SAL Gdansk
Lectures on Corporate Governance

Sessions 2 and 3
Introduction to Corporate Governance
Three Models of Corporate Governance

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Definition

Corporate Governance - Definition

Corporate Governance – The mechanism by which interested parties in a corporation interact with each other and promote their interests.

Corporate Governance - Terminology

to comply (with) (*v*) – to follow or to obey a law or regulation

compliance (*n*) – the fulfillment of a legal requirement or the provisions of a regulation

to disclose (*v*) – to provide information publicly, in compliance with law or regulations requiring it

disclosure (n) – the making public of information, in compliance with law or regulations requiring it

Corporate Governance
Key Issues and Questions

Who does what?

Corporate Governance Key Issues and Questions

<u>Compliance</u>

Disclosure

Common Practice

Does a company (or management or a board of directors or a shareholder) comply with a particular law or regulation?

Full compliance vs. partial compliance

Corporate Governance
Key Issues and Questions

Compliance

<u>Disclosure</u>

Common Practice

Does a company (or management or a board of directors or a shareholder) disclose information in compliance with a particular law or regulation?

Full disclosure vs. partial disclosure

Timely disclosure vs. late disclosure

Corporate Governance
Key Issues and Questions

Compliance

Disclosure

<u>Common Practice</u>

How do companies, boards, management and shareholders behave in practice?

SOTDA – Say One Thing, Do Another

Capital Providers in a Market Economy

CAPITAL PROVIDERS IN A MARKET ECONOMY

CORPORATION (JOINT STOCK COMPANY - JSC)

CAPITAL PROVIDERS IN A MARKET ECONOMY

LENDERS

Banks
Loans

CORPORATION (JOINT STOCK COMPANY - JSC)

The return on the loan or the bond is fixed/defined .

The relationship is outlined in a contract between the debtor (JSC) and the creditor (bank or bondholder).

CAPITAL PROVIDERS IN A MARKET ECONOMY

LENDERS

Banks
Loans

LENDERS

Capital Market
Bonds

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CAPITAL PROVIDERS IN A MARKET ECONOMY

LENDERS

Banks
Loans

LENDERS

Capital Market
Bonds

CORPORATION (JOINT STOCK COMPANY - JSC)

SHAREHOLDERS

Shares (Equity)

- **Banks**
- **Government**
- **Individual Investors**
- **Institutional Investors**
  Investment Funds, etc.
- **Other Companies/Strategic Investors-**

The return on the loan or the bond is fixed/defined .

The relationship is outlined in a contract between the debtor (JSC) and the creditor (bank or bondholder).

The relationship is flexible, the risk is greater. Shareholders provide capital to the JSC; in return, they pay a role in the governance of the JSC.

Shareholders have:

1. ***Information rights:***
   The right to financial information and information about AGMs and EGMs
2. ***Voting rights***
3. ***Financial rights:***
   The right to trade shares.
   The right to dividends based on the financial condition of the JSC.

Three Models of Corporate Governance

ANGLO-US CORPORATE GOVERNANCE SYSTEM (THEORY)

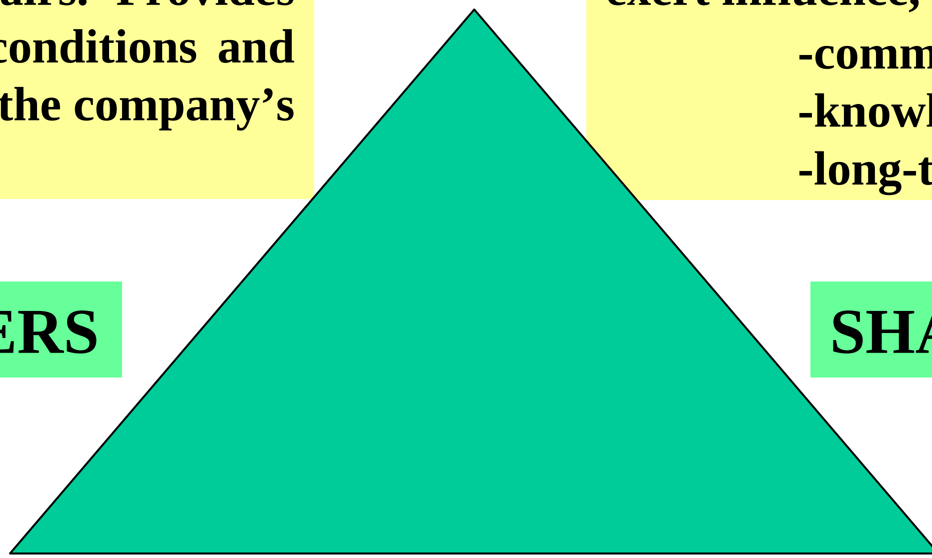
(A System of Checks and Balances)

Responsible for the company's daily operations and daily affairs. Provides and updates conditions and incentives for the company's performance.

Powerful (in theory) because they elect board and vote at AGMs. In order to exert influence, they should be:

-committed
-knowledgeable
-long-term.

MANAGERS



SHAREHOLDERS

BOARD OF DIRECTORS

Role as: filter
monitor
overseer

The board is "the source and focus of proper accountability of management to shareholders."

Legal Framework - US

The **Securities Exchange Commission** (SEC) - http://www.sec.gov/ - is an independent US governmental agency that enforces federal securities laws and regulates the securities industry, the nation's stock and options exchanges, and other electronic securities markets. The SEC was created by section 4 of the Securities Exchange Act of 1934. In addition to the 1934 Act that created it, the SEC enforces the following legislature: Securities Act of 1933, the Trust Indenture Act of 1939, the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Sarbanes-Oxley Act of 2002.

The SEC is composed of five commissioners, of which no more than three can be from a single political party.

Legal Framework - US

The **Securities Act of 1933** and the **Securities Exchange Act of 1934** require publicly-traded companies to disclose all material facts necessary for investors to make informed investment decisions.

material = significant, that it, influencing the value of the company and the value of the company’s shares

Legal Framework - US

The Sarbanes–Oxley Act also known as the Public Company Accounting Reform and Investor Protection Act of July 30, 2002 is a US federal law enacted in response to a number of major corporate and accounting scandals such as Enron and WorldCom. Named after Senator Paul Sarbanes and Representative Michael Oxley, who were its main architects, it also set a number of deadlines for compliance. The legislation establishes new or enhanced standards for all U.S public company boards, management, and public accounting firms. It does not apply to privately held companies. The Act contains 11 titles, or sections, ranging from additional Corporate Board responsibilities to criminal penalties, and requires SEC to implement rulings on requirements to comply with the new law.

Moreover, the Sarbanes –Oxley Act establishes a new quasi-public agency, the Public Company Accounting Oversight Board (PCAOB), which is to oversee, regulate, inspect and discipline accounting firms in their roles as auditors of public companies. The Act addresses notion of auditor independence, corporate governance, internal control assessment, and enhanced financial disclosure.

