

A GOLD STAR ON CORPORATE GOVERNANCE

by [Steve Brown](#)

One of the best things to get as a kid was a gold star for an achievement. The practice seems lost, particularly in the banking industry, where everyone is scrapping for earnings against the significant headwinds of credit quality and regulation. We say, managers should take a moment, buy some gold stars and give them out to employees that are performing at a high level. At the very least, employee satisfaction will rise and after some time passes, a wall of stars will develop, making it easy to identify the true stars of the bank.

Speaking of getting a gold star, management teams may have to work a little harder to get theirs in coming quarters, as things keep shifting around in the regulatory world. Take for instance the 42 page report just released by the global regulatory community on "principles for enhancing corporate governance." Community banks pride themselves on having a strong local board that is already involved, but changes in the banking landscape have dictated even more corporate governance will be required. These new global regulations for all banks will be formalized in the US soon, but bankers seeking to get a gold star may not want to wait.

The regulatory principles revolve around some key areas that include defining bank corporate governance and then breaking down the roles for the board and senior management to follow. The focus then turns to risk management, internal controls, compensation, complex corporate structures, disclosures, transparency and the role regulators will play in all of this.

To begin, regulators have defined corporate governance as "a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives to include the monitoring of desired performance. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the Company and its shareholders. The presence of an effective corporate governance system, within an individual company or group and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy."

We now have a definition we can work from that has been signed off by regulators worldwide, so that is the good news. You may be wondering, however, what the impact all of this may have on your own bank.

To get to that, understand that it is crystal clear that regulators are expecting banks to ramp up their corporate governance efforts substantially. It used to be that targeted areas would include making sure the board was appropriately involved in approving the bank's strategy; having clear lines of responsibility throughout the bank; setting compensation policies consistent with the bank's long-term objectives; and making sure risks that lack transparency were adequately managed. Given the lessons learned from the credit crisis, however, things have been expanded to include making sure the board understands it has overall responsibility for setting business and risk strategy; bank structure; ensuring financial soundness and driving overall governance. In addition, the board is tasked with making sure management exercises sound objective judgment; has appropriate qualifications and is competent (both individually and collectively). Finally, boards must follow good

governance practices at all times; be supported by strong risk control functions (independent as well) and maintain proper oversight. For its part, management, under the direction of the board, must ensure the bank's activities are consistent with the business strategy, risk tolerance and policies approved by the board.

Unfortunately for today, we have run out of room after just barely scratching the surface on this subject. While this gives you a foundation on which to begin building, we plan to go even deeper into this subject tomorrow. If done right, once these principles are folded into your bank's corporate governance programs and processes, a gold star should arrive on your desk.

BANK NEWS

BofA Halt

For the 2nd time in recent years, Bank of America announced it will no longer originate mortgage loans through brokers. The move was done to control credit quality and focus resources on origination through internal channels.

SBA

Over the fiscal year 2010, SBA 7(a) and 504 loans totaled 54.6k and over \$22B, rising nearly 30% from last year.

Foreclosures

RealtyTrac reports foreclosed homes made up 24% of home sales in the 2Q and that foreclosed homes sold for an average of 26% less than non-foreclosed homes (an improvement from the 35% level reported in the 1Q).

Bank Survey

A Gallup survey finds that while 60% of people have confidence in their primary bank, only 18% say they have a "great deal" or "quite a lot" of confidence in US banks overall.

For Sale

Cash-strapped Allied Irish Banks officially put its 22.4% ownership of M&T Bank up for sale, as it seeks to boost capital ratios.

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