



**European Bank**  
for Reconstruction and Development



Global Corporate  
Governance Forum

# *Southeast Europe Corporate Governance of Banks*

## **High Level Policy Meeting**

*London - June 16, 2011  
Venue: EBRD Boardroom*

*DRAFT AGENDA*

*Organized with the support  
of*



LE GOUVERNEMENT  
DU GRAND-DUCHÉ DE LUXEMBOURG  
Ministère des Finances

## Background

*Banks in Southeast European countries (SEE) were affected by the global financial crisis much like their international brethren. But, the way that the crisis played out in SEE was markedly different from how it played out in the rest of the world.*

*One of the differences between SEE and some more developed banking markets is the focus of SEE banks on traditional lending activities. This helped to attenuate the impact of securitization and financial instrumentation that were so problematic in more developed banking markets. Another difference is the very high level of foreign ownership of SEE banks. Strong foreign parents provided financial backing when needed, while the much smaller number of locally-owned banks felt the crisis more acutely.*

*While these factors helped attenuate the local effect of the crisis, the strong reliance of SEE economies on bank lending inevitably raised concerns regarding the health of the banking sector. Certainly, SEE weathered the crisis comparatively well. But, at the same time, the SEE banking sector suffered a decline in confidence, a reduction in foreign capital inflows, and a contraction in credit activity, all of which had a significant impact on the real economy. So, the moment is opportune to examine SEE banking practices and, in particular, the corporate governance issues that were found to have played a role in the global crisis.*

*It is in this spirit that the Global Corporate Governance Forum, the EBRD and the IFC launched a banking sector review and a policy dialogue to offer best practice recommendations in the form of a Policy Brief to help strengthen the banking sector in SEE. The Policy Brief is the fruit of discussions that occurred between 2009 and 2011 between Forum experts, and SEE banks and regulators. The main challenge in its development has been how to adapt the lessons learned from the financial crisis and the guidance provided by international organizations to the SEE context.*

*Some of the problems that were encountered raise fundamental questions such as: Is there a need for independence on the boards of closely-held banks? Can a sophisticated control environment be expected to function in small banks with limited human resources and financial capacity? What relevance do sophisticated risk models have? How can disclosure work when information users are poorly prepared to understand information? What is the impact of the overwhelming presence of foreign bank subsidiaries on the banking sector and the economy, and how are regulators supposed to respond?*

*This final meeting of the High Level Policy Group is intended to cast some light upon these and more challenging questions.*

**Thursday June 16, 2011**

**REGISTRATION**

8:30 – 9:00

*The Meeting will be Chaired by*

***Peter Dey***

*Chairman Paradigm Capital and Chairman of the Global Corporate Governance Forum's Private Sector Advisory Group (PSAG)*

*and*

***Michel Nussbaumer***

*Chief Counsel, (EBRD)*

**OPENING REMARKS**

9:00 – 9:30

- *Mr. Nick Tesseyman*, Managing Director Financial Institutions, EBRD
- *Mr. Heinz Rindler*, General Counsel, OeEB, Austria
- *Mr. Charles McDonough*, Vice President, Controller, World Bank

**MEETING OBJECTIVES**

9:30 – 9:50

- *Mr. Michel Nussbaumer*, Chief Counsel EBRD
- *Mr. Peter Dey*, Chairman Paradigm Capital and Chairman of the Global Corporate Governance Forum's Private Sector Advisory Group (PSAG)

**CORPORATE GOVERNANCE OF BANKS IN THE REGION**

9:50 – 10:30

The 2011 EBRD Assessment on Corporate Governance of Banks: Key issues on regulation, banking practices and banking supervision.

- *Mr. Stilpon Nestor*, CEO, Nestor Advisors
- *Mr. Gian Piero Cigna*, Senior Counsel, EBRD

**COFFEE BREAK**

10:30 – 11:00

**THE REPORT ON CORPORATE GOVERNANCE OF BANKS IN SEE: POLICY RECOMMENDATIONS FOR BANKS IN THE REGION**

11:00 – 11:15

Introduction and presentation of the draft Policy Brief by *Richard Frederick*, (Senior Consultant, Global Corporate Governance Forum) and *Gian Piero Cigna* (Senior Counsel, EBRD)

Each of the following sessions will focus on a key corporate governance issues in the region's banking sector. Regional and international experts will discuss the main issues and recommendations offered by the Policy Brief.