More at: http://www.sarbanes-oxley.com/section.php?level=1&pub_id=Sarbanes-Oxley

Legal Framework - US

The Glass-Steagall Act of 1933 – established the Federal Deposit Insurance Corporation (FDIC) in the US. It also addressed banking reforms (inter alia: controlling speculation). Certain provisions (i.e. Regulation Q allowing the Federal Reserve to regulate interest rates in savings accounts) were repealed by the Depository Institutions Deregulation and Monetary Control Act of 1980.

Provisions prohibiting a bank holding company from owning other financial companies were repealed on November 12, 1999 by the Gramm-Leach-Bliley Act.

Legal Framework - US

The Sherman Act of 1890 - named after Ohio senator John Sherman, chairman of the Senate Finance Committee – is the oldest among US federal antitrust statutes. Drafted and enacted in respond to the rapid growth of trusts (Standard Oil) in the last decades of XIX century; deals with cartels (section 1) and monoplolies (section 2). Bears criminal sanction for the violation of its provisions. The US Department of Justice Antitrust Department has authority over the Sherman Act.

ANGLO-US CORPORATE GOVERNANCE SYSTEM (PRACTICE)

A small, powerful group with access to information and control of daily affairs of the company. But - they must report to board and shareholders.

A diverse and relatively powerless group with one common goal - they want to see good financial performance. But - they control capital and can exercise oversight by selecting accountable board members.

MANAGERS

SHAREHOLDERS

Inside Directors

Outside Directors

BOARD OF DIRECTORS

A small group of some 12 members (U.S. average) who are potentially uninformed and unmotivated. A potential rubber stamp. But – they are mandated with outside review and oversight and are accountable to shareholders.

“Overextended Chieftains?

Bosses who sit on more than two or three boards (as recommended by the National Association of Corporate Directors)”

EXECUTIVE	COMPANY	BOARD SEATS	COMPANIES
John L. Clenenden	BellSouth	9	Coca-Cola; Kroger;
John G. Medlin, Jr.	Wachovia	8	USAir; RJNabisco
Roberto C. Goizueta	Coca-Cola	7	Eastman Kodak; Ford
Alfred M. Zeien	Gillette	7	Bank of Boston; Polaroid
Hugh L. McColl, Jr.	NationsBank	6	CSX; Sonoco

***Business Week*, November 25, 1996**

The Role of the CEO in the Anglo-US Model

The Role of the CEO in the Anglo-US Model

The Role of the CEO in the Anglo-US Model

BREAKINGVIEWS.COM

'Jobs Premium' Is Worth Billions

Steven P. Jobs has turned Apple into a technology powerhouse — twice. But how much is he worth to the company? If one compares the value of Apple's revenue streams to the company's market capitalization, nearly $20 billion.

That makes Mr. Jobs's absence from a coming trade show where he's historically the keynote speaker worrisome, especially given speculation surrounding his thin appearance this summer. The premium that Apple fetches above the fair valuations of its businesses is a measure of investor faith in his ability to stitch Apple together. That's why questions about Mr. Jobs's health matter.

Apple's core is its Macintosh computer, whose sales have grown at a 40 percent clip this year. But Mac sales fell 1 percent in November while Windows-based sales grew 2 percent, so its high price may be a liability. Still, Apple's margins are fat and should grow when the economy recovers. Assuming a multiple of 1.3 times revenue, or twice the industry average, the Mac business is worth about $19 billion.

Then take the profitable, but nearly mature, business of making digital music players. Analysts think Apple's margins on the iPod are about 30 percent. Using a lowish multiple of five times earnings before interest, tax, depreciation and amortization, the iPod is worth some $14 billion. The iTunes digital music business has razor thin margins, estimated to be around 5 percent, but business is booming. At six times cash flow, it's worth $1 billion.

Apple's biggest variable is the iPhone. The company may sell as many as 45 million of them next year, according to Piper Jaffray. Take out the cut it pays to partner AT&T, and Apple could make $1.5 billion in earnings. At a 30 percent premium to slower-growing rival Research in Motion, the business may be worth $17 billion.

Lastly, there are the company's dependable hardware and software businesses. They're probably worth $11 billion on a Microsoft multiple of 2.8 times revenue.

Do the sums, and Apple's slices are worth about $60 billion. Its current market value hovers around $80 billion. One could argue the difference is a measure of the "Jobs premium." Apple is worth more than its parts because it has successfully harnessed the convergence and synergies of computers, cellphones and entertainment.

If the man who engineered this harmony were to fall ill, investors might not accord such a high premium. That's all the more reason for Apple to reassure shareholders with a rock-solid succession plan.

CONSTELLATION ENERGY GROUP

Constellation Energy owns the Nine Mile Point nuclear plant in Scriba, N.Y.

Buffett Loses? Hardly

EDF, the French electric utility, has beaten MidAmerican Energy Holdings for a deal with Constellation Energy. Even so, Warren E. Buffett, who controls MidAmerican through Berkshire Hathaway, will more than double the $1 billion he has already invested inside a year — not bad for a broken deal.

MidAmerican swooped in last September when Constellation ran into financial trouble in the heat of the credit crisis. Mr. Buffett's team offered $26.50 a share — for a total value of $4.7 billion. Deals in the highly regulated sector take months to close. But this one came with a potentially life-saving, immediate infusion of $1 billion in the form of preferred stock.

The deal was unashamedly opportunistic: Constellation's shares had fallen off a cliff, halving in value in a week. EDF already wanted Constellation for its nuclear-heavy generation business, but didn't move quickly enough. Now it's buying half of its nuclear subsidiary for $4.5 billion, implying a higher value for Constellation as a whole than Mr. Buffett's bid, although the utility's shares initially declined.

Mr. Buffett, however, knows how to protect his backside. MidAmerican gets a break fee and other cash of $593 million. And it will own just below 10 percent of Constellation's stock and a $1 billion one-year note yielding 14 percent. Add it all up, and assuming the debt is paid off in a year's time, Mr. Buffett will by the end of 2009 have the $1 billion investment back plus more than $700 million in cash, along with stock worth just shy of $500 million at Wednesday's price.

Mr. Buffett would probably rather have deployed five times as much money. Berkshire has plenty of cash, despite subsequent investments in Goldman Sachs and General Electric. Still, as it stands he'll have made a return of about 120 percent on a $1 billion one-year investment. Put another way, he ends up better off by more than 20 percent of the total amount MidAmerican committed in the original deal with Constellation. Compared with the termination payments of less than 5 percent included in most merger agreements, that's a stellar result.

