Statement by the British-North American Committee

on

Issues Concerning Effective Corporate Governance

It is two years since the financial services sector of many of the world's leading economies were plunged into disarray.

The uncertainty this generated meant that individual and institutional investors were very reluctant to participate in the financial markets resulting in a dramatic decline in asset values, credit becoming largely unavailable and, as a result, liquidity became very difficult to generate. Rapid intervention by national governments, directly and through central banks and regulatory agencies, was undertaken in an attempt to restore confidence in the markets and to keep a number of financial institutions solvent. Some were allowed to fail.

The long term effects of this financial crisis and the impact of the aggregate cost of government interventions is still being determined but austerity programmes are being implemented in many countries.

A related and not surprising consequence of this financial crisis is the erosion of public confidence in the senior management of financial institutions and the questioning of the competence of the regulators who provide oversight. In addition, the crisis clearly demonstrated that risks existing as a result of the global interdependence of the markets and the complexity of many of the financial instruments that are sold to investors were not recognised.

A wide variety of inquires have been initiated to help us to understand better "what went wrong". The general public is expecting changes to be introduced to avert a repeat of the recent confusion. Reforms are being debated nationally and internationally. Some have already been legislated. The process of translating these reforms into specifics and then being implemented by the different regulatory agencies will take many months. The issues are very complex. The implications of what has been proposed have to be carefully evaluated in order to be sure they will be appropriate and effective and not have unintended consequences.

Members of the British - North American Committee have discussed these issues at their recent bi-annual meetings. We now feel that sufficient time has elapsed for us to express a considered view on some of the reforms required to minimise the likelihood of the problems reappearing.

First, we feel that greater **transparency** should be required in both the balance sheet and income statements of financial institutions. This should include the disclosure of more information provided on asset quality, liquidity (including projected requirements and sources) and contingent liabilities. The reporting of revenue and operating income by different business activities within the organisation should be more detailed so the potential volatility of results of specific activities can be better understood. In addition greater disclosure should be required in the marketing of financial products in order to provide investors with a better understanding of the potential risks.

Second, there is a need to strengthen **regulatory oversight.** Overlapping regulatory responsibilities among different agencies should be eliminated and, where appropriate, the size and competence of their staffs should be increased. While there is good coordination of activities among central banks regarding the implementation of monetary policies, and regulators have good working relationships with their counterparts in other nations, we feel that consideration should be given to formalising this cooperation in the regulatory examination of large global financial institutions. Ultimate responsibility and accountability should be established in order to ensure completeness of the oversight and ensure the timely identification of risks that could have global implications.

Third, of critical importance is restoring public confidence in **the way financial institutions are run**. This is primarily the responsibility of the Board of Directors of those companies. The competence and diverse experience with governance practices in Canada, United States and United Kingdom of many BNAC members provides the basis for what we are suggesting as being necessary to restore this confidence.

- Board members should have a good understanding of a company's business, history and operations. We feel that establishing restrictive terms on the length of service for directors are not generally conducive to sustaining an effective board.

- A clear balance of power at the top of any organization is a key to developing an open and trustworthy corporate culture. We recommend the separation of the roles of chairman and chief executive officer. An independent and competent chairman must be familiar with the essentials of the business in order to bring an objective view of an "outsider". He has to be able to understand and influence decisions of the CEO.

- Board members should be selected by a nominating committee and be chosen based on their ability to work as part of a team while contributing their relevant expertise and experience. The reasons for their selection should be fully disclosed to shareholders who elect them to the board.

- An important responsibility of the CEO should be to ensure that Board members are provided regular reviews of business segments and their respective revenue, net income and risk contributions. The CEO should also make sure that they are fully able to understand the key balance sheet and external factors that influence those numbers.

- Management's assessment of the risks to the company's financial performance should be a regular topic on board agendas. It is the board's responsibility to ensure to their satisfaction that the risks are mitigated and that procedures are in place to monitor and manage them. Independent assessment of the risks should be periodically presented to the board by regulators and accountants in executive sessions.

- Problems can arise when there is a disconnection between shareholders, CEOs, and the chairmen. Boards should require the CEO and his senior management periodically to present and comment on the assessments of significant shareholders and respected investment analysts.

- Executive compensation should be based on and structured to reflect the performance of the company over a three to five year horizon focusing on its financial strength and market competitiveness. Factors to be considered should include:

a) An evaluation of the salary structure of the company as a whole, and whether the differentiation of salaries between the various layers of management is appropriate.
b) A determination on whether salaries are competitive in the market place.
c) Total remuneration packages which reflect longer term individual performance.

The public perception of the competence and trustworthiness of a company's senior management and its board is critical to its long term viability. When this does not exist, its investors, customers and the markets in which it operates will begin to withdraw support. The inevitable result is that employees of those companies and communities in which they are based will be economically impacted. Certain segments of the financial service industry have shown how quickly this can happen and how other companies in the same sectors can be affected.

Finally, we believe that it is essential that commercial organisations set out their core ethical values as the basis for generating and sustaining a culture of integrity in the way they conduct their businesses. While most corporations are (rightly) concerned about making adequate returns for their shareholders, they should also be concerned about making their organisations good ‘corporate citizens’ and sustainable in the longer term. The way an organisation ‘does its business’ clearly matters.