## **Session 1. The Board and the Role, Functions and Responsibilities of Board Committees**

11:15 – 12:00

Key issues:

- What are the bank's boards key functions?
- Are board committees needed in SEE banks? What are the board committees' key functions?
- Do we need independent directors on board and in committees?

Discussants:

- *Ms. Dragica Pilipovic Chaffey*, Member of the Board of Directors of Komercijalna Banka, Belgrade.
- *Mr. Christian Strenger*, Deputy Chairman of PSAG and Director DWS Investment, Member of the German Corporate Governance Commission.

## **Session 2. Role, Functions and Responsibilities of Independent Directors**

12:00 - 12:45

Key issues:

- Independent directors: who are they? Independent from what? And why?
- Independent and qualified director: is independence more important than qualification?
- Is independence needed on the board of a subsidiary in a group structure?

Discussants:

- *Mr. Lindsay Forbes*, Director, Corporate Equity, EBRD.
- *Mr. Patrick Zurstrassen*, Chairman, The Luxembourg Institute of Directors.

## **LUNCH BREAK**

12:45 – 13:45

## **Session 3. The Three Lines of Defence (Internal Control, Compliance and Internal Audit)**

13:45 - 14:30

Key issues:

- Internal control: who is in charge?
- Does compliance need to be forward looking?
- Internal audit: key functions and reporting lines
- How does the board best exercise oversight over the three lines of defence?

Discussants:

- *Mr. Dragan Kulina*, Internal Auditor, Central Bank of Bosnia and Herzegovina.
- *Mr. John Hegarty*, Advisor on Financial Reporting and Regulation to the Chief Financial Officer and to the Vice President / Controller, The World Bank.

## **Session 4. Risk Management in Banks**

14:30 - 15:15

Key issues:

- Risk appetite and risk management: who is in charge?

- Do banks in SEE need a board risk management committee?
- Do banks in SEE need a Chief Risk Officer?

Discussants:

- *Ms. Miranda Ramaj*, Deputy Director of Supervision Department, Bank of Albania.
- *Ms. Juna Bozdo*, Chief of Credit Risk Oversight Division, Bank of Albania.
- *Mr. David Beatty*, Rotman School of Business - University of Toronto, Chairman of the Risk Review Committee and Executive & Governance Committees of Bank of Montreal.

#### **COFFEE BREAK**

15:15 – 15:30

#### **Session 5. Transparency and Disclosure for Banks**

15:30 – 16:15

Key issues:

- Why should closely-held banks disclose?
- Does it matter if the public does not understand disclosures?
- What are the fundamental disclosures that are required?
- What is the best channel for disclosing information?
- Does disclosure need to be “official” or audited to have value?

Discussants:

- *Ms. Kalinka Dimitrova*, Head of Division, Special Supervision Directorate, Bank Supervision Department, Bulgarian National Bank.
- *Mr. Peter Montagnon*, Senior Investment Adviser to the Financial Reporting Council in the United Kingdom.

#### **Session 6. Governance in Group Structures and Banking Subsidiaries**

16:15 - 17:00

Key issues:

- What is the role of the subsidiary’s board in the implementation of the group’s strategy and risk appetite?
- The outsourcing of key subsidiary’s functions to the group. Is it good practice?
- Key challenges for home regulator in supervising subsidiaries.

Discussants:

- *Mr. Liliana Michaely*, Regulation and Licensing Department, National Bank of Romania
- *Mr. John Plender*, Senior Editorial Writer, Financial Times.

#### **Session 7. Banks’ Monitoring of the Corporate Governance Practices of Their Corporate Borrowers**

17:00 - 17:45

Key issues:

- To what extent do banks take into account the governance practices of borrowers?
- What techniques are used for evaluating the governance practices of borrowers?

- In practice, do evaluations of governance help to moderate credit risk?
- How can banks encourage better governance practices among borrowers?

Discussants:

- *Mr. Zoran Bohacek*, Managing Director, Croatian Banking Association.
- *Mr. Leo Goldschmidt*, Honorary Managing Partner, Bank Degroof and Founding Member, European Corporate Governance Institute.

#### **CLOSING SESSION**

#### **Building Corporate Governance Capacity in the SEE Banking Sector**

17:45 – 18:00

- *Mr. Philip Armstrong*, Head, Global Corporate Governance Forum.
- *Mr. Gian Piero Cigna*, Senior Counsel, EBRD.

#### **NETWORKING COCKTAIL**

18:00 - 19:00