some effort at splitting the roles, in both cases appointing an executive or former executive of the bank to the chairman's role. The other banks' CEOs resolutely insisted on retaining both roles despite the international trend of separating the roles to ensure a more balanced board direction. (In April 2009, Ken Lewis, the CEO/Chairman of Bank of America, was stripped of his Chairman's role after a shareholder vote following the Bank's takeover of Merril Lynch, the loss of 75 percent of its market value and the US$45 billion rescue by the US government).

A second weakness of Wall Street banks revealed in the RiskMetrics survey was a lack of finance experts on the boards of directors of the banks. Morgan Stanley, Merril Lynch, Bank of America, and JP Morgan only had two or three financial experts on their boards during the critical years from 2006–2008, while Washington Mutual, Wachovia and Lehman Brothers only had one financial expert on the board. This suggests that the investment banks' boards involved were critically disabled in the effort to independently understand and monitor complex financial transactions.

In another report for the OECD, Kirkpatrick (2009) looks more specifically at the corporate governance issues revealed by the crisis, concluding that:

> "The financial crisis can be, to an important extent, attributed to failures and weaknesses in corporate governance arrangements which did not serve their purpose to safeguard against excessive risk-taking in a number of financial services companies. Accounting standards and regulatory requirements have also proved insufficient in some areas. Last but not least, remuneration systems have, in a number of cases, not been closely related to the strategy and risk appetite of the company and its longer term interests" (2009).

Kirkpatrick (2009) explains that:

> "Risk management systems have failed in many cases due to corporate governance procedures rather than the inadequacy of computer models alone: information about exposures in a number of cases did not reach the board or even senior levels of management, while risk management was often activity rather than enterprise-based."

Financial businesses innovation in financial products had far exceeded the capacity of risk management measurement and monitoring tools to gauge risk, with undue reliance on the VaR (value at risk) measure which did not evaluate risk in the most extreme circumstances. As the report on the reasons for the $44 billion writedowns at UBS reveals:

> "The investment bank was focused on the maximisation of revenue. There appears to have been a lack of challenge on the risk and reward to business area plans within the investment bank at a senior level. UBS's review suggests an asymmetric focus in the investment bank senior management meetings on revenue and profit and loss, especially when compared to discussion of risk issues" (UBS, 2008).

As with many other US, UK and European banks, UBS sailed towards the iceberg of the subprime mortgage crisis in a state of profound ignorance:

> "Presentations of Market Risk Control to UBS's senior governance bodies did not provide adequate granularity of subprime positions UBS held in its various businesses. No warnings were given to senior management about the limitations of the presented numbers or the need to look at the broader contextual framework and the findings were not challenged with perseverance" (UBS, 2008).

The corporate governance aspect of risk management focuses on the way in which risk information is used within a corporation, including its transmission to the board. The crisis has revealed that some boards had no knowledge of strategic decisions regarding risk management and, therefore, no control mechanisms to oversee overall risk appetite. The firms that fared better were those that had a comprehensive approach to sharing risk information and more effective stress-testing using scenario analysis (Kirkpatrick, 2009).

Remuneration policies have also been identified as a potential cause of the crisis:

> "Remuneration and incentive systems have played a key role in influencing financial institutions' sensitivity to shocks and causing the development of unsustainable balance sheet positions" (Kirkpatrick, 2009).

The same report goes on to suggest that the problem was not restricted to the financial sector:

> "This reflects a general concern about incentive systems that are in operation in non-financial firms and whether they lead to excessive short-term management actions and to 'rewards for failure'" (Kirkpatrick, 2009).

The issue of corporate governance here is that firms' remuneration policies have not been stress-tested for varying economic conditions. Kirkpatrick's (2009) conclusion is that both the deficiencies in risk management and distorted incentive systems point to deficient board oversight — a clear corporate governance issue.

6.3 International Reforms

Undoubtedly, the most serious financial crisis since the 1930s Great Depression will elicit the most comprehensive and robust international regulatory response, comparable to the influence of the Glass-Steagall Act of 1932, and the Securities Acts of 1933 and 1934. After more than a decade of sustained de-regulation of financial institutions and markets across the world, the essential role of regulation in ensuring stability and balance is being re-discovered and the lessons of the past re-learned. For example, illustrative of the power of regulation is the remarkable reduction in bank failures following the passing of the Glass-Steagall Act which lasted for nearly five decades until deregulation occurred in 1980 (Figure 6.1). Although the current financial crisis originated in US investment banks, it has impacts across the world, and the regulatory response requires international coordination. This regulatory response is still emerging and will take several years to complete. However, substantial policy foundations are already in place.

Reports and recommendations are fast emerging from a multitude of influential organisations both at the international and national level. Navigating through this maze of information and initiatives is one of the first

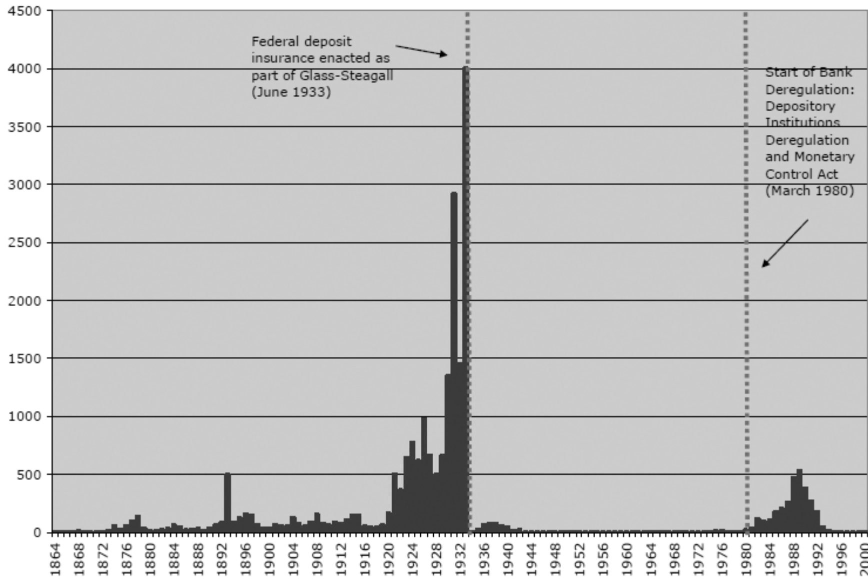

Figure 6.1 The Impact of the Glass-Steagall Act on the Level of Bank Failures in the United States

