

Shaping bank governance in a new era

A revised compact with management and shareholders¹

Boards of financial institutions (FIs) have been busy beyond any precedent these past 12 months. Through early this year, directors² were focused primarily on restoring their respective firms' economic stability and maintaining competitive strength. Since then, their attention has shifted to reviewing proposals for regulatory reform and reflecting upon their approaches to governance, in light of an increasing chorus of demands from external stakeholders. Today, the debate over oversight and governance has truly taken a prominent place alongside bank strategy on the agenda of FI board members and CEOs.

Tapestry Networks' discussions³ with financial institution directors and executives about governance have revealed divergent views on the board's culpability for the financial crisis and the damage done to their respective firms.

- Some believe the crisis and consequent damage to firms resulted from powerful forces largely outside the control of board members and their institutions. While some FIs fared better than others, ultimately the crisis was unavoidable.
- Others believe that boards had an absolute responsibility to understand the risks in the global economy and the risks on their books and to take measures to protect their firms and their shareholders. Some did a better job than others, but had boards operated properly, we would not have experienced the crisis as we know it.

However, there is universal agreement that an effective board can make a big difference to corporate performance. As one large-bank CEO put it, *"A strong management team can survive a weak board. But a weak board can be debilitating – like having a fast car with snow tires. Couple a strong board with a strong management team, and you can get a great company. A weak board with a flawed management team is a disaster waiting to happen."*

The long-awaited review of corporate governance in UK banks and other financial entities, chaired by Sir David Walker, was released in mid-July.⁴ It complements a host of

¹ The perspectives presented in this paper are the responsibility solely of Tapestry Networks and do not necessarily reflect the views of any individual financial institution (FI), its directors or executives, or Ernst & Young. Quotes in italics are drawn directly from participants in the research.

² In this document, "director" refers to non-executive, non-employee board members on a firm's unitary or supervisory board.

³ Since late 2008, Tapestry Networks has been leading an effort to support directors of leading FIs as their boards review governance practices and ask themselves tough questions about opportunities to improve, in light of intense external criticism. To date, we have spoken to over 90 FI board directors, current and former FI executives, regulators, investors, and other thought leaders from Europe and North America. Ernst & Young is sponsoring this research as part of its deep, continuing commitment to board effectiveness and good governance.

⁴ See David Walker, *A review of Corporate Governance in UK Banks and Other Financial Industry Entities* (London: HM Treasury, 2009). Available at http://www.hm-treasury.gov.uk/d/walker_review_consultation_160709.pdf.

recommendations from national and multinational regulatory bodies, government agencies, legislators, industry groups, institutional shareholders, and numerous other organizations interested in good governance. Collectively, these proposals outline what amounts to a new approach to FI governance: a revised partnership with management and key external constituents in which directors support the institution as substantively more engaged and independent participants in strategic decisions, with a greater level of accountability for success.

Virtually every FI has begun to consider how – and how much – to adopt this new approach to board governance in light of regulatory, legislative, and shareholder demands. It is obvious that what is right for Credit Suisse may not be right for Goldman Sachs; what works for Barclays may not be the answer for Citigroup or TD Bank.

At times, the jousting over corporate governance proposals appears to pit reform advocates against boards and management teams that are reluctant to change. Occasionally, the verbal battle between FIs and their critics (public, political, and regulatory) produces an excess of incendiary rhetoric. But our extensive interviews with all of the parties with a stake in this issue reveal an obvious shared and preeminent goal: high-quality governance and responsible conduct. It is thus an especially opportune time to take stock of leading stakeholders' views on the future of board operations.⁵

This briefing note⁶ outlines:

- The key features of the new approach to board governance being advocated by regulators, legislators, and investors
- The imperative for directors to take the lead in defining the agenda for board performance improvement
- FI leaders' views on factors underlying a successful journey toward enhanced governance

Key features of the new approach to FI board governance

Undoubtedly, each FI board has a unique fingerprint – in the words of one research participant, “[boards] are all starting from fundamentally different places” as they consider whether and how to adjust their practices in the wake of the financial crisis. Any given board has the potential to be viewed quite differently, depending on the vantage point of the observer.

