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Corporate governance and the credit crunch: A round-table discussion on the recent ACCA discussion paper, with Paul Moxey and Adrian Berendt (ACCA), Michael Mainelli (Z/Yen) Robert Labuschagne (KPMG) Brandon Davies (GARP/Gatehouse), and Alan Craft (Craft Financial), held on Tuesday, December 16, 2008, at Brewers' Hall, Aldermanbury Square, London, EC2V 7HR, from 12:30-2:15pm.

When it comes to finding blame for the credit crunch, the only firm conclusion is that there were many causes and failures across the board, the first speaker said. Individuals behaved rationally but the collective result was disastrous. The ACCA report aimed to take a step back and look at the wider picture and to see how sound corporate governance, risk management and accounting might help. The speaker did not want to go through the whole report but instead ask what changes should be made now to deliver a sustainable business model.

At the heart of this was the issue of whether a new governance model was needed. It should also drive a move away from entrepreneurialism towards professionalism. Lastly bank boards need more oversight. He referred to a speech by Vince Cable when the Lib Dem Treasury spokesman relayed a remark in 2006 by a now-nationalised bank CEO that if he reined in mortgage-based transactions he would be sacked. The speaker said any future model should take human nature into account.

The second speaker used a couple of anecdotes to make his points. His freezer had defrosted because his children had slammed the door, leaving it open. They suggested he leave a note on the door telling them to close it properly – but then realised he would have to leave notes across the house covering every possible issue. Moving to the wider world the speaker said 3,600 new had been made since 1997 – around one a day. There was too much focus on new regulations.

His second story related to a letter his father-in-law had received in the 1960s from his bank about his overdraft. The manager had asked him to come to the branch and when he did, he was told he was trying to “squeeze a quart out of a pint bottle”. Contrast that with current banks’ letters and fines! The point is that we should be looking at changing corporate governance attitudes rather than adding regulations. Banks’ lending had tripled since 1998 while their funding requirements had risen from nil to £700bn. What was needed was better awareness and mechanisms to check that behaviour as one went along.

The third speaker focused his ire on accountants, asking why there was little competition with just four big global players. He said regulation had raised barriers of entry. He blamed accountants for relying on mark-to-market rules to give a simple number without taking a long-term view. If an asset has a value now is that value likely to change over time, for example? His big question was how one would know when the system was fixed. He said that moment would come when a 20-year-old could invest in a financial structure that would be guaranteed to last until retirement – something that had never happened in this country.

The fourth speaker said the aim of accountants was to put information out to investors and help make boards accountable. "We need to tell it how it is," he said. "The number on the balance sheet is the way it was." Investors have to make decisions based on the report and accounts and ask themselves what they are saying. One member objected saying the Northern Rock annual report indicated it was the safest bank. The speaker said everyone shared blame for the crisis. It was another example of human self-interest and greed going too far. It was up to society to put a brake on individuals.

The fifth speaker said banks have grossly overstated how much they know about risk, whereas in fact the most dangerous risks are in the tail of the distribution where correlations break down. The key is take the 10 principles in the ACCA report and actually make them work. At the heart of this should be a fundamental restructuring of bank boards that shifts the balance away from managers toward owners. He admitted he had not produced a detailed model but said the aim was to connect professional investors with companies. He said the idea that credit ratings agencies could issue a rating without having anything at risk was wrong. He suggested going back to the idea of two-name securities when one bank would effectively rate another's product.

The last speaker identified a number of factors contributing to the crisis. Governments had simultaneously sought to kill inflation while seeking strong growth targets. Regulators had let consumer protection take precedence over institutional stability. Institutional investors had been both the largest holders of bank equity and the largest buyers of the structured products these banks were issuing. Executive and non-executives were conflicted "at every turn". Leverage had become a mantra for banks that had as a result become too complex to manage – non-executives were out of their depth. Lastly accountants were conflicted by their roles as consultants and auditors.

Where does corporate governance go from here? The fifth speaker said one had to ensure the principles changed behaviour and to move away from managerial capitalism. The sixth speaker called for more expertise among regulators to ensure that the 'supervisors' matched the 'doers'. The fourth speaker warned the next crisis was not far away, making it urgent that the interests of owners and managers were better aligned and that supervisors had better information. The third speaker said the big banks needed to be broken up while accountants needed to reflect better what was really going on at a company. The first speaker said regulation was not the answer. Instead one needed to concentrate on human nature.