Source: Historical Statistics of the United States: Colonial Times to 1970 (Washington, D.C.: Government Printing Office, 1975), Series X-741 (p. 1038). "Failures and Assistance Transactions." Table BF02, FDIC website (http://www2.fdic.gov/hsob/index.asp).

hurdles in understanding the likely outcomes. Appendix 1 sets out some of the key publications that are likely to shape the decisions of relevant authorities. Bearing in mind that the process is only in its early stages, we include in our timeline scheduled future developments.

One of the early reports responding to the crisis was the Report of the Financial Stability Forum (FSF) on Enhancing Market and Institutional Resilience. The FSF was set up by the G-7 in 1999 and brings together senior representatives of national financial authorities from 12 countries (for example, central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. Its membership was soon expanded to include all of the G-20 members (Financial Stability Forum, 2009a). The FSF's role is to improve co-ordination and information flow and oversee "a broad-based multilateral agenda for strengthening financial systems and the stability of international financial markets" (Financial Stability Forum, 2009b).

In October 2007, the G-7 requested that the FSF undertake an analysis of the causes and weaknesses underlying the emerging financial turmoil. The FSF's report was published in April 2008 and proposed concrete action in five areas:

1. Strengthened prudential oversight of capital, liquidity and risk management.
2. Enhancing transparency and valuation, particularly in relation to the risk exposures of complex investments and financial products.
3. Changes in the role and uses of credit ratings.
4. Strengthening the authorities' responsiveness to risks.
5. Robust arrangements for dealing with stress in the financial system.

Of relevance to the field of corporate governance is the focus on risk which is likely to result in increased supervisory attention, regulation and disclosure. Closely connected to the general question of risk management is the issue of remuneration policy. The FSF report identifies various incentive distortions at the heart of the crisis including the fact that:

> "Compensation schemes in financial institutions encouraged disproportionate risk-taking with insufficient regard to longer-term risks. This risk-taking was not always subject to adequate checks and balances in firms' risk management systems."

Thus, the FSF report recommends that compensation models be aligned more closely with long-term, firm-wide profitability (2008). In discussing areas for policy action, the FSF report notes:

> "A striking aspect of the turmoil has been the extent of risk management weaknesses and failings at regulated and sophisticated firms. While it is the responsibility of the firms' boards and senior management to manage the risk they bear, supervisors and regulators can give incentives to management so that risk control frameworks keep pace with the innovation and changes in business models."

The report identifies the fact that, although some of the issues were known or suspected before the turmoil began, regulatory and supervisory responses were:

- not fast enough to keep up with the pace of innovation in financial markets;

- not followed up to ensure implementation; and/or
- not successful in changing behavior.

On this basis, the report recommends much more proactivity on the part of supervisors and regulators. This would include monitoring the skills of risk managers and communicating any concerns directly to the firm's board.

The FSF's recommendations will ultimately have to be translated to fit national supervisory bodies and implemented appropriately. However, regulatory inadequacy, rather than over-regulation, was the new focus of world attention. Australia's *twin peaks* regulation with the Australia Securities and Investment Commission (ASIC) responsible for corporate governance and the Australian Prudential Regulation Authority (APRA) for prudential regulation appeared, to some, a more effective system than the hopelessly fragmented and competitive approach of the US regulators, or the heavily integrated Financial Services Authority in the UK (Table 6.1). In contrast, the *institutional* approach, as employed in countries like China and Mexico, focuses regulation on different business sectors, but becomes complex when firms diversify into other businesses. Similarly the *functional* approach, as used by Italy and France, focuses on particular business activities (such as security trading), and can readily lead to a single business facing multiple regulators. All of the regulatory systems are under review presently, though the possibility of arriving at a more coherent and effective system in each jurisdiction has been limited to a degree by competition between existing regulators as was witnessed in 2009 in both the UK and the US. It is possible that the results of the reform process will be mechanisms to ensure greater cooperation between regulators, and a move towards the *twin peaks* approach with separate regulators concentrating on prudential regulation for capital adequacy, and another regulator focusing on market and business conduct (World Economic Forum, 2009).

The need for a global solution to a global crisis is clear, and thus the FSF is intensifying its co-operation with the International Monetary Fund (IMF). The two bodies already work closely together in the area of standards-setting, particularly with respect to the joint IMF/World Bank assessment of countries'

Table 6.1 Examples of Regulatory Models.

Institutional	Functional	Integrated	Twinpeaks	Fragmented
China	Italy	United Kingdom	Australia	United States
Mexico	France	Germany	Netherlands	

compliance with the 12 international standards that the FSF has designated as necessary for sound financial systems and worthy of priority implementation. As an example, these include the IMF's Code of Good Practices on Fiscal Transparency, the International Accounting Standards Board's International Accounting Standards, the Basel Committee's Principles for Effective Banking Supervision, and the OECD's Principles of Corporate Governance.

The flow-on from the FSF's recommendations for the financial sector is likely to include changes to the OECD's Principles of Governance. On 18 March 2009, the OECD held a conference in Paris to discuss monitoring, implementation and enforcement of corporate governance as well as possible reforms and improvements to the OECD Principles in light of the crisis. Priority areas for reform were listed as including "board practices, implementation of risk management, governance of the remuneration process and the exercise of shareholder rights." The conference provided input to a set of key findings and main messages published in June 2009.