⁵ Recent conversations with FI leaders have also highlighted a number of other priority issues for bank boards, including risk governance and executive compensation. Our aim is to explore these topics in detail in forthcoming materials.

⁶ This note is intended to pass along to the directors of leading financial institutions the insights that Tapestry Networks is gathering. Our hope is that this information will shape future dialogue and support directors' conversations with their management teams and key stakeholders as boards adopt new governance approaches. The first briefing note, *Shaping bank governance in a new era: enhanced oversight versus radical reform* (June 2009), can be obtained from Tapestry Networks. These briefing notes may be shared freely.

In addition, FIs will implement changes to governance practices differently, depending on whether they have a two-tier or a unitary board.⁷ Therefore, our intent is not to make sweeping generalizations about the current state of play with respect to bank governance, nor create a one-size-fits-all checklist for the future. Instead, we aim to provide context to facilitate a thoughtful dialogue among FI leaders about the individual governance journey their institutions face.

The traditional approach

Before considering the new approach that is emerging from the stream of recent proposals, it is useful to start by outlining, in general terms, the characteristics of what might be thought of as a great FI board in the traditional approach: one which contributes to the success of the institution primarily through management support and advice.

- It comprises accomplished men and women who may have little or no financial services experience, but who bring a set of skills and relationships that complement those of management.
- While board members in the traditional approach are dedicated to creating shareholder value, they tend to have a close relationship to top management and a limited or non-existent relationship with shareholders.
- Board members meet with management approximately eight times a year, primarily in well-orchestrated settings, e.g., board presentations, breakfast meetings prior to board meetings, board retreats, and so forth. Board members ask good questions, and expect well-considered answers from management.
- Board members are careful not to “cross the line” into management activities, meddling, or second-guessing management. The exception to this pattern is in a crisis – then the board steps in with full force until there is a resolution.
- Interactions with regulators are channeled through one or two board members – typically the board or audit chairman.
- Formerly an important but modest-sized role for the board, compliance has become a major function of the board as regulatory bodies have stepped up oversight in a wide variety of areas. Some argue that mandated compliance activities have squeezed out strategic engagement.
- Limited, if any, independent board leadership. In the US, chair and CEO titles are still held by one individual in the majority of companies. That is changing. In the UK, Canada, and Europe, the titles are almost always held by two separate people, whose relationship varies from close to antagonistic, and everything in between.

⁷ Research participants operating within the supervisory board structure have commented that it may inhibit the degree to which the board and its committees are able to increase their level of engagement and oversight, particularly in critical areas such as risk management and compensation. This is further complicated by the inclusion of employees on the supervisory board and its committees in some countries.

- Board members spend 20 to 25 days per year; committee chairs spend somewhat more time. Non-executive chairmen spend 50 percent to 100 percent of their time on company business.

The traditional approach works best in tandem with a strong management team and in relatively stable circumstances. But it is open to various forms of serious criticism, including:

1. Directors are disengaged from the business of the institution.
2. They are too cozy with management and too distant from shareholders.
3. They lack sector expertise needed to shape and assess business strategy and risk appetite.
4. The board is far more oriented toward compliance and process than strategy and substance.
5. The board does not constitute a serious check on management; as one participant put it, there is often *“an institutional reluctance to rock the boat ... or to break ranks [with management].”*
6. The relative inaction of these boards over the past few years contributed directly to their institutions’ problems, and to the financial crisis at large. Those FIs that have done relatively well should thank their management teams, not their boards.

A revised approach to board governance

The list of reform proposals advocated by investors, regulators, politicians, and others grows by the week on both sides of the Atlantic. As we outlined in the previous briefing note, these proposals address a wide range of issues, including FI operations, risk management, and executive compensation. As one regulator acknowledged, *“The political pressure [to do something], and get it done quickly, is intense.”* Some proponents of reform have gone further, making recommendations for reform in areas including FI interactions with regulators and investors, and board operations – regarding the latter, most notably with the Walker review’s detailed exploration of bank governance issues.

While the environment is still quite fluid, and not all recommendations will necessarily survive in their current form, our research suggests that a new approach for FI board governance is also beginning to emerge. In this approach, non-executive board members will contribute to the success of the institution by playing a more engaged, independent role – more willing to challenge management proposals based on its own expertise and assessments and more open to shareholder input. They also support management with advice, wisdom, and relationships, much as in the traditional approach. Thus, rather than repudiating the traditional approach, the revised approach takes the “support and advise” duties of the board as a foundation, and builds a whole new “engage and challenge” dimension on top of it.