ROB COX and RICHARD BEALES

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The Role of the CEO in the Anglo-US Model

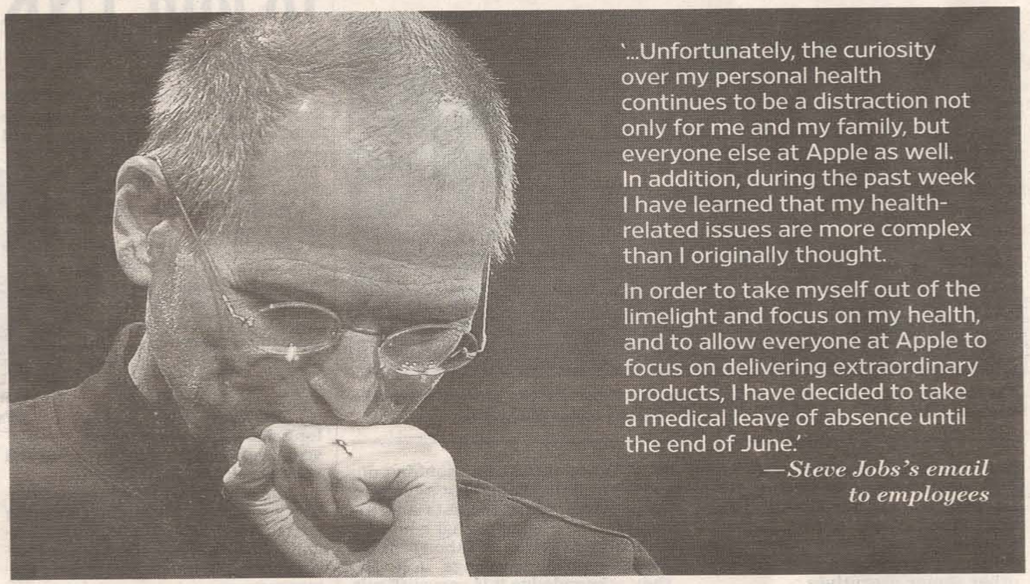
6 FRIDAY - SUNDAY, JANUARY 16 - 18, 2009 THE WALL STREET JOURNAL.

CORPORATE NEWS

Apple's Steve Jobs takes medical leave

Short on details, news raises concern about company's fate

BY YUKARI IWATANI KANE



Just a week after reassuring investors and employees about his health, **Apple** Inc. Chief Executive Steve Jobs disclosed he has a "more complex" medical condition and would take a leave of absence until the end of June.

Mr. Jobs's disclosure, in a letter directed to Apple employees, provided no details about what was ailing him and raised new questions about a company that is so closely identified with its co-founder. Apple shares fell 7% in late trading Wednesday on the news.

Mr. Jobs, 53 years old and a pancreatic-cancer survivor, said he was passing day-to-day management of the Cupertino, Calif., company to Chief Operating Officer Tim Cook. Mr. Cook filled in for Mr. Jobs in 2004 when the Apple chief took a leave to battle his cancer.

"As CEO, I plan to remain involved in major strategic decisions while I am out. Our board of directors fully supports this plan," Mr. Jobs wrote in his letter.

Last week, Mr. Jobs said he was suffering a "hormone imbalance" that had caused dramatic weight loss, but said he had begun "relatively simple and straightforward" treatment and would continue as CEO.

A person familiar with the situation said that Mr. Jobs didn't have a recurrence of cancer and that he was taking a leave of absence because the treatment to fix the problem of not being able to absorb proteins was more complex than initially believed.

His health has been closely scrutinized by Wall Street since his bout with cancer, which Mr. Jobs said has been treated successfully by surgery. Concerns about his health were reignited last year when he appeared on stage at an event looking gaunt and intensified last month when he said he would skip the Macworld trade show earlier this month.

Mr. Jobs didn't respond to a request for comment. Apple board members declined to comment or couldn't be reached. An Apple spokesman declined to provide more details about Mr. Jobs's health.

The disclosure immediately sparked new concerns about how much information Apple was keeping to itself on Mr. Jobs's health. Medical and corporate-governance experts earlier this month had challenged Mr. Jobs's disclosure about a hormone imbalance as too general and had criticized Apple for not providing fuller background on the state of the CEO's health. Several medical experts suggested the hormone imbalance could be related to the tumor surgeons removed from Mr. Jobs's pancreas.

The announcement raises questions about "whether we have been getting the full story for the past year" about Mr. Jobs's health, added Jeffrey Sonnenfeld, a senior associate dean at Yale University's School of Management. Wednesday's letter "is less forthcoming" than the Jan. 5 one, but the Apple leader should have revealed "what the new health issues are."

Apple declined to comment, but in the letter, Mr. Jobs says that he just learned "during the past week" that the health-related issues are more complex than he had thought.

Mr. Jobs's health is key to Apple. He is deeply involved in all aspects of the company's business and is widely credited for reviving the then-struggling computer maker in the late 1990s with hit products such as the iMac desktop computer. More recently, Apple has churned out the iPod digital music player and the iPhone and cemented a place as a leading consumer-electronics maker.

The news, released after the close of regular trading in the U.S., sent Apple's shares down \$2.58, or 3%, to \$82.75 Thursday afternoon on the Nasdaq Stock Market.

Some investors said they were reeling from the disclosure. Charlie Wolf, a financial analyst with Needham & Co., said the "Steve Jobs health" factor could cause the stock to fall 10% to 15%. He added, however, "If it were life threatening, I would anticipate that Steve would have resigned or the board would have called for his resignation."

"This is the biggest wake-up call for the investor community to come to the reality that there will be a post-Steve Jobs Apple," added Gene Munster, an analyst with Piper Jaffray. "The most important question from the stock perspective is will product innovation continue, and there's no reason to think it won't."

While Mr. Jobs takes an unusual hands-on role in design decisions, people familiar with the company's inner workings say the company's design team should be able to keep churning out innovative products, barring an exodus of top talent.

Mr. Jobs serves more like an "editor in chief" in refining and improving ideas for Apple gadgets, according to former Apple executives such as Bill Bull, a retired Apple engineer who worked for Mr. Jobs in the 1980s and again in the late 1990s. The hands-on work of Apple's innovations depends more directly on subordinates such as Jonathan Ive, an Apple senior vice president who oversees the company's industrial design team.

Scott Forstall, another senior vice president, leads the team responsible for the iPhone's operating system and other software. Other crucial figures at Apple now include Ron Johnson, senior vice president of Apple retail, who has masterminded the success of Apple's stores.

Mr. Cook, who now assumes day-to-day responsibility, is a long-time lieutenant. He joined Apple in 1998 after stints at Compaq Computer Corp. and other companies and was charged with straightening out the messy operations of the Silicon Valley company.

—Joann S. Lublin, Jacob Goldstein and Nick Wingfield contributed to this article.

Executive Compensation International Comparison

What is the ratio between the average salary of an employee/worker in a manufacturing company and the average salary of the chief executive officer (US) or managing director (globally) of the same company?

Executive Compensation – International Comparison

Executive Pay

Chief executives receive far more pay relative to workers on the factory floor in America than in other countries. A survey of Standards & Poor's 500 leading companies finds that, on average, top American bosses take home 475 times more than workers. A study conducted by Towers Perrin, an international consultancy, shows that European bosses take only 11 to 24 times as much as their underlings. Several South-East Asian and Latin American countries fall between the extremes. Both reports take into account incentive packages composed of shares and share options. One example is Charles Wang, boss of Computer Associates, he took a mere $4.6m in salary and bonus in 1999, but added over $650m in long-term, performance-based compensation.