However, the body to emerge with the greatest impact on the regulatory response to the financial crisis was the G-20. The G-20 is made up of the Finance Ministers and Central Bank Governors of 20 systemically important industrialised and developing economies. It is an informal forum designed to promote open and constructive discussion on global economic stability, and was created as a response to the financial crises of the late 1990s and a growing recognition that the G-7 did not adequately represent emerging market countries (G-20, 2009). The increasing prominence of the G-20 is a further recognition of the multi-polarity of the emerging global economy as one of the consequences of the global financial crisis. The G-20 was institutionalised as a constant set of partners in 1999 and includes the three nations that we focus upon in this chapter: Australia, the United States of America and the United Kingdom. The common principles established by the G-20 have guided the regulatory reform process in the individual states (Table 6.2).

The April 2009 London meeting of the G-20 made various pledges aimed at repairing the financial system and restoring confidence. They agreed to strengthen the financial system and a timetable was set for the implementation of a series of regulatory measures. Importantly, it was agreed to set up a new Financial Stability Board (a stronger successor to the FSF) which, together with the IMF, will monitor progress and provide reports to future meetings of the G-20 Finance Ministers. The regulatory measures agreed upon can be summarised as follows:

- To reshape regulatory systems so that authorities can identify and take account of macro-prudential risks. The Financial Stability Board (FSB)

Table 6.2 G-20 Common Principles and Actions for Reform of Financial Markets.

Common Principle for Reform	Immediate Actions by 31 March 2009	Medium Term Actions
Strengthening transparency and accountability: Enhance disclosure on complex financial products and align incentives to avoid excessive risk-taking	• Enhance guidance for disclosing the valuation of complex, illiquid securities • Enhance governance of international accounting standard-setting bodies • Assess private sector best practices for private pools of capital and/or hedge funds	• Create single, high-quality global accounting standards • Ensure that regulators, supervisors, accounting standard-setters and the private sector work more closely together on consistent application and enforcement of standards • Enhance financial institution risk and loss disclosures including off-balance sheet activities
Enhancing sound regulation: Strengthen regulatory regimes, prudential oversight and risk management	• *Regulatory regimes*: Review pro-cyclicality, including the ways that valuation, leverage, bank capital, executive compensation and loss provisioning exacerbate cyclicality • *Prudential Oversight:* Enhance international standards and minimize conflicts for ratings agencies; ensure maintenance of adequate capital, speed efforts to implement central counterparty services • *Risk management:* Re-examine bank risk management and internal controls, in particular relating to liquidity and counterparty risk, stress testing, incentive alignment and development of structured products.	• *Regulatory Regimes*: Undertake Financial Sector Assessment Program with view to ensure that all systematically important institutions are appropriately regulated • *Prudential oversight:* Register credit rating agencies; develop robust international framework for bank liquidity management and central bank intervention • *Risk management*: Ensure awareness and ability to respond to evolving financial markets and products; monitor substantial changes in assets prices and their implications for the macro-economy/financial system

(*Continued*)

Table 6.2 (*Continued*).

Common Principle for Reform	Immediate Actions by March 31, 2009	Medium Term Actions
Promoting integrity in financial markets: Protect integrity of financial markets and promote information sharing	• Enhance regional/international regulatory cooperation • Promote information sharing on threats to market stability; ensure legal provisions to address threats • Review business conduct rules to protect markets and investors against market manipulation and fraud	• Implement measures that protect against uncooperative and/or non-transparent jurisdictions posing systematic risks • Continue work against money laundering and terrorist financing • Promote international tax information exchange
Reinforcing international cooperation: Formulate consistent global regulations	• Establish supervisory colleges for all major cross-border financial institutions to strengthen surveillance • Strengthen cross-border crisis management procedures and conduct simulation exercises	• Collect information on areas of convergence in regulatory practices (e.g. accounting, auditing, deposit insurance) to accelerate progress where necessary • Ensure that temporary measures to restore stability and confidence create minimal distortions
Reforming international financial institutions: Advance the reform of *Bretton Woods* institutions to reflect changing economic weight	• Add emerging economies to *Financial Stability Forum* • Strengthen *IMF* and *FSF* collaboration on surveillance and standard-setting, respectively • Review resource adequacy of development banks • Review ways to restore access to credit and resume private capital flows to emerging economies	• Comprehensively reform *Bretton Woods* institutions so they can more adequately reflect changing international economic weights and effectively respond to future challenges • *IMF* should contact surveillance reviews of all countries • Provide capacity-building programs for emerging economies on the formulation of effective regulation

Source: US Executive Office of the President, 2009.

was requested to work with the Bank for International Settlements (BIS) to develop macro-prudential tools and provide a report by Autumn 2009.

- To extend regulation and oversight to all systemically important financial institutions, instruments and markets, including, for the first time, hedge funds. The IMF and FSB were asked to produce guidelines on whether a financial institution, instrument or market is "systemically important" by the next G-20 meeting. Hedge funds or their managers are to be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators.
- To endorse and implement the FSF's principles on pay and compensation and to support the corporate social responsibility of all firms. National supervisors are to ensure significant progress in the implementation of the principles by the 2009 remuneration round. The principles, published in April 2009 are intended to be applied to significant financial institutions. They require:
  - boards of directors to play an active role in the design, operation and evaluation of compensation schemes;
  - compensation arrangements including bonuses to properly reflect risk such that the timing and composition of payments are sensitive to the time horizon of risks; and
  - firms to publicly disclose clear, comprehensive and timely information about compensation.

The objectives of the G-20 were improve the quality, quantity and international consistency of capital in the banking system; improve accounting standards on valuation and provisioning and achieve a single set of high-quality global accounting standards; and extend regulatory oversight to credit rating agencies. This regulatory oversight regime was to be established by the end of 2009 and should assure the transparency and quality of the ratings process (G-20, 2009). The main corporate governance aspect of the G-20 plan is the focus on remuneration policy. This has already resulted in activity at the national level which is likely to crystallize into legal and regulatory changes.