The look and feel of this revised compact with management and shareholders will be markedly different from the traditional approach. Key features include:

- **A more engaged board.** Board members will find ways to engage with management far more often and in a less structured way than under traditional arrangements. They will also engage with external constituents (e.g., regulators and investors) on a more regular basis. In so doing, directors will be more in touch with ideas and issues in their formative stages – when the ability to shape ideas and advise the executive team is potentially greater. They will gain a first-hand sense for the abilities of management. However, board members will be careful not to cross the line into management’s activities, where responsibility and accountability for results must unambiguously remain.
- **A challenge mentality.** Board discussions would become more grounded in understanding accrued over time, as a result of a deeper engagement with the strategy, risk profile/appetite, and issues of the firm on a routine basis. One regulator put it bluntly: “*We will [seek] evidence that boards are asking the right questions.*” On occasion, board members or committees might challenge the recommendations of management and trigger a spirited, fact-based, and constructive debate within the board. As one executive put it, “*There is a need for healthy skepticism combined with a high level of mutual trust; skepticism without trust can be destructive.*” The “perfect question” might increasingly be replaced by the “smart alternative proposal.”
- **Truly independent oversight.** Boards would further enhance their ability to provide independent oversight of management. The board leadership approach would be strengthened, with the non-executive chairman or lead director having much more influence over the board agenda, composition, and functioning. Committee chairs and other non-executive directors would have more say on what is discussed in meetings, and in what degree of detail. They would seek out more external perspectives on their organization and its management.
- **Knowledgeable, independent-minded directors.** A greater percentage – perhaps up to half – of board members will have an in-depth set of experiences or expertise in the business of the FI. The other half may consist of more traditional board members, especially those with expertise in specific functions or markets of importance. All directors should possess the interpersonal skills required to engage and challenge in a constructive and compelling manner. As one participant concluded, “*We all want directors with wide, senior-level experiences who are keenly interested in doing their job.*”
- **Stronger shareholder involvement.** The new approach envisages shareholders having more influence over the board of directors. In the US, this means majority voting, proxy access to some degree, say-on-pay, and annual director elections (i.e., non-classified boards). In the UK and elsewhere, it would mean annual director elections and yet more interactions between shareholders and non-executive directors. Directors would remove what one participant referred to as “*the cloak of invisibility*” with respect to institutional

investors and engage with them on a more regular basis. Board members would listen, reflect on, and, when appropriate, act on investors' perspectives. Votes for re-election to the board will meaningfully reflect shareholder satisfaction with individual director performance.

- **Closer interworking with regulators.** One director observed, *“Previously, when management said regulators are being unreasonable, we assumed they were right. Today, we don’t accept that – we want to understand [the regulator’s] concerns and share perspectives.”* Or, as an executive put it, *“When we agree with [the regulator’s] view, we implement change. When we feel we need to educate them more on what we do, and why certain requests are not sensible, we do so. When we feel their demands are not in line with how we want to operate the business, we reserve the right to push back.”*
- **Greater time commitment.** The time required of a board member is an outcome of the work required, not a design parameter in itself. The non-executive chairman would be a nearly full-time job. Directors would nominally spend 35 to 50 days per year on company business. Chairs of the risk and audit committees could spend considerably more time.

Several FI leaders caution that some regulatory mandates have the potential to degrade, rather than enhance, board governance. They cite, for example, two practices that reform advocates believe have the potential to subvert independence: (1) limitations on permitting former executives to serve on the board (particularly CEOs becoming board chairs); and (2) mandatory term limits for board members. FI leaders argue the need for flexibility on both points, especially given the critical need for expertise and institutional memory.

More generally, critics point out what they see to be significant dangers and disadvantages in this new governance approach. Among those most often cited are:

1. The required increase in board activities, including longer board and committee agendas and more frequent interaction with management and outside stakeholders, will slow down decision-making to a potentially dangerous degree.
2. Directors can never understand the business in enough depth to engage meaningfully on the detailed issues.
3. There are far too few qualified directors available and willing to do this job.
4. Shareholders want returns, not greater involvement with companies – and they lack the resource capacity to engage anyway. Mischief will ensue.
5. The new approach sounds like boards will be doing management’s job; who is really in charge?
6. None of these changes would actually have prevented the financial crisis.

