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FOCUS

*Guidance for
the Directors
of Banks*

Jonathan Charkham CBE

Global
Corporate
Governance
Forum

FOREWORD

by Luigi Passamonti

“Good governance is essential for the long-term survival and success [of an institution] and depends greatly on the skills, experience and knowledge of its directors.” These few words best capture Jonathan Charkham’s guidance to directors of banks and other financial institutions.

Banking is becoming so complex that its risks cannot be monitored only by bank supervisors. And bank regulation cannot try to respond to every single financial innovation. The safety and soundness of banking requires the upfront involvement of shareholders and their representatives on the bank boards. As Alan Greenspan once said, *“We need to adopt policies that promote private counterparty supervision as the first line of defense for a safe and sound banking system.”*

This document brings home the point that membership of a board of directors of a financial institution is not a matter of personal prestige; it carries a significant burden of personal responsibilities.

Bank directors are the guardians of financial stability, which is one of the most precious public goods. Bank directors have to ensure that the bank strategy as conceived and executed by management has an appropriate risk-reward profile; that financial data accurately represent the bank’s condition; that risk mitigation measures are adequate to protect depositors’ money and shareholders’ funds: in sum, that management does its job without incurring excessive risk.

In discharging their oversight responsibilities, bank directors often find it essential to work with bank supervisors in an alliance to protect financial stability. The guidance contained in this document about the functions of board subcommittees is precious to outline the architecture and content of this emerging cooperation between boards and supervisory authorities.

In developing and transition countries, there cannot be sustainable economic growth without substantial financial deepening. That means an increased accumulation of financial savings, making higher corporate leverage possible.

This is a delicate balancing act: to maintain trust in the financial system stability while increasing its overall risk exposure. Bank directors and boards play a vital role in this endeavor. No bank supervisor can match the operational insights and prompt action capability of a responsible bank board.

It will be a long haul effort to strengthen bank governance but, today, Jonathan Charkham gives us a very useful starting point.

A handwritten signature in dark ink, appearing to read "Luigi Passamonti". The signature is fluid and cursive, with the first name "Luigi" and last name "Passamonti" clearly distinguishable.

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