There are three further international reports worthy of mention. The first two are industry-based initiatives by the International Institute of Finance (IIF) and the Counterparty Risk Management Policy Group (CRMPG). Both are proactive attempts at influencing and perhaps limiting the scope of regulatory reform. Wehinger (2009), in his report for the OECD, labels them as the most pertinent proposals by the industry and certainly some of their

recommendations, discussed below, are likely to be reflected in future regulation. The third report is by the Bank for International Settlements and deals specifically with the governance of central banks, however, Chapter 8 on risk management contains some useful ideas on strengthening non-financial risk management.

The IIF is a global association of financial institutions. Its members include large banks, insurance and investment firms from over 70 countries. On 17 July 2008, the IIF published its Final Report of the Committee on Market Best Practices. This sets out what it calls the financial industry's response to the market turmoil of 2007–2008, including proposed principles of conduct and best practice recommendations. It covers the areas of:

> "…risk management; compensation policies; liquidity risk, conduit, and securitization issues; valuation issues; credit underwriting, ratings, and investor due diligence in securitization markets; and transparency and disclosure issues."

Three of these areas could be said to fall within the ambit of corporate governance: risk management, compensation policies and disclosure issues. The IIF report sets out very clear recommendations as to how governance could be improved in these areas and it is highly likely that these will become best practice not only in financial companies but across all industries. Within risk management, suggestions include:

- the promotion of appropriate risk culture;
- defining risk appetite;
- clarifying the role of the chief risk officer;
- integrating different risk management areas; and
- stress-testing outcomes.

In redesigning compensation policies, it is suggested that firms should:

- base compensation on risk-adjusted performance, and align incentives with shareholder interests and long-term, firm-wide profitability;
- ensure that compensation incentives do not induce risk-taking in excess of the firm's risk appetite;
- align payout with the timing of related risk-adjusted profit;
- take into account realised performance for shareholders over time in determining severance pay; and

- make the approach, principles, and objectives of each firm's compensation policies transparent to stakeholders.

The report goes on to give some examples of compensation techniques that could achieve these aims.

The CRMPG is made up of senior executives from major international banks. Their report entitled, *Containing Systemic Risk: The Road to Reform*, was published in August 2008 and was provided to the FSF and the US President's Working Group on Financial Markets. Also known as the "Corrigan Report" after the co-chair Gerald Corrigan, this report puts forward "core precepts" and recommendations with the objective of forming "a private initiative that will complement official oversight by insisting on industry practices that will help mitigate systemic risk" (Counterparty Risk Management Policy Group, 2008). The five core precepts are aimed at large, integrated financial intermediaries and comprise:

1. Regular reviews of corporate governance
2. Development of risk management
3. Defining risk appetite
4. Identifying potential contagion "hot spots"
5. Enhanced oversight with regular meetings between supervisory officials and boards of directors.

Most of the recommendations of the report are specific to the finance industry, such as those relating to accounting standards, high risk complex instruments and the credit market. However, some of the suggestions regarding risk management have much wider relevance. These include recommendations dealing with chief risk officers, staffing of risk management functions, information flow, approval of risk appetite, integration of risk management and the composition of risk committees (Counterparty Risk Management Policy Group, 2008).

In conclusion, at an international level, the reform agenda was fully engaged in 2009. The G-20 members agreed to implement the recommendations of the FSF on remuneration policy and individual countries began the process of implementing reforms into their domestic regulatory frameworks. The OECD Principles of Corporate Governance were reviewed and it was concluded that there was no urgent need to revise the Principles, rather more guidance was required to assist companies in more effective implementation of the Principles (OECD, 2010). These will gradually filter its way into domestic frameworks. Within the finance sector, private associations have been proactive

in putting forward recommendations for reform, particularly in the areas of risk management and remuneration policy. These regulatory reforms are likely to be influential in crystallising changes to national regulatory systems. We now examine national reforms in three countries — the US, the UK and Australia.

6.4 United States

In response to the crisis, the US Administration put forward a four part regulatory reform strategy: (1) addressing systemic risk; (2) protecting consumers and investors; (3) eliminating gaps in the regulatory structure; and (4) fostering international cooperation (US Treasury, 2009). In March 2009, the House Committee on Financial Services received details of the Administration's plan to regulate systemic risk and protect the broader economy from the potential failure of large financial institutions. This plan included:

- the formation of a single independent regulator with responsibility over systemically important firms;
- higher standards on capital and risk management for systemically important firms;
- registration of all hedge fund advisors with assets under management above a certain threshold;
- a comprehensive oversight system for the over the counter (OTC) derivatives market; and
- new requirements for money market funds to reduce the risk of rapid withdrawals (US Treasury, 2009).

Legislation put forward by the Treasury in March 2009, if passed, will give the government power to put systemically significant firms into receivership. This addresses gaps in the current regime which only allows the government to take control of depositary banks. The crisis made it clear that other financial institutions, outside of current US government powers, can destabilise the system, in particular, bank holding companies. Citigroup Inc. which has received billions of dollars in government aid, is a prime example of such an event.

Essentially, the complex historical development of the US regulatory structure has resulted in the fragmentation of a complex pattern of competing regulatory authorities, including the Securities and Exchange Commission (SEC), the Commodity and Futures Trading Commission (CFTC), the Office of Thrift Supervision, among the many Federal agencies, as well as the involvement of individual states in corporate law and other

specific matters. However, some officials want to see larger reform proposals considered by the House Financial Services Committee in July 2009. These wider reform proposals include:

> "vastly expanding the Federal Reserve's power to oversee the health of the entire financial system, creating a single banking overlord, merging the Securities and Exchange Commission (SEC) with the Commodity Futures Trading Commission (CFTC), and launching a new consumer protection agency" (Rucker and Younglai, 2009).