7. This new approach is designed to solve today's problem. Regulatory reform and adjustments to business models may significantly change the character of FIs over time. We should design a governance approach for the future not the past.

Questions for directors:

- ? What elements of the new approach do you find most compelling? Which are most concerning?
- ? In what areas do you expect mandated change through regulation or legislation?
- ? Do you expect, over time, to implement improvements at the margin or substantial changes in governance?

Leading the way forward

FI directors are paying close attention to the evolving proposals for regulatory and governance reform in Europe, the UK, and North America. In cases where governments now own a stake in the bank, regulators are clearly dictating terms. But even independent, successful FIs know that new regulatory mandates will inevitably require at least some tactical and compliance changes. Board leaders are using this period of intense external focus on governance as an opportunity to drive tailored agendas for substantial board performance improvement.

As one participant put it, “[*The focus on boards*] offers the opportunity for fundamental change, and FI boards might undertake a rigorous self-assessment of their structure, governance, and membership. There will never be a better time to cut out old wood. And better to get ahead of the game than wait for the regulators to opine.”

In our first briefing note, we asked the question: do directors want to significantly alter the way their board has worked, or do they want to only slightly modify their practices? Despite strong rhetoric from some regulators, FI leaders generally believe boards will retain considerable freedom to determine how much change is required and how quickly to embrace it. For some, little material change will be required. For others, the change process will extend over several years and will involve significant changes in board composition, board operations, and the board-management relationship.

One chairman and CEO, who rated his board and governance effectiveness as relatively weak (although the bank's performance has been very strong), described his vision for governance at his bank five years into the future. He emphasized its behavioral and cultural aspects:

The board would be deeply engaged, but respectful of the bright line between oversight and management ... Directors would be very aware of the bank's strategy, [its risks], and its nuances ... Strategy would be discussed at every board meeting, not just at the annual strategy offsite ... The board would comprise broadly talented people with some sector expertise ... They would be externally plugged into key constituents, including regulators ... and would have a much higher level of time commitment, [with] a real ongoing investment in

understanding the business ... working as a complementary team with management and among its own membership.

This aspirational vision has prompted the chairman and CEO to think deeply about how he can help guide the board from where it is today to reach his vision. He concluded, “*it would require a different set of directors [than we have today], focused on a different set of issues. Meetings would be different; they’d be interactive, with governance and strategy discussed all the time.*”

Questions for directors:

- ? Which board and management members are leading the effort to consider changes to governance arrangements?
- ? By what process and over what time period will this review take place?
- ? What are the respective roles of the board and management in engaging with regulators and investors on key reform matters?

A successful journey toward more effective FI governance

Sir David Walker, in the *Review of corporate governance in UK banks*⁸, crisply articulated the views we often heard in our interviews of board members and management:

Good corporate governance overall depends critically on the abilities and experience of individuals and the effectiveness of their collaboration in the enterprise and, despite the need for hard rules in some areas, will not be assured by box-ticking conformity with specific prescription ... principal deficiencies in BOFI [bank or other financial institution] boards related much more to patterns of behaviour than to organisation.

For example, setting up a risk committee of the board will have little effect in the absence of a robust set of operating practices and interactions (i.e., behaviors) with management. Demanding industry expertise on the board will have little effect in the absence of agreed protocols for bringing that expertise to bear within the enterprise and the board.

There is consensus among the FI leaders we interviewed that the board chair or lead independent director, together with the CEO, play a critical role in charting the board’s course toward governance improvement. Although the path forward for each institution will be unique, directors express a keen interest in exploring the question of board development in further detail in a peer setting. In the meantime, participants highlighted several factors boards should keep in mind:

Focus on the ends, not on the means. It is important to keep the ultimate goal in mind when changing the approach to governance. Take, for example, the need for more knowledgeable, committed directors. Many regulators have concluded that the only way to get more knowledge in the boardroom is to appoint directors with sector, risk management, or regulatory experience.

