

# Bank Governance Leadership Network

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## Remarks to the Financial Services Roundtable Spring Meeting

### Governance in post-crisis banks: the role of the non-executive director

On March 18, 2010, Tom Woodard and Mark Watson addressed over one hundred members of the Financial Services Roundtable (FSR) at its Spring Meeting in New York on the subject of Bank Governance. Our remarks were very brief – about five minutes – and delivered as part of five Policy Committee meetings. In addition, each of the 160 attendees of the Spring Meeting was given a copy of a four-page [ViewPoints](#) summary from the 2009 Financial Institution Directors Summit.

Richard K. Davis of U.S. Bancorp chairs the FSR. All of the attendees are prominent leaders across the full range of financial services institutions.

### Text of comments

Good afternoon, my name is Tom Woodard (Mark Watson) and I am a partner at Tapestry Networks. Tapestry is a boutique, for-profit firm deeply involved in corporate governance. We do not advocate; we do not lobby. We have no dog in this race. Our focus is non-executive directors, and our mission is to help them to be the best directors possible.

Over the past 18 months, in partnership with Ernst & Young, we have probed deeply into bank governance – its role with respect to how banks got into or avoided crisis; ways to revise and strengthen governance arrangements; and how boards can contribute to earning back the public trust in banking. Ernst & Young has generously sponsored and supported this initiative, and continues to do so.

I'd like to tee up three questions today – and offer just a short thought on the way our participating directors would think about them.

### What's the relationship between good governance and good judgment?

The chairman of a large European bank that is now largely government owned commissioned a detailed review of “what went wrong?” The review determined that the bank and its board of directors had been entirely diligent. Board members were distinguished and successful business people; the board met regularly; committees were chartered correctly and functioned well; board members asked good questions; management had provided all pertinent information; and special studies had even been commissioned to probe deeply into assets about which the board was uncertain.

The review concluded that there was not a *failure of governance* – indeed everything was done according to Hoyle – but, rather, there was certainly a *failure of judgment*. Management, with the oversight and concurrence of the board, had simply misjudged the riskiness of the bank's strategy and positions. When the global economy crashed, the bank was ruined, its shareholders wiped out, and enormous collateral damage suffered by creditors and customers.

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What do you think? Interesting, isn't it?

The view of directors participating in this initiative is that good governance is not primarily about conformance to procedure or compliance. It is precisely about the arrangements that yield good judgment. By the way, they might add that the bills in Congress today, under the label of bank governance, have very little to do with good judgment. They are primarily about shareholder rights and executive compensation.

**How should bank boards and non-executive directors balance the often conflicting demands of various stakeholders?**

Bank boards are being encouraged to listen more to *shareholders*. Those who urge this sometimes forget that it was the shareholders who pushed for short-term performance. And, by the way, the merry-go-round is starting to turn again. Mitigating risk and shoring up the balance sheet was last year's priority; profitability may become this year's focus.

*Regulators* want risks to be as low as possible. They cannot afford another melt-down on their shift.

*Clients* in the real economy (small and large businesses, consumers) want innovative, value-adding products scrupulously marketed and fairly priced. And, by the way, there are those in Washington who will give you an independent agency to ensure this happens if banks can't do it themselves.

Our participants cut through this Gordian Knot with the simple observation that all stakeholder demands converge in the long term. Boards need to focus on building vibrant, strong, competitive, client-focused, sustainable institutions. Board members, most of whom serve for 10 to 15 years, are ideally positioned to take this long term perspective.

**What are the keys to good governance?**

If great governance means applying good judgment with the long term strength of the institution as the prime objective – how do you get there?

Banks are moving to a new model of governance. It is not a pendulum – the new model is here to stay. Boards will have the right mix of talent and experience; members will be deeply engaged; time commitments have increased dramatically. Much has been written on all of this, and I would commend to your reading in particular Sir David Walker's Review undertaken at the request of the UK Prime Minister.

But the directors participating in our initiative generally agreed on a single over-arching factor – the attitude of the CEO. The CEO's respect for the board and his/her view of how to use the board influences all interactions and decision-making.

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Good governance is a lot more than good hygiene. Progressive banks see it as one contributor to competitive advantage – a secret weapon. Can you say that at your institution?