However, though the US Treasury's proposal to give the SEC a key role (including membership of the Financial Services Oversight Council (FSOC), a body that includes the Chairmen of key US financial regulators) was designed to ensure proper coordination among regulators, it appears that competition between the US regulators might undermine this goal. Furthermore, resistance from the banks was likely to delay the effective implementation of the new regulatory regime (Rucker and Younglai, 2009).

On 20 May 2009, the Fraud Enforcement and Recovery Act 2009 was signed by President Obama. It approved the creation of a commission of inquiry into the financial crisis (Phillips, 2009). This commission is modeled after the Pecora Commission which studied the 1929 stock market crash. The Pecora Commission eventually helped pave the way for the Securities Act of 1933, the Securities Exchange Act of 1934 and the creation of the Securities and Exchange Commission in 1935. The current commission has been given a wide-ranging remit to examine the role of US regulators and the prudential legal framework, along with companies' accounting practices, corporate governance, executive pay schemes and the use of exotic investment tools. Possible fraud, the controversial role of credit risk agencies and short-selling on the markets are also listed in the legislation for investigation (Section 5(c), Fraud Enforcement and Recovery Act). Thus, it is unlikely that any comprehensive reform of US financial regulation will be finalised before the commission reports its findings on 15 December 2010. The Sarbanes Oxley Act of 2004 was widely criticised as a knee-jerk reaction to the corporate collapses of 2001 and thus any regulatory response to the 2008 crisis is likely to be more considered.

Nevertheless, on 17 June 2009, the US Treasury released its white paper on financial regulatory reform. The paper's key proposals included:

- the setting up of a Financial Services Oversight Council to oversee systemic risk and improve co-operation between the many existing supervisory agencies;

- new authority for the Federal Reserve to supervise all firms that could threaten financial stability;
- registration of hedge fund advisors with the SEC;
- stronger regulation of financial markets, in particular, credit rating agencies, securitization markets and OTC derivatives;
- the setting up of a Consumer Financial Protection Agency and stronger regulation to protect consumers and investors;
- providing the government with power to deal with the failure of non-bank institutions;
- promoting stronger international regulation and cooperation.

In pursuit of these aims, several pieces of draft legislation were proposed:

- On 30 June 2009, a bill that would create the Consumer Financial Protection Agency.
- On 10 July 2009, investor protection legislation with the aim of establishing "consistent standards for all those who provide investment advice about securities, to improve the timing and the quality of disclosures and to require accountability from securities professionals." It would also make the recently constituted SEC Investor Advisory Committee permanent. This group of well-respected investors will advise on the SEC's regulatory policies.
- On 15 July 2009, legislation that would require all advisers to hedge funds and other private pools of capital, including private equity and venture capital funds, to register with the SEC.
- On 16 July 2009, legislation that would ensure compensation committees meet strict independence standards.
- Also, on 16 July 2009, "say-on-pay" legislation that would require all publicly-traded companies to give shareholders a non-binding vote on executive compensation packages, similar to those mandated in the UK since 2002.

Interestingly, the introduction of better compensation practices comes under the white paper's "improve international cooperation" section and is clearly a matter that may not have been included were it not for US involvement in the G-20:

> "In line with G-20 commitments, we urge each national authority to put guidelines in place to align compensation with long-term shareholder value and to promote compensation structures that do not provide incentives for excessive risk-taking. We recommend that the BCBS expediently integrate the FSB principles on compensation into its risk management guidance by the end of 2009" (US Treasury, 2009).

A Congressional research paper states that "a large question for Congress may be how US regulations might be changed and how closely any changes are harmonized with international norms and standards" (Nanto, 2009).

6.5 United Kingdom

In March 2009, the Financial Services Authority (FSA) published the Turner Review of global banking regulation together with a Discussion Paper that explored some of the key policy issues (Financial Services Authority, 2009). Most of the report discusses necessary changes to bank capital and liquidity regulations and to bank published accounts. Of relevance, more generally, are the recommendations regarding:

- increased reporting requirements for unregulated financial institutions such as hedge funds;
- regulation of Credit Rating Agencies to limit conflicts of interest and inappropriate application of rating techniques;
- national and international action to ensure that remuneration policies are designed to discourage excessive risk-taking; and
- major changes in the FSA's supervisory approach, with a focus on business strategies and system-wide risks, rather than internal processes and structures.

The change in regulatory philosophy is an interesting one that may reverberate more widely. The crisis has invalidated the belief that markets are, in general, rational and self-correcting and, on this basis, the FSA is to abandon its 'light touch' approach in favour of what it terms 'intensive supervision' (Turner, 2009). However, Turner considers that even this more aggressive approach will fall short of what is deemed the 'bank examiner' model of the US. The FSA is also re-considering the best division of regulatory responsibility:

> "Effective regulation and supervision of financial services needs to encompass the full range of firms, sectors and markets, and to cover both prudential issues (e.g. capital adequacy) and the conduct of business issues (e.g. fair sales practices or insider trading). Different countries have made different choices as to how to divide or combine these functions. There are three key choices to be made: (i) whether to combine the prudential supervision of all financial sectors (e.g. banking or insurance) or to supervise them separately; (ii) whether the prudential supervision of banks should be combined with central bank functions; (iii) whether prudential and conduct of business supervision should be combined or separate" (Turner, 2009).

Relevant to corporate governance, the Turner Review identifies many cases where internal risk management in financial institutions was ineffective with boards of directors failing to adequately identify and constrain excessive risk-taking (2009). Recommendations to combat these failings include:

- a more direct relationship between senior risk management and board risk committees;
- remuneration policy to take account of risk management considerations;
- improvements in the skill level and time commitment of non-executive directors; and
- more effective communication of shareholder views to non-executives.

The Turner Review does not probe these issues in depth because, in February 2009, the UK government announced a review of bank governance led by Sir David Walker, and the FSA intended to take this review into account and issue specific proposals by the end of 2009.

