Industry Seminar – 20 October 2011

Corporate Governance Cross-Divisional Presentation

Audrey Branch – Deputy Director, Banking Division

Thank you David

Developing Fiona's Board meeting theme, I would like the Board to consider how we address corporate governance in the future.

That is corporate governance at your at your firm and relating to the Code.

I will also take this opportunity to introduce those of you representing banks to recent work of the Basel Committee on Banking Supervision.

Everyone in this room is well aware that the concept of corporate governance has been on a journey over the past twenty years. The Commission first introduced its own Guidance on Corporate Governance in December 2004 and we now have the Code.

So, it's not a surprise to everyone here to say that the Commission expects that some continuing evolution on corporate governance will take place, both within your firms and in respect of the Code. All part of the corporate governance journey.

Your firm

Your firm's approach to corporate governance sets the personality of your business that everyone sees in their dealings with you and what observers such as the Commission see as your approach to your corporate responsibilities.

A firm's approach to corporate governance is a reflection of the culture of the firm.
That culture is multi-faceted. It reflects its ownership, its purpose, the type of business it conducts, its people and the way in which it conducts its business; its behaviours:
understanding the risks it is prepared to (or not to) take in its quest for success, its relationships and dealings with other businesses, customers, staff and social interaction such as charitable giving.

Emma reminded us that each firm's approach to corporate governance should reflect its own particular organisational circumstances and the nature, scale and complexity of the business.
You will find that as your firm's business activities, your risks, your relationships change, the business environment changes your culture develops; so will your approach to corporate governance evolve.

Corporate governance is forward looking. It is iterative. It is a journey

The Commission's Code

With regard to evolution of the Commission's Code, the Commission will continue to monitor international developments in Corporate Governance standards. We anticipate that the Code should provide an appropriate framework for the majority of financial services businesses for some time and it will be interpreted to reflect prevailing standards.
However, for some firms the Commission's expectations for corporate governance are more defined.

Banks and insurers are financial services business with particular responsibilities. They take funds from customers, members of the public, on to their balance sheets, by way of business. Those here today representing insurers will know that they have to meet the Licensed Insurers Corporate Governance Code, issued under section 78 of the Insurance Business (Bailiwick of Guernsey) Law 2002, which is prescriptive.

And for banks, some change is on the horizon.

The financial crisis has illustrated to us all how banks are different to other financial services businesses.

Banks are particularly sensitive to the effects of corporate governance failure.

Monitoring the quality of corporate governance at banks is therefore fundamental to effective supervision of banks.

Since the start of the financial crisis in 2008 the Basel Committee on Banking Supervision has been reviewing international bank supervisory standards.

The Committee has been addressing capital adequacy and other risks through development of Basel III.

The Committee's attention has also been directed to a general revision of Basel Core Principles and corporate governance is recognised by the Committee as an area requiring targeted supervisory guidance.

This is not really new at all. Banking supervision has developed at its core, an assessment of the quality of corporate governance at banks, although this has not been explicit.
Back in 1996, the role of the banking supervisor was described by Derrick Ware of the Bank of England as

"monitoring and evaluating the overall strategies, policies and performance of the bank – where appropriate to specific legal and prudential criteria and reaches a view as to the soundness of a bank and the competence of those running it"[1].
That statement describes an assessment of corporate governance.

[1] "*Basic Principles of Banking Supervision"* Derrick Ware, Centre for Central Banking Studies, Bank of England, 1996

In October 2010, too late for discussion at the Commission's last industry seminar, the Basel Committee published a paper *"Principles for Enhancing Corporate Governance"*. The Commission was aware that this would not be the final piece of work from the Committee, but has been monitoring the Committee's work in this area.

At a meeting of the Group of International Finance Centre Supervisors (formerly the Offshore Group of Banking Supervisors) a couple of weeks ago attended by the Director of Banking, Philip Marr, attention was drawn to the work of the Committee's Core Principles Group which in the last year has been discussing changes to Basel Core Principles for Banking Supervision.

These changes are likely to include a new Core Principle specifically addressing corporate governance.

So does this mean lots of extra supervisory requirements for banks to meet?

Hopefully not:

- The Commission was not immune to the financial crisis and has already taken steps to address corporate governance weaknesses identified at banks;

- The Commission has encouraged the development of stronger Boards at banks;

- The Commission's Corporate Governance Code was developed taking into account existing recognised standards; and

- The Basel Committee requirements are based on those same standards.

Although we cannot be certain at this stage of the outcome of the Basel Committee's deliberations it appears that for banks we may be required to perhaps give more granularity to the Commission's Code.

The Commission will be monitoring the progression of the revised Core Principles and will liaise with the Association of Guernsey Banks as the position becomes clearer.

All part of the corporate governance journey.

The last item on the corporate governance agenda today is any other business.
Thank you.

Neville, I understand that there should be some time available for our panel to answer questions.