Sources: Towers Perrin; Standard & Poor's as reported in *The Economist*, September 30, 2000

Executive Compensation

Financial Times
Monday, November 10, 2008

Former UBS chief executive turns down SFr12m bonus entitlement

Move puts greater pressure on colleagues

By Haig Simonian in Zurich

Peter Wuffli, the former chief executive of UBS, yesterday revealed he had renounced SFr12m (€7.8m) in bonus entitlements out of solidarity with the stricken Swiss bank.

The move, the first of its kind at a big casualty of the credit crisis, will raise pressure on other former top UBS executives to follow suit.

Marcel Ospel, the architect of UBS's expansion into US investment banking and one of Switzerland's highest-paid managers until he resigned last April, has faced intense public criticism.

Mr Wuffli's move will draw attention to others, including John Costas, the American behind UBS's disastrous decision to create an in-house hedge fund, and Stephan Haeringer and Marco Suter, the two veteran Swiss bankers who were Mr Ospel's deputies on the board.

The revelation by Mr Wuffli, who left in July 2007, just before the credit crisis, followed moves by UBS to persuade former managers to repay bonuses.

The agenda for the group's special shareholders' meeting on November 27 includes discussion on the "issue of repayment of previously granted incentive awards". Legal experts say compulsion is impossible under Swiss law, failing proof of negligence. But the bank is also examining whether former executives could be persuaded to make repayments voluntarily.

Mr Wuffli said he had made a gesture involving several million Swiss francs last November but decided to do more after the latest problems at UBS, which has written off about $48bn (€37.5bn).

"For me it's a question of one's personal position. High payments for departing top people in a company that's gone seriously wrong cannot be justified", he told the NZZ am Sonntag newspaper.

The revelation followed comments on Saturday by Hans-Rudolf Merz, Switzerland's finance minister, sharply criticising huge bonuses. Responding to a public outcry, Mr Merz said the basic idea of the bonus had been "partially perverted". His comments were directed particularly at UBS, which last month received a government bail-out.

"When bonuses are clearly unfair on the grounds of mismanagement, then the banks have to take action," he added.

Swiss experts said that Mr Wuffli's action involved renouncing entitlements that had not yet been disbursed, rather than repaying hard cash. They added that the latter would be very tax-inefficient as the sum would in effect be taxed initially as income by the recipient and then a second time by the bank.

UK: Cadbury Report and Combined Corporate Governance Code

1991 - The Financial Services Authority (FSA), the London Stock Exchange (LSE) and elements of the accounting profession set up the UK Committee on the Financial Aspects of Corporate Governance. It is headed by Sir Adrian Cadbury, a member of the Quaker dynasty behind Cadbury-Schweppes.

1992 – The Cadbury Report

After 18 months, during which the Polly Peck and BCCI scandals both break, Sir Cadbury publishes his report.

Section 4.9

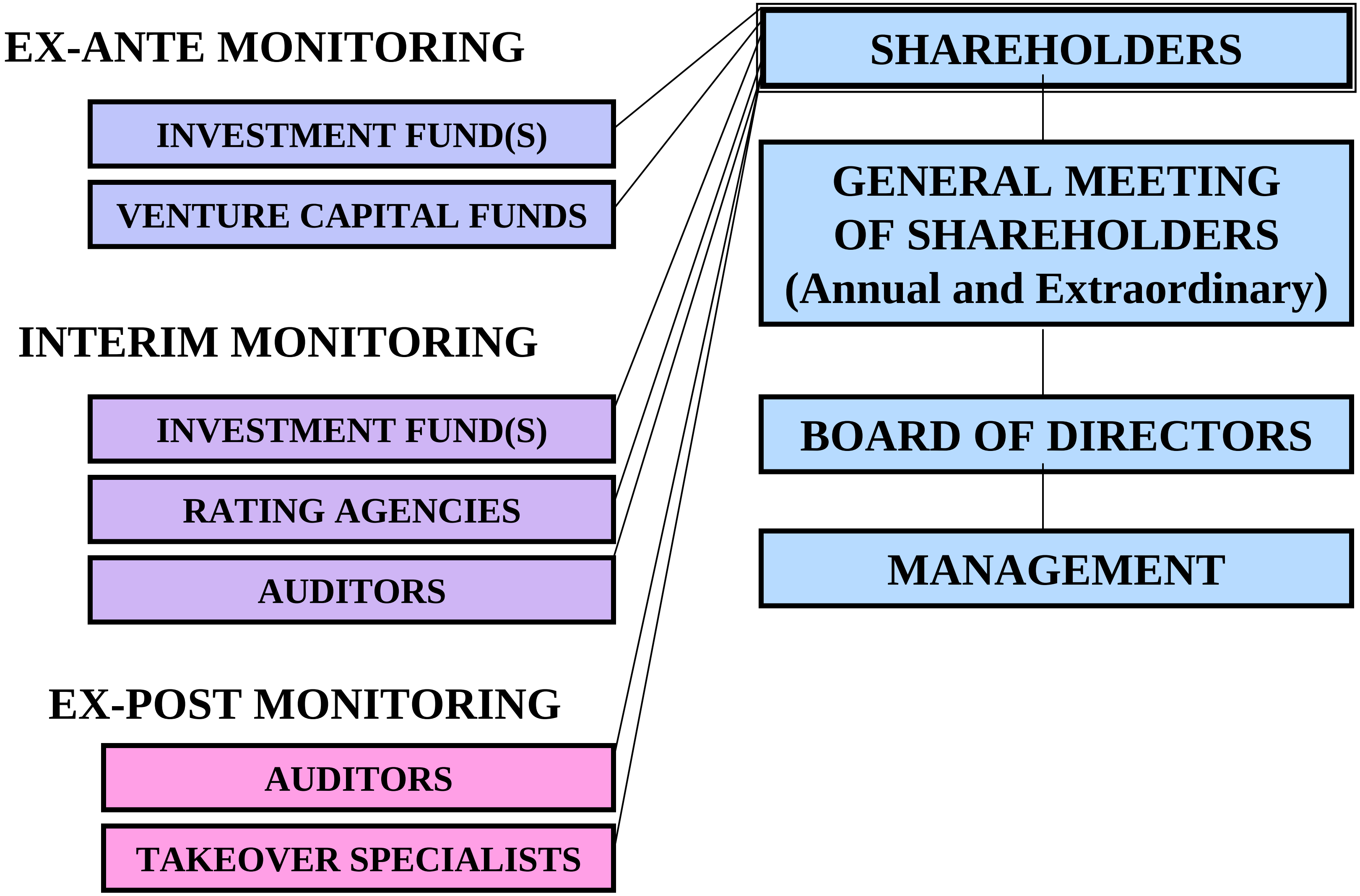
Given the importance and particular nature of the chairman's role, it should in principle be separate from that of the chief executive. If the two roles are combined in one person, it represents a considerable concentration of power.

We recommend, therefore, that there should be a clearly accepted division of responsibilities at the head of a company , which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief.