⁸ David Walker, *A review of Corporate Governance in UK Banks and Other Financial Industry Entities*, 6, 8.

For their part, FI leaders concede that a few more experts would clearly enrich the dialogue in board or committee meetings, though as one director observed, *“it’s hard to argue that having more sector experience would not be beneficial, but it’s no panacea.”* These directors and executives believe that accomplished and well-positioned board members who bring a set of skills and relationships that complement management, and who are *“problem-solvers, strong-minded and independent thinkers”* can bring about the same result, even if they are not sector experts. There are also tried and tested mechanisms for enhancing and maintaining a high level of knowledge among directors – through more effective, focused communications, more time “on the job,” opportunities to meet with management outside the boardroom setting, more educational activities, and so on.

Be careful not to step into management’s shoes. Interestingly, research participants’ views on the board’s potential to *“cross the line”* into management responsibilities fall into two broad categories:

- **It’s a real danger.** Some directors fear that being “more engaged” is a euphemism for managing the business, which is not directors’ role. One stated, *“Crossing the line would be a disaster.”* One executive noted, *“As far as directors who are actively getting involved in the management: that makes me shiver a little bit, because having boards that do deep dives in too many places ends up being a distraction to both boards and management.”*
- **Boards can and should get involved.** Those with self-reported engaged boards see no such problem. One director, whose board members spend a fairly significant portion of their time on their bank roles, reported that the relationship works well: management knows when directors should be involved, as do directors. One bank chairman went so far as to suggest that *“people use the ‘crossing the line’ argument as a reason not to change.”*

However, regardless of where on the spectrum participants place themselves, most acknowledge that a line does exist and that the new, engaged board should ensure that management retains responsibility for running the firm. Management, in turn, needs to be confident in setting appropriate boundaries.

As one CEO put it, *“It’s up to management to set the line for the board. They have to be confident in doing so; otherwise, if they don’t stop directors from getting involved in the detail, they will continue to do that.”* This does not mean management should control the board. Rather, it denotes a shared respect of each other’s respective roles. One participant summed up the views of many when stating: *“Good strong management teams [are] improved by strong boards offering sound ideas. Otherwise, the board is just going through the motions and it’s a waste of time.”*

Focus on building constructive patterns of behavior. Every director and executive we interviewed pointed out that, ultimately, good board structure and carefully vetted board members alone are not sufficient for effective corporate governance.

Echoing Mr. Walker's observation about behavior, one director stated, *"It is the soft Ss, not the hard ones, that matter."*⁹ With this in mind, it is not surprising that many FI leaders point to the cultural dynamic of the boardroom as the avenue through which they aim to drive their agenda for governance improvement. These leaders emphasized a number of criteria they believe are essential in engendering a positive dynamic between boards and management teams:

- **Senior management views the board as an asset.** A leading regulator identified a spectrum of ways in which management uses their board: *"Does management only take things to the board for approval? Does it only take those issues it has to get approval for, and not volunteer to take other issues where it has discretion? Or does management use the board to probe their ideas and proposals?"* Another participant commented, *"Good strong management teams [are] improved by strong boards offering sound ideas. Otherwise, the board is just going through the motions and it's a waste of time."*
- **The CEO/chairman-lead director relationship is one of mutual respect.** Not surprisingly, there is a debate in the US about the need for splitting the roles of chairman and CEO. (European and Canadian directors have grown accustomed to splitting the role.) There is agreement, however, that regardless of the structure, the relationship between the CEO and non-executive chairman or lead director is important. The chemistry between them and the respect for each other's contribution is seen as critical, as is the ability of the latter to influence and drive the board agenda, board composition, and the quality of board/management dialogue. *"At the end of the day,"* observed one participant, *"the dynamic is about how much the CEO appreciates a diversity of views, and is not threatened by that, versus wanting people who will [simply] agree."*
- **Directors have open access to management.** The manner in which directors and management communicate outside of board and committee meetings makes a difference. One executive, reflecting on his own experience, highlighted a key difference: in his current institution, *"[directors] are free to talk to any executives, including business line CROs [chief risk officers] and business heads ... It is the fluidity of these communications that gives [directors] comfort. It helps build their credibility and understanding."* By contrast, in his old firm, *"all communications had to go through the CEO's office."*