The FSA also was active in the area of remuneration policy. Action commenced with a letter dated 13 October 2008 from the FSA to the CEOs of major financial institutions. This letter set out the FSA's concerns on remuneration policies and put forward some basic criteria for good and bad remuneration practice. The message was to encourage financial institutions to eliminate anything in the 'bad' list and move towards the practices included in the 'good' list. The letter was followed by a review of remuneration practices in a group of major banks and building societies.

In February 2009, the FSA published a draft Code on Remuneration Practices. The Code will ultimately apply to large banks and broker dealers but the FSA encouraged all firms to review their compensation policies in accordance with the Code. The general requirement of the Code is that "remuneration policies must be consistent with effective risk management." In order to demonstrate compliance with this general requirement, it is recommended that firms show that they have adopted the Code's ten principles. The principles are described as follows:

1. The role of bodies responsible for remuneration policies and their members — the independence and skill of remuneration committees.
2. Procedures and input of risk and compliance functions — clear, documented procedures for setting remuneration with significant input from the risk management function.
3. Risk and compliance function remuneration — should be determined independently of other business areas.
4. Profit-based measurement and risk-adjustment — bonus pool calculations to be based principally on profits with an adjustment for risk.

5. Long-term performance measurement.
6. Non-financial performance metrics — should form a significant part of the performance assessment process.
7. Measurement of performance for long-term incentive plans — should be risk adjusted.
8. Fully flexible bonus policies — to be enabled by ensuring fixed remuneration is a sufficient proportion of total remuneration.
9. Deferment of the majority of any significant bonus.
10. Linking deferred elements to the firm's future performance.

The draft Code was updated in March 2009 — from this point it was to be regarded as a benchmark for good practice. A consultation paper on the draft Code was published in March 2009. The paper consults on the proposal that the draft Code is included in the FSA Handbook which would enable the general requirement to be enforced. The FSA's aim is to bring the Code into effect from early November in time for the firms' 2009 remuneration reviews. Initially, the Code would only apply to large financial institutions (approximately 48 firms) but the paper also proposes that it should be extended to all FSA-authorised firms. This would include all financial services firms.

The Financial Reporting Council is the UK's independent regulator in the area of corporate governance. It monitors the operation of the Combined Code on Corporate Governance and, in March 2009, announced that the Combined Code would be subject to review. A consultation paper was published with responses requested by May 2009. On 28 July 2009, the FRC published a progress report and a second consultation paper inviting views on the main issues to emerge from the first phase of the review. The intention was to publish a final report at the end of 2009 with further consultation in the event of proposed changes to the Combined Code which, if deemed necessary, would take effect in mid-2010. The FRC's review of the Combined Code was conducted in parallel with the Walker Review of bank governance, and the two were committed to share relevant research and other evidence. Sir Walker released a consultation paper on 16 July 2009 which was taken into account in the second FRC consultation paper.

While respondents were welcome to comment on any aspect of the Combined Code, the first consultation paper stated that views would be particularly welcome on:

- the composition and effectiveness of the board as a whole;
- the respective roles of the chairman, the executive leadership of the company and the non-executive directors;
- the board's role in relation to risk management;

- the role of the remuneration committee;
- the quality of support and information available to the board and its committees; and
- the content and effectiveness of Section 2 of the Code, which is addressed to institutional shareholders and encourages them to enter into a dialogue with companies based on a mutual understanding of objectives and to make considered use of their votes (Financial Reporting Council, 2009).

This list reflects some of the issues raised in previous reviews as well as the issues emerging from the financial crisis. The second consultation paper takes into account both the submissions to the first consultation plus the recommendations of the Walker Review in terms of whether they would be applicable outside the financial sector. Issues raised include:

- the time commitments of chairmen and non-executive directors;
- balancing the requirements of independence and relevant experience across non-executive directors;
- the possibility of annual (as opposed to 3-yearly) director re-election;
- director education and performance evaluation;
- the possibility of separate risk committees.

In July 2009, the UK government released a big-picture white paper on financial regulation. The paper described the steps already taken by the government towards better regulation:

- the new Banking Act 2009 which gives the Bank of England powers to deal with failing banks;
- the Turner Review of the UK regulatory regime;
- the Walker Review of remuneration practices;
- reform of the overall regulatory framework by giving the Bank of England a clear statutory objective to protect the stability of the financial system and supporting the FSA's internal reorganisation.

The white paper went on to describe proposals for further reform. These included providing the FSA with a formal, statutory objective for financial stability and extending its rule-making and enforcement powers.

What the paper did not do, to the disappointment of many, was to recommend a more radical shake up of the UK's tripartite supervisory framework. The existing system involves a sharing of regulatory duties between the Treasury, the Financial Services Authority and the Bank of England.

Regulatory and supervisory functions for all sectors, including both prudential and conduct of business issues, are combined in the FSA while the Bank has overall responsibility for financial stability. However, each of the three bodies has been accused of failing to do their job properly and communication between them has been reportedly poor (Conway, 2009).

In a speech on 17 June 2009, the Governor of the Bank of England, Mervyn King, sparked a row between himself and the Chancellor, Alistair Darling. He stated in fairly blunt terms that the Bank had been given responsibility for keeping the financial system in good health but without the powers to actually do the job. Despite this criticism, the white paper failed to recommend significant changes, only going so far as to propose a new Council for Financial Stability to assist in bringing together the work of the three organisations and to oversee overall systemic risk.

6.6 Australia

Australia experienced the impact of the financial crisis largely in its fringe finance sector, where seriously over-leveraged institutions quickly collapsed when the global credit crisis cut off their access to funds, leading to a fire-sale of their assets. At the United Nations on 25 September 2008, the Australian Prime Minister neatly summarised Australia's likely response to the financial crisis:

- First, systemically important financial institutions should be licensed to operate in major economies only under the condition that they make full disclosure and analysis of balance sheet and off-balance sheet exposures.
- Second, we need to ensure that banks and other financial institutions build up capital in good times as a buffer for the bad times, using predictable rules.
- Third, financial institutions need to have clear incentives which promote responsible behaviour, rather than unrestrained greed.
- Fourth, supervisory systems must be compatible with accounting principles that reflect reasonable assessments of the value of assets over time.
- And, lastly, the IMF should be given a strengthened mandate for prudential analysis (Rudd, 2008).