1998 – The Hampel Report & the first Combined Code

At the Combined Corporate Governance Code Group's behest, Sir Ronnie Hampel, chairman of ICI, leads a study group that publishes a report in January detailing requirements for directors to review the effectiveness of all internal controls, not just financial ones. It also incorporates the recommendations made by the earlier Cadbury and Greenbury reports.

DIVERSIFIED MONITORING
IN ANGLO-US CORPORATE GOVERNANCE



DIVERSIFIED MONITORING
IN THE GLOBAL FINANCIAL SYSTEM

Financial Times
Weekend / August 16-17, 2008

Buffett snaps up NRG stake and sells Anheuser shares

GENERAL FINANCIAL

By Justin Baer in New York

Warren Buffett has bought a stake in NRG Energy, the US power producer, and has sold most of his shares in brewer Anheuser-Busch it has emerged.

Mr Buffett's timely investments have helped the billionaire amass one of the world's largest fortunes and win the devotion of legions of disciples eager to mimic the Sage of Omaha's stock picks. NRG's shares had jumped more than 4 per cent by midday yesterday in New York, while Anheuser-Busch was little changed.

Mr Buffett, who reported the latest quarterly changes to his portfolio of US stocks in a regulatory filing late on Thursday, also made an undisclosed transaction involving his shares of ConocoPhillips.

US securities regulators permit Berkshire Hathaway, the conglomerate controlled by Mr Buffett, to omit certain transactions from the quarterly list and report

Warren Buffett: has sold shares in Anheuser-Busch

them in a separate, confidential filing.

Berkshire has disclosed that it owned 17.5m shares of ConocoPhillips. In Thursday's filing with the US Securities & Exchange Commission, the stake disappeared from its list of investments. The stock slipped more than 2 per cent.

Mr Buffett also added to his positions in Ingersoll-Rand, a maker of refrigeration gear, and Sanofi Aventis, the French drugmaker. Meanwhile, Ingersoll had acquired Trane, another Berkshire holding as of March. Berkshire owned 3.2m shares of NRG on June 30. The conglomerate reduced its stake in Anheuser to about 13.8m shares during the period from 35.6m in March, according to the SEC filing.

Anheuser's shares had surged more than 29 per cent during those three months as Belgium's InBev made an unsolicited bid for its US rival. The company agreed to the sale at $70 a share in July. The stock now trades at about $68.

Berkshire has said that its quarterly profit fell 7.6 per cent to $2.88bn, or $1,859 per class A share, amid a slump in its insurance-underwriting division. Gains from investments and derivatives totalled $610m during the period.

Unrealised gains on investments, or the value those securities that Berkshire has not sold, dropped by $10.7bn during the first six months of the year.

DIVERSIFIED MONITORING
IN THE GLOBAL FINANCIAL SYSTEM

FINANCIAL TIMES MONDAY OCTOBER 6 2008

Companies | Internationa

Parallels with 1929 highlight need for radical thinking

Tony Jackson ON MONDAY

Last November, I suggested the present crisis might bear comparison to 1929. At the time, it was a kind of throwaway remark. Now, I think, we need to examine the case more closely.

I do not mean to be alarmist, nor to peddle the facile notion of history repeating itself. The world of 1929 was in many respects very different. But there are enough parallels to be instructive. And right now, we need all the instruction we can get.

I have been consulting the best book I know on the subject, Charles Kindleberger's *The World in Depression 1929-1939*. Last updated in 1986, it makes one point of pressing relevance today: that the depression was not made in America. Then, as now, the crisis was global from the outset and called for global fixing.

One obvious difference is that the market collapse which began in 1929 was in response to a recession which had already started. This time, the recession is following the collapse.

But the 1929 crash had a familiar consequence. The financial system had been grossly over-leveraged, and the consequent deleveraging had the effect of draining credit from the real economy.

Familiar, too, is an observation made by Maynard Keynes in 1931. The whole panic, he wrote, resulted from the slump in the value of assets held by the banks. The future of capitalism depended on getting that fixed.

But there was a complete failure to organise bank bail-outs across borders. The UK tried to broker a Franco-American fund for European bank rescues. The French torpedoed it. Spot the link with last week, when a French proposal for a European bail-out was torpedoed by the Germans.

In 1931, the first big European bank run, on Creditanstalt of Austria, prompted Britain to lend it $7m for a week. This was so feeble that, as Kindleberger says, it marked the end of Britain as a lender of last resort.

In the US, there were ideological arguments over bail-outs. The Treasury secretary Andrew Mellon – an ex-banker – argued letting banks go would "purge the rottenness". President Herbert Hoover said credit advanced to other countries would be "a loose cannon on the deck".

When the banking crisis proper hit America, the response was suitably chaotic. In late 1932 a bail-out fund, the Reconstruction Finance Corporation, was set up. In January 1933 the Speaker of the House insisted banks using the fund should be publicly identified.

This, of course, caused runs, so others stopped applying. By February, wholesale bank closures were being ordered across Michigan, New Jersey and New York.

The Federal Reserve, meanwhile, was too shellshocked to function. In February, its Open Market Committee did not meet at all. In March it refused to sign off a federal guarantee for bank deposits. Asked for a better idea, it had none to offer. Two days later the newly-installed President Roosevelt shut every bank in America for over a week.

We are not there yet, but we are not in the fourth year of the crisis either. This brings us to Kindleberger's central thesis: that the depression was so deep and long because no one country would act as the global stabiliser.

Britain had done this job up to the First World War, through the mechanism of the gold standard. By 1929 it was incapable of it, while the US, still hesitant on the world stage, was unwilling.

The thesis assumes that groups of countries – or committees – are powerless. That was certainly true then. The World Economic Conference in mid-1933, for instance, collapsed ignominiously.

It sounds equally plausible today. Countries such as Germany have explicitly ruled out using taxpayers' money to help others. Ireland and Greece have broken ranks by guaranteeing their bank deposits, and are being reviled in consequence.

If the thesis is right, it is all down to America. Claims are made for the EU, but it lacks the institutions. And in America the signs are decidedly mixed.

On the plus side, the $85bn rescue of AIG was in effect a bail-out of European banks – a point perhaps not fully appreciated by the average US voter. Against that is the enormous disagreement over even a domestic US bank rescue, which makes an international initiative still less likely.

In Kindleberger's view, the dominant country must co-ordinate macro-economic policies and maintain free trade, as well as being the international lender of last resort. Right now, that seems an impossible amount to ask.

We must not get too gloomy here. Only a small minority of past financial crises have turned into depressions.

But if this crisis keeps deepening – and it certainly looks like it – some radical thinking is called for. Next month's US presidential election has more riding on it than most.

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DIVERSIFIED MONITORING
IN THE GLOBAL FINANCIAL SYSTEM

Financial Times
Monday, October 6, 2008

Business urged to improve cash reporting

GENERAL FINANCIAL

By Jennifer Hughes in London

Companies must step up reporting of their cash positions or risk losing investor confidence, according to a group of leading analysts. They warn that the disclosures are crucial as solvency issues come to the fore during the financial crisis.