Another executive corroborated the view: *"management communications [in my firm] were channeled through the CEO; there was not much independent discussion with the board. And even when [there was], everyone was wrestling with the rules of the game on how to operate outside the chain of command."*

One director cited the benefits of *"frequently talking to people in the business – board members should have an open line to anyone."* Some banks accomplish this through periodic visits by directors to business divisions and functional units around the company;

⁹ "Soft Ss" refers to the 7-S Framework in *In Search of Excellence*. They include style, shared values, and super-ordinate goals, as contrasted to the "hard Ss" of structure, strategy, staff, and skills. See Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best Run Companies*, (New York: Harper Collins, 1982, 2004).

another organizes regular lunch meetings between non-executive directors and different subsets of the top 40 managers.

- **The culture encourages early and open inquiry by all parties.** There is general consensus that boards must establish an environment where informed dissent is not only accepted, but expected: *“Directors need to ask more questions ... challenge [management’s] unspoken assumptions ... [and] ... ensure they understand the answers they’re getting.”* Several research participants commented that the ground-rule of asking questions and *“not being afraid to look stupid”* should apply equally to management, as well as to directors; as one noted, *“If boards expect management to have all the answers, quite often [they get] defensiveness [from management].”*

One CEO commented he has found that the best way to encourage dissent is to brief the board on ideas at as early a stage as possible, and seek input *“before management has gone too far that boards can’t say no or [directors] are so conditioned that they inevitably say yes.”* At an early point, *“management is not fully committed and values contributions that help to shape ideas ... and board members are not put into an awkward position of stomping on a fully-fledged plan,”* he continued. Similarly, a number of participants believe boards should encourage the management team to escalate potential problems, *“even before they have solutions.”*

Changing the board/management dynamic cannot be achieved overnight. Cultural shifts take time, and trust needs to be built up among those involved. Several executives recommend that boards focus on achievements versus plans as a means to build up trust in management; as one put it, *“if we say something is going to happen, directors should assess how it turned out several months later.”*

Questions for directors:

- ? What are the critical design features, including composition and skills, of a highly effective board? In what ways can the board leader work with management, and with the governance committee, to ensure the right people are in the right board roles?
- ? How should boards balance the need for independence with the need for more industry knowledge?
- ? What characteristics are essential to an optimal relationship between the chief executive and the board? How can board leaders and committee chairs work with the CEO to ensure effective dialogue?
- ? How does the board ensure candor and openness of discussion among directors? Between directors and management?

Conclusion

Directors, executives, regulators, politicians, investors, and the general public are all in accord about the need for effective corporate governance. *“Boards are where the buck stops,”* stated one research participant. Another was more colorful: *“I believe in the old expression ‘a fish rots from the head. Key judgments about the size, shape and growth of the balance sheet are made by very few people in the organization. Board members working with senior management can make a huge difference.’”*

Bank directors recognize that policymakers and investors are turning their attention to governance reform in the sector, with full force. This means that directors and top management must do likewise.

At some institutions, the current approach to governance works well and can be adjusted to accommodate regulatory mandates. Others will want to start cautiously down the road toward a different approach, gradually incorporating those aspects of the emerging approach that best suit their organization. A few will move more rapidly – either by conscious desire or regulatory fiat. Research participants agree that, in the words of one executive, *“We can talk a lot about the ideal model for governance, but how you get there depends on where you’re starting from.”* There is no one-size-fits-all solution; what is right for one bank may not be right for another.

Ultimately, the goal for every institution is superior performance and enduring competitive strength. As one research participant put it, *“Hopefully, banks will aspire to something greater than just tick[ing] the box to satisfy regulators. They should want to find the very best [governance] solutions for their company. Just doing what the regulators ask for will lead to mediocrity.”*

Generalized prescriptions are not well-suited to reaching lofty goals. Structural and personnel changes will be necessary, as well as shifts in behavior and culture. But this is a familiar challenge to seasoned CEOs and board members, who are committed to take a lead in shaping their firms’ and industry’s future.