Signed on behalf of the BNAC by:

Sir Paul Judge	William E Mayer	Derek Oland	David A Wilson
Chairman	Chairman	Chairman	Chairman
United Kingdom	United States	Canada	Executive Committee

William I M Turner Jr
Chairman
Corporate Governance Working Group

26th August 2010

Please Note

Inclusion of the attached list of British-North American Committee members should not be taken imply that members necessarily agree with every aspect of the Statement.

British-North American Committee Members

Nancy Aossey
President and CEO
International Medical Corps
(USA)

Paul R Baay
Managing Director
Abacus Energy
(Canada)

Ian B Bandeen
Vice Chairman and CEO
CNSX Markets Inc.
(Canada)

Daryl Bennett President
Liftlock Group
(Canada)

Amanda Bowman
Chief Executive Officer
The Atlantic Bridge
(USA)

David Brennan
Chairman & CEO
Baring Asset Management
(British)

Sir Andrew Burns
Chairman
Royal Holloway -
University of London
(British)

Dr Pamela G Carlton
President and Co-founder
Springboard - Partners in Cross
Cultural Leadership
(USA)

Hon Henry E Catto
Chairman Emeritus
The Atlantic Council
(USA)

General Wesley K Clark
Founder
Wesley K. Clark & Associates, LLC
(USA)

Sir Frederick Crawford
Chairman
Haruspex Consulting
(British)

F Peter Cundill
(USA)

Baroness Dean of Thornton-le-Fylde
Chairman
The Housing Commission
(British)

Philip Evans
Senior Vice President
Boston Consulting Group
(USA)

J I Everest
Vice Chairman
Energy Solutions, Inc.
(USA)

Maureen Farrow
President
Economap Inc.
(Canada)

Brooks Firestone
Founder
Curtis Winery
(USA)

Lawrence P Fisher II
President, Family Wealth
Chevy Chase Trust
(USA)

Toby Foster
(British)

John A Fraser
Master
Massey College
University of Toronto
(Canada)

Alan R Griffith
Former Vice Chairman,
The Bank of New York
(USA)

Loyd Grossman
(Britain)

Kerry L Hawkins
Former President (retired)
Cargill Ltd
(Canada)

A Michael Hoffman
Chairman
Palamon Capital Partners LP
(British)

Dr Nigel Horne PhD
Director
Foresight VCT Plc
(British)

Brian A Hunter
Managing Director and CEO
Strategic Capital Allocation Group
(USA)

Hon Robert L Hutchings
Diplomat in Residence
Princeton University
(USA)

Jonathan Jordan
Former Chief Executive
Burson-Marsteller UK
(British)

Lady (Barbara) Judge
Chairman
Pension Protection Fund
(British)

Sir Paul Judge
Chairman
Schroder Income Growth Fund plc
(British)

Sir John Kingman
Former Vice-Chancellor
University of Bristol
(British)

George Kitching
Chairman and CEO
Idelia Advisers Inc.
(Canada)

Frederick Kempe
President and CEO
Atlantic Council of the United States
(USA)

Michael M Koerner
President
Canada Overseas Investments Ltd
(Canada)

Sir Tim Lankester
President
Corpus Christi College
(British)

W A Fitzhugh Lee
CEO
Green Source Energy
(USA)

Dr. David Levy MD
Partner
PricewaterhouseCoopers LLP
(USA)

George Mallinckrodt KBE
President
Schroders Plc
(British)

Jeremy Marshall
Chief Executive Officer
C. Hoare & Co
(British)

Rt Hon Paul Martin
Former Prime Minister of Canada
Martin Aboriginal Initiative
(Canada)

William E Mayer
Founder
Park Avenue Equity Partners
(USA)

Dean Menegas
General Counsel
Spinnaker Capital Group
(British)

Sir Mark Moody-Stuart
Chairman
Hermes Equity Ownership Services
(British)

Jon Moulton
(British)

Jon Moynihan
Executive Chairman
PA Consulting Group plc
(British)

Derek Oland
Executive Chairman
Moosehead Breweries Ltd
(Canada)

George D O'Neill
Chairman
Meriwether Capital L.L.C.
(USA)

Gordon F Page CBE MA FRAeS
Chairman
Hamworthy plc
(British)

Sir John Parker
Chairman
National Grid plc
(British)

Professor John C Polanyi
Nobel Laureate
University of Toronto
(Canada)

Andrew Prozes
CEO
LexisNexis Group
(USA)

Kirk Radke
Partner
Kirkland & Ellis LLP
(USA)

Neil Record
Chairman & CEO
Record Currency Management
(British)

Sir Martin Rees
Master
Trinity College, Cambridge
(British)

Sir Bob Reid
Chairman
ICE Futures Europe
(British)

Guy Savard
Chairman
Merrill Lynch Canada Inc.
(Canada)

Thomas R Saylor
Chief Executive Officer
Arecor Limited
(British)

Hon. James R Schlesinger
Chairman, Board of Trustees
MITRE
(USA)

Sir Richard Sykes DSc FRS Rector,
Imperial College
(British)

Jeffrey Symons
Partner
Kirkland & Ellis LLP
(USA)

Professor Thomas H B Symons, C.C., O. Ont., FRSC.
Founding President and
Vanier Professor Emeritus
Trent University
(Canada)

Michael S Sylvester
Chairman
Novagard Solutions
(USA)

Lord (David) Triesman
The House of Lords
(British)

James Z Turner
Vice Chairman
Alta Colleges, Inc.