In a letter to the Financial Times today, members of the Corporate Reporting Users Forum caution that current accounting rules and practices leave them unable fully to assess a company's cash flows.

With solvency a key issue as a result of the current credit crunch, understanding cash is more vital than ever, the group warns.

Tighter credit has already led to concerns about some businesses being able to remain going concerns as directors and auditors lower previous assumptions about some companies' ability to meet their debt falling due.

Professional investors aim to reconcile elements of a company's profits and its balance sheet with its cash flow statement in an effort to understand exactly what real money the business is generating and has on hand.

Members of the CRUF, including analysts and investors from JPMorgan, Deutsche Bank, UBS, Insight Investment, Barclays Capital, Hermes Investment Management and Citigroup, are calling on companies to provide data that will help investors and analysts fully reconcile net debt to cash flow – a key measure of a company's ability to cover its debts.

The profit numbers reported in a company's income statement will generally include a mix of actual cash income, some expected earnings and non-cash valuation readjustments.

There can be vast gaps between reported profits and the cash a business actually holds. Fuzzy reporting of cash flows has in the past been a favoured method of helping conceal accounting frauds, including its use in such corporate collapses as Tyco, Worldcom and Enron.

"It isn't that we think most are fiddling the books in any way, but we're being asked to take something on trust where we could have hard numbers," said Peter Reilly, an analyst at Deutsche Bank.

Changes to accounting with the introduction of international reporting standards in 2005 meant for some countries that a previous obligation to provide the data was not included in the new rules.

About half the companies in the UK's FTSE 100 already do so, the group believe.

Nick Anderson, head of equity research at Insight Investment, said: "Most numbers in the income statement are subjective, as is the balance sheet. But actual cash flows are absolutely solid and yet the cash flow statement is the worst of the three."

See Letters

DIVERSIFIED MONITORING IN THE GLOBAL FINANCIAL SYSTEM

Iceland

DIVERSIFIED MONITORING
IN THE GLOBAL FINANCIAL SYSTEM

Iceland

Just another case of globalization, or is there more here than we want to see and/or admit?

Key Features of the Anglo-US Model

FEATURE	ANGLO-US MODEL
Key Players	
Share Ownership Pattern	
Composition of Board	
Regulatory Framework	
Disclosure Requirements	
Shareholder Rights	
Interaction	

JAPANESE CORPORATE GOVERNANCE SYSTEM

A large board of directors (of as many as 50 members) usually contains only insiders

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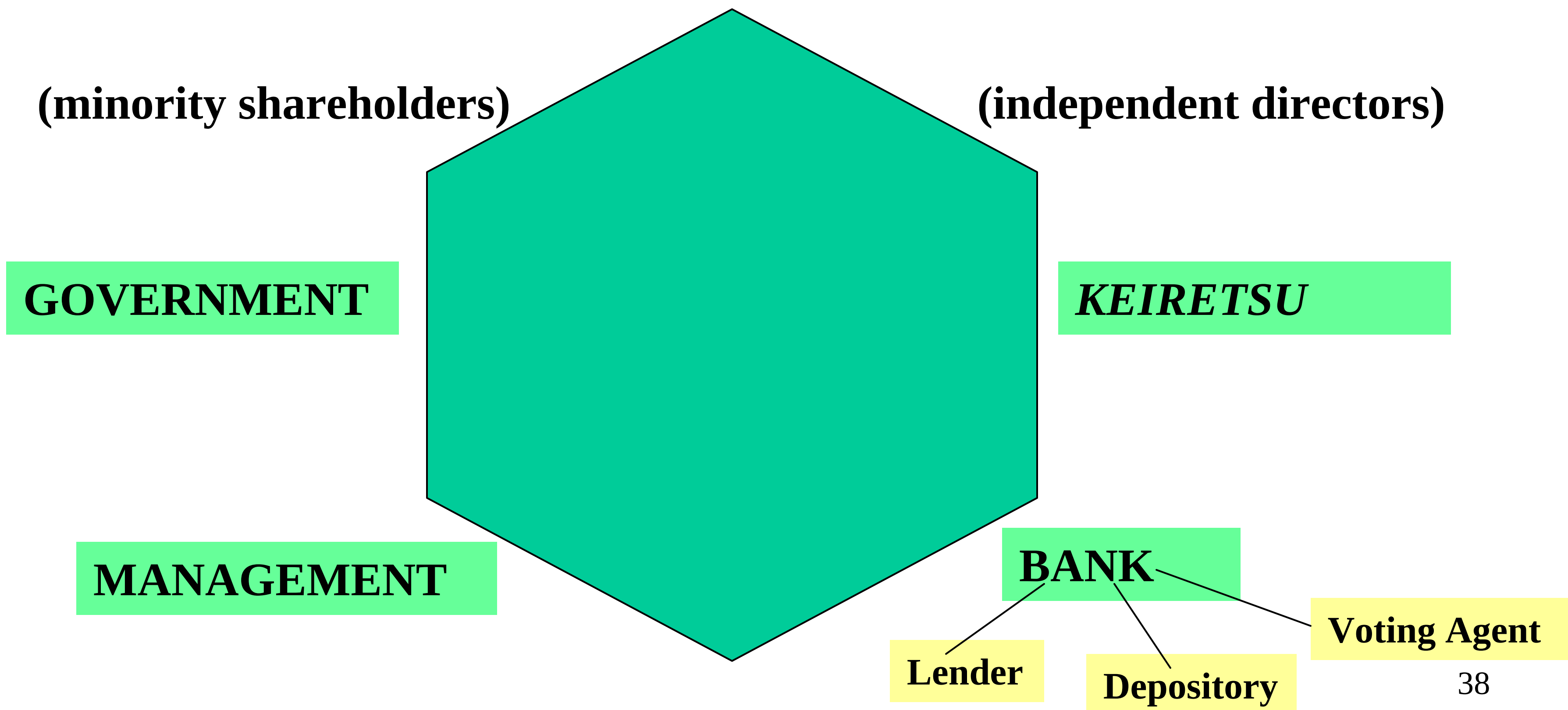
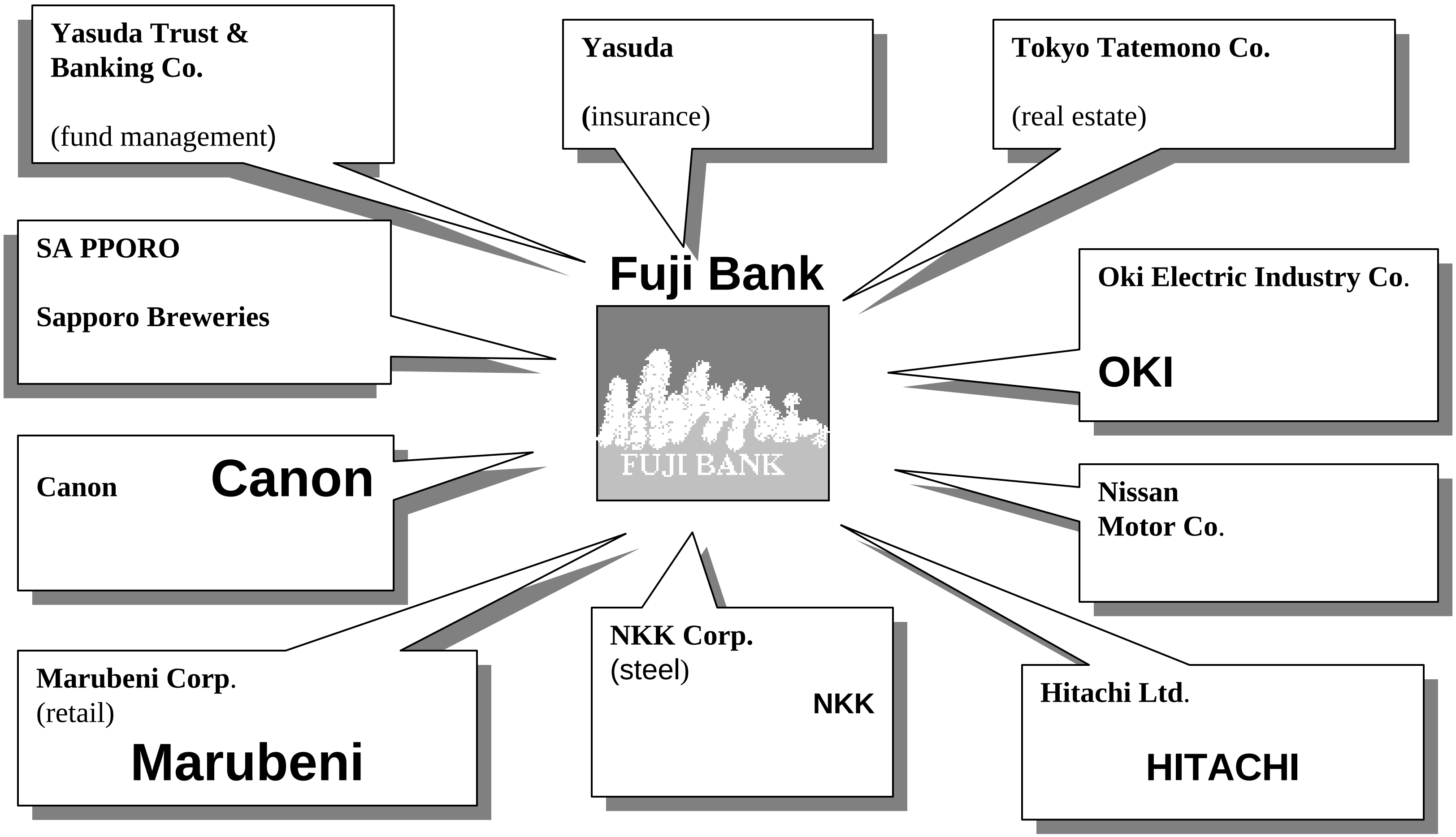
When a company's financial performance is poor, majority shareholders send representatives to the company's board of directors