While the *“best solution”* will look different for each institution, FI board members have emphasized the value of candid dialogue with peers, as well as with regulators, investors, and other stakeholders, as they plan the way forward. Directors are keen to focus on the practicalities of change, particularly in risk oversight, compensation, and board operations, as well as regulatory and investor outreach. To support directors in this effort, Tapestry Networks, in partnership with Ernst & Young, has initiated the Financial Institution Directors Summit initiative. The summit is described in the Appendix.

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Appendix: Financial Institution Directors Summit Fact Sheet

Concept

The Financial Institution Directors Summit (the Summit) will bring together board directors from 12 to 14 major North American and European financial institutions (FIs) to share perspectives on strengthening corporate governance. These peer-to-peer discussions will be informed by prior interviews with FI directors, executives, stakeholders, and experts documented in a series of white papers.

Directors invited to participate in the Summit will play a critical leadership role on the board of their financial institutions including non-executive chairmen, lead directors, and key committee chairs.

At the Summit, the directors will debate possible changes to FI corporate governance and discuss practical proposals for implementation. Armed with these insights and perspectives, they will be prepared to take the lead in discussing and designing changes to their own board's approaches to governance.

Context

In the wake of the financial system and economic crisis, the global banking industry finds itself at the dawn of a new era and in the midst of unprecedented change. Public policy and individual firm initiatives have naturally focused, up until now, on two priorities: (1) restarting the global economy and (2) instituting regulatory reform aimed at preventing a recurrence of the current crisis.

While corporate governance, and specifically the role of the board of directors, is seldom cited as a leading cause of the crisis, board directors do feel a keen sense of responsibility and an urgent desire to help engineer whatever changes may be warranted. The directors of leading FIs seek a vehicle through which they can engage with peers and stakeholders to address the challenges of bank governance in the new era and lead governance reform initiatives on their own boards.

Organizers

The Summit is organized and led by Tapestry Networks and supported by Ernst & Young. Tapestry Networks is a leader in corporate governance peer networks. Its mission is to foster relationships, insight, and courage to inspire and enable leaders to act. Ernst & Young is a global leader in assurance and risk management services to FIs.

Participants

Participation in the Summit is by invitation only. Criteria for participating institutions include:

- Complex, global footprint
- Large capital markets operations
- Significant interest in US and UK regulatory reform
- Leading recipients of government funding infusions and support

One or two directors from each FI may participate. Each participant will be nominated by the board and CEO of the institution.

Potential topics

Initial conversations with FI directors indicate a strong interest in examining the following areas of board oversight and governance:

- Evolving expectations for FI boards
- The changing face of risk management and oversight
- New approaches to executive compensation
- New standards for board organization and operations
- Engagement with regulators and long-term shareholders

Tapestry Networks will work with participants to refine the proposed topics. Prior to the Summit, participants will receive white papers on each major discussion topic.

Participant value

We seek participants who seek to learn and commit to lead their boards toward corporate governance arrangements suited to the new era. They will gain the insights, conviction, and courage necessary for effective leadership through:

- Private peer-to-peer dialogue to develop practical insights on issues confronting FI boards of directors
- Personal and professional relationship-building with FI board leaders from global institutions
- Access to cutting-edge insights and perspectives from external constituents such as regulatory officials, risk and compensation experts, and key policy influencers
- Contribution to rebuilding public trust in financial institutions

Expected time commitment

FI member institutions will commit:

- One or two directors to participate in a 90-minute pre-meeting conversation with members of Tapestry Networks and Ernst & Young to shape the Summit's agenda and discussion topics
- One or two directors to attend the Financial Institution Directors Summit, a one and a half day time commitment, in October 2009, to be held in New York
- One or two directors to participate in 90-minute discussions with the FI's CEO and CRO in advance of the Summit

Confidentiality

The Summit will use a modified version of the Chatham House Rule whereby names of participants and their company affiliations are a matter of public record but comments made during interviews and meetings are not attributable to individuals.

Insights developed from the Summit initiative will be published by Tapestry Networks and may then be distributed by Summit participants to colleagues. They will also be distributed by Ernst & Young to its partners and clients.

Disclaimers will appear on all materials stating, *“The views expressed in the Summit materials represent the personal views of the participants. They do not reflect the views nor constitute advice of the participants’ organizations, Ernst & Young, or Tapestry Networks. Please consult your counselors for specific advice.”*

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