Australia's regulatory system weathered the crisis better than other industrial countries, with all four major banks retaining an AA credit rating. There were a number of reasons for the more cautious approach of the Australian banks, including their experiences with earlier overseas adventures, their absorption in the resources boom in Australia and their close prudential regulation by the Australian Prudential Regulation Authority. The division of

Table 6.3 Regulating the Financial System.

<table>
<tr><th>Agency</th><th>Government</th><th>Central Bank</th><th>Prudential Regulator</th><th>Market Conduct Regulator</th></tr>
<tr><td>RESPONSIBILITY</td><td>Fiscal Policy</td><td>Monetary Policy</td><td>Prudential Regulation & Supervision</td><td>Product Distribution Integrity</td></tr>
<tr><td></td><td colspan="2">Economy</td><td></td><td></td></tr>
<tr><td></td><td colspan="3">System Stability</td><td></td></tr>
<tr><td>IMPACT</td><td></td><td colspan="2">Institutional Stability</td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Customer Fairness</td></tr>
</table>

Source: Trowbridge (2009).

roles, with the APRA responsible for prudential regulation of the banks and the ASIC for corporate and market regulation, was the essential logic of the Australian regulatory system (Table 6.3). However, gaps in this regulatory shield were exposed when Allco Finance, Babcock and Brown, ABC Learning, Opes Prime and a host of other finance and property companies collapsed as they were not subject to prudential regulation by the APRA. In addition, in the securities and investments industries regulated by the ASIC, it was believed that disclosure and transparency would allow the market to enforce proper conduct, and thus, the ASIC was not equipped to enforce capital adequacy or to regulate business models (even if, as in this case, these models could be said to represent systemic risk) (D'Aloisio, 2009).

In terms of domestic regulatory reforms, significant activity was focused on the area of executive remuneration. The APRA was asked to explore the issue of executive remuneration and excessive risk-taking in October 2008. The APRA announced its approach in December 2008 and, in May 2009, released a discussion paper on its proposed extensions to the governance requirements for regulated institutions (Australian Prudential Regulation Authority, 2009a). The proposed governance standards are based on the FSF's Principles of Sound Compensation Practices. They would require regulated institutions to:

- Have a board remuneration committee comprised of independent directors with appropriate expertise that would review the remuneration policy at least every three years;
- Have a remuneration policy that covers all employees and agents "whose actions could put the institution's financial soundness at risk." Guidance

is provided on the categories of personnel likely to fall within the scope of this provision;
- Arrange for input from risk management personnel in the design and operation of remuneration arrangements;
- Design remuneration policy to encourage behavior that supports the firm's risk management framework.

The proposed Prudential Practice Guide gives guidance on techniques for measuring performance and for adjusting these measures to take risk into account (Australian Prudential Regulation Authority, 2009b). APRA's intends to have the extended standards come into effect in January 2010.

Also relating to executive remuneration, in March 2009, the Australian Treasurer and the Minister for Superannuation and Corporate Law made a joint announcement proposing the reform of the *Corporations Act 2001* (Cth) in respect of termination payments. The draft of the Corporations Amendment (Improving Accountability on Termination Payments) Bill 2009 was released on 5 May 2009. The amendments would:

- Reduce the cap on termination payments to one year's average base pay unless shareholder approval is obtained. Currently, they can reach up to seven times a recipient's total annual remuneration before shareholder approval is required.
- Extend these shareholder approval requirements to cover termination payments made to any 'key management personnel.' Currently, section 200B of the Corporations Act only imposes the shareholder approval requirement on payments made to directors.
- Expand the definition of 'termination benefit' to comprise of all types of payments, benefits and rewards given on termination.

Also, in March 2009, the Government referred the broader issue of executive remuneration to its independent advisory body, the Productivity Commission. In April, the Productivity Commission published its issues paper on executive remuneration. The inquiry, led by Allan Fels and scheduled to release a final report in December 2009, was to examine:

- Trends in director and executive remuneration in Australia and internationally;
- The effectiveness of the existing framework for the oversight, accountability and transparency of director and executive remuneration practices;
- The role of institutional and retail shareholders in the development, setting, reporting and consideration of remuneration practices;

- Any mechanisms that would better align the interests of boards and executives with those of shareholders and the wider community;
- The effectiveness of the international responses to remuneration issues arising from the global financial crisis (Productivity Commission, 2009).

Allan Fels is widely expected to recommend that the government ban the practice of executives voting in favour of their own remuneration packages (Mayne, 2009). Another outcome deemed likely is for shareholder approval to be required for all equity grants to directors.

In the meantime, both the Australian Institute of Company Directors (AICD) and the Australian Shareholders Association (ASA) have released guidelines on corporate remuneration policy, clearly demonstrating that reform is not limited to the financial sector. The AICD issued its *Executive Remuneration Guidelines for Listed Company Boards* in February 2009, designed to assist large publicly-listed companies negotiate and set executive remuneration (Australian Institute of Company Directors, 2009). The guidelines reflect the AICD's view that executive remuneration should remain a matter for boards, and that further regulation in this area is unnecessary and may be counterproductive to the outcomes sought. The ASA's policy statement, released on 23 March 2009, condemns large termination payments and suggests the deferment of any equity awards (Australian Shareholders Association, 2009).

Outside of the topic of executive remuneration, on 19 November 2008, the Australian Government requested the independent Corporations and Markets Advisory Committee (CAMAC) to provide advice in relation to the effect of various market practices on the integrity of the Australian financial market. The Minister's letter to CAMAC states that "[a]s a result of the global financial crisis and the related turbulence in Australian financial markets, the effect on the market of a number of practices has given rise to a significant degree of concern in the business, and broader, community." CAMAC released an issues paper entitled *Aspects of market integrity* on 19 February 2009 and published its final report in July 2009. The report deals with the following issues:

- directors entering into margin loans over shares in their company;
- trading by company directors in 'blackout' periods;
- spreading false or misleading information; and
- corporate briefing of analysts.