A *Keiretsu* is a group of closely-related Japanese companies: They own each others' shares and bonds, and give each other preferential treatment as business partners. Each *keiretsu* is formed around a large bank. This diagram presents the well-known Fuyo *keiretsu* with Fuji bank in the center.



Source: "Keiretsu and Industry Map" Tomokazu Ohsono

The Korean Corporate Governance System

In Korea, there are currently four large conglomerates or *chaebol:*

Hyundai
LG
Samsung
SK.

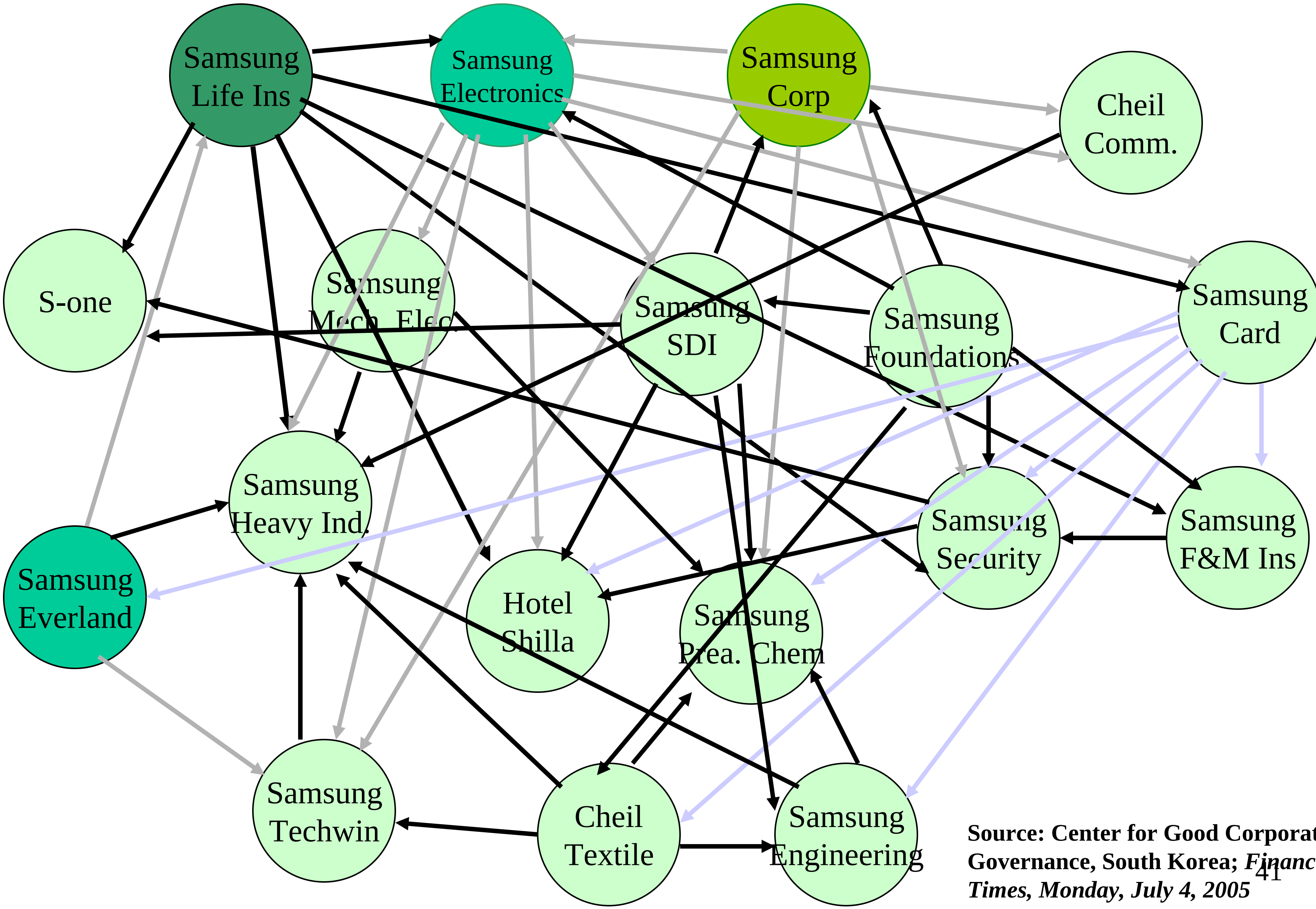
Founding families control the conglomerates through cross-shareholdings.