It recommends the implementation of clearance processes and restrictions on dealings by corporate officers by way of governance requirements

set by the ASX Corporate Governance Council or in the ASX Listing Rules.

6.7 Conclusion

The causes of the financial crisis are complex and multidimensional. A combination of many factors, including low interest rates, highly complex financial products, poor risk management and excessive bonus schemes, have led many banks to ruin and set the scene for widespread corporate failure. As a result, nations around the world are reassessing their prudential and corporate governance regulation. The aim of this chapter is to highlight likely changes in the field of corporate governance.

A report for the OECD places a good deal of blame on the boards of directors for failing to properly supervise risk management and incentive systems (Kirkpatrick, 2009). It identifies credit rating agencies, disclosure regimes and accounting standards as contributing to the problem but considers that a good board ought to have been able to overcome these weaknesses:

> "[There were] significant failures of risk management systems in some major financial institutions made worse by incentive systems that encouraged and rewarded high levels of risk-taking. Since reviewing and guiding risk policy is a key function of the board, these deficiencies point to ineffective board oversight" (Kirkpatrick, 2009).

As we have seen, the international policy foundations for reform in these areas have already been laid and more concrete reforms are underway at a domestic level. At a practical level within corporations, this will require the reformulation of both remuneration policy and risk management with increased involvement at the board level. With regard to risk management, Wehinger's OECD report suggests that:

> "To increase the weight of risk management in corporate decisions, risk managers should be placed at the board, or equivalent level, of an enterprise. The board will also have to establish and enforce clear lines of responsibility and accountability throughout the organisation to ensure the integrity of the essential reporting and monitoring systems" (2008).

This will be particularly important for companies that have international activities spanning different jurisdictions where internal cross-border

communication can be quite a challenge. The independence versus competence debate has again arisen with some suggestions that placing independence above suitable qualifications have led some banks to have boards that lacked appropriate risk management expertise (Kirkpatrick, 2009). The IIF has suggested that:

> "…boards need to be educated on risk issues and to be given the means to understand risk appetite and the firm's performance against it. A number of members of the risk committee (or equivalent) should be individuals with technical financial sophistication in risk disciplines or with solid business experience giving clear perspectives on risk issues" (Kirkpatrick, 2009).

Board remuneration committees are also going to find themselves with an increased workload. Recommendations as to the board's role in deciding remuneration policy have already been drafted in the UK and Australia. Directors' skills will be under scrutiny and policies will have to be thoroughly stress-tested.

The overall aim will be to put safeguards in place against the human tendency towards greed when times are good. In their report for the OECD, Blundell-Wignell and Atkinson (2008) cut to the heart of the difficulties in regulating in this area:

> "The key regulatory issue that still confronts policy makers... is one of understanding the business model and corporate culture that always pushes risk-taking too far and results in periodic crises" (2008).

The global crisis was triggered by a particularly tempting environment for risk-taking. The aim of regulatory reforms will be to reduce the incentives for this occurring again. Excessive restraints in any area are generally not good for the economy and thus the overall challenge will be in finding the right balance. As Wehinger puts it:

> "…Regulators and policy makers have to keep in mind that no regulatory system can ever be fail-safe, and 'good' regulation has to strike a balance between stability and growth, in supporting and maintaining financial stability without stifling financial innovation and growth" (2008).

Nonetheless, the financial crisis has reminded the world of the importance of transparency, disclosure, risk management, prudent and competent governance and effective regulation.

Appendix 1 International Regulatory and Governance Reform 2008–2009.

Date	International	USA	UK	Australia
04/08	Financial Stability Forum report on enhancing market and institutional resilience released			
07/08	Final Report of the International Institute of Finance's Committee on Market Best practices released			
08/08	Counterparty Risk Management Group report on Systemic Risk released			
10/08			FSA letter to CEOs on Remuneration Practices	
02/09		American Recovery and Reinvestment Act signed	Review of bank governance to be led by Sir David Walker announced	AICD Guidelines on executive remuneration released
			FSA Draft Code on Remuneration Practices released	

(*Continued*)

Appendix 1 (*Continued*).

Date	International	USA	UK	Australia
03/09		Legislative proposals on resolution authority proposed 25 March	Turner Review of global banking regulation published together with FSA discussion paper	Legislation on termination payments announced
			FRC issued consultation paper on review of Combined Code	ASA Guidelines on executive remuneration released
04/09	G-20 agree on Action Plan			Productivity Commission Issues Paper on executive remuneration published
	FSF Compensation Principles published			
05/09	Bank for International Settlements Report on Issues in the Governance of Central Banks	Fraud Enforcement and Recovery Act signed 20 May, setting up Commission of Inquiry into the Financial Crisis		Exposure draft of Corporations Amendment (Improving Accountability on Termination Payments) Bill 2009 released
				APRA discussion paper on remuneration released
06/09		White paper on financial regulatory reform published 17 June		

(*Continued*)

Appendix 1 (*Continued*).

Date	International	USA	UK	Australia
07/09		Draft legislation delivered to Congress (consumer protection; investor protection; hedge fund registration; independent compensation committees; say-on-pay)	White paper on financial regulation published 8 July FRC second consultation paper on review of Combined Code Walker consultation paper on bank governance released	CAMAC report on market integrity published
10/09				
11/09	G-20 follow up meeting			
12/09	OECD Recommendations to be published by end 2009		FSA to make specific proposals based on Walker Review by fourth quarter 2009 FRC review of Combined Code to report late 2009	Productivity Commission report on executive remuneration due 19 December
01/10				APRA requirements on remuneration to come into force
06/10			Any changes to the Combined Code likely to come into force mid-2010	
12/10		Commission of Inquiry to report 15 December		