In 2005, the Korean government began a series of reforms to limit the power of the *chaebol*, with the aim of improving corporate governance in Korean companies.

The *chaebol* are resisting the reforms.

***Financial Times*, Monday, July 4, 2005**

Korea: Samsung Group Cross Shareholdings

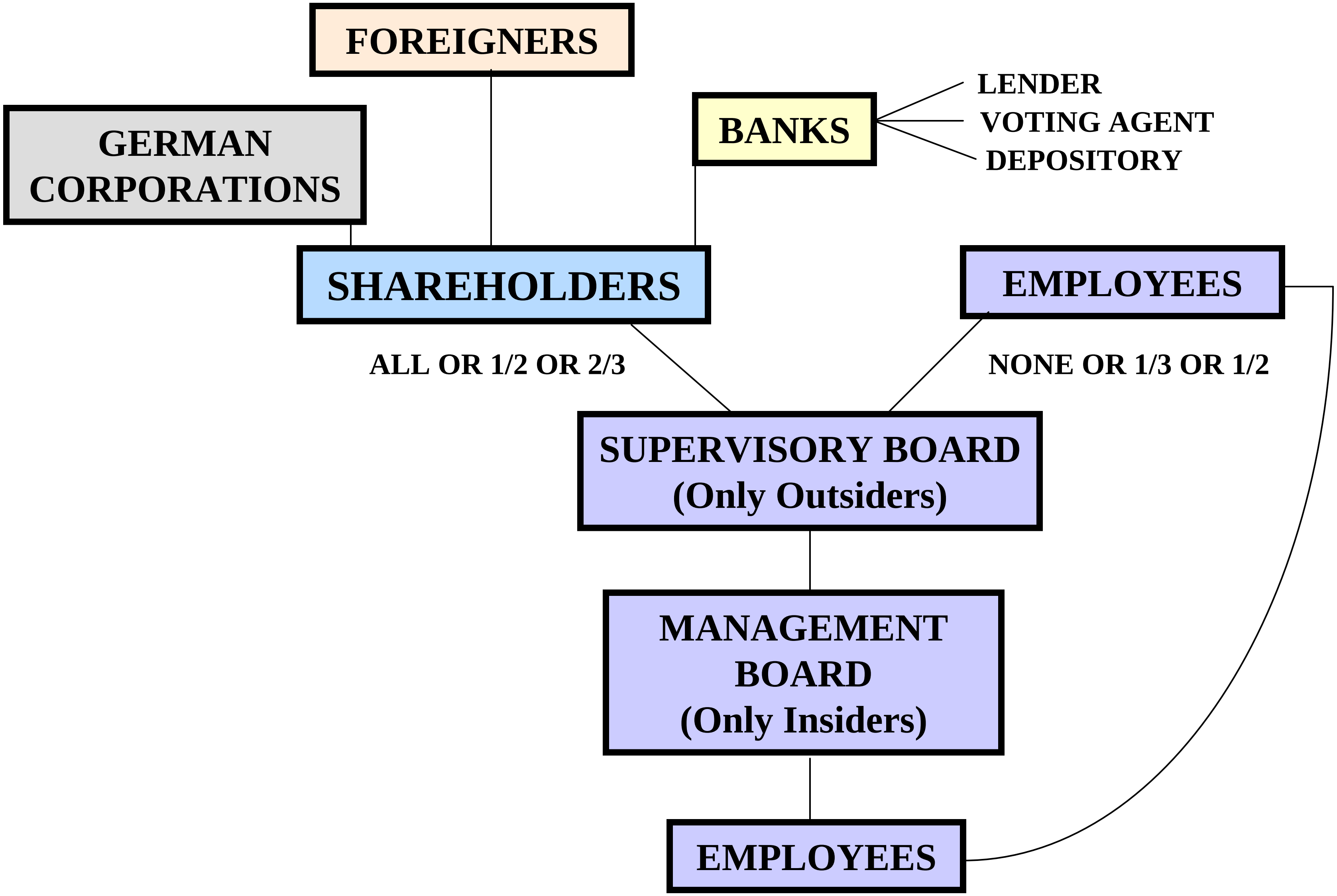


Source: Center for Good Corporate Governance, South Korea; *Financial Times, Monday, July 4, 2005*

Key Features of the Japanese Model

FEATURE	JAPANESE MODEL
Key Players	
Share Ownership Pattern	
Composition of Board	
Regulatory Framework	
Disclosure Requirements	
Shareholder Rights	
Interaction	

GERMAN CORPORATE GOVERNANCE SYTEM



“The Champions of Cumulative Mandates

Among CAC 40 companies, here are five executives with the greatest number of mandates”

EXECUTIVE	COMPANY	BOARD SEATS	COMPANIES
Jean-Marie Messier	Vivendi	12	BNP Paris; LVMH
Gerard Mestrallet	Suez	9	Axa; Saint-Gobain
Jean Peyrelevade	Credit Lyonnais	9	AGF; Bouygues; Suez
Michel Bon	France Telecom	8	Airliquide; Bull; Orange
Thierry Breton	Thomson Multimedia	8	Axa; Schneider Electric

***Le Figaro Enterprises*, Monday, April 22, 2002**

Corporate Governance in France

Court halves Messier fine

"The Paris Court of Appeal reduced fines imposed on Jean-Marie Messier, the former chief executive of Vivendi Universal and the company.

After a two-year investigation, the French Financial Market Authority (AMF) accused Mr. Messier of having 'deliberately published inaccurate and abusively optimistic information.' It also said Vivendi had inappropriately accounted for the acquisition of Elektrim Telekommunikacja, a Polish company, as well as misled shareholders over access to cash at its subsidiary, Cegetel.

However, the court of appeal overturned the findings on the Polish acquisition. It also found that the company could not be held responsible for comments made by Mr. Messier.

Yet the court did back the AMF's findings that certain comments by Mr. Messier at an annual meeting in 2002 had been 'particularly misleading.' It also upheld complaints that Vivendi Universal had misled investors about its indebtedness at the end of 2000 and about the level of cashflows in 2001.

Mr. Messier was forced to resign as chairman in July 2002 when his board discovered the company was on the brink of a cash crisis triggered by secret stock repurchases to designed to prop up the share price."

***Financial Times*, Thursday, June 30, 2005**

Key Features of the German Model

FEATURE	GERMAN MODEL
Key Players	
Share Ownership Pattern	
Composition of Board(s)	
Regulatory Framework	
Disclosure Requirements	
Shareholder Rights	
Interaction	

Comparison of the Three Models

FEATURE	Anglo-US	Japanese	German
Key Players			
Share Ownership Pattern			
Composition of Board(s)			
Regulatory Framework			
Disclosure Requirements			
Shareholder Rights			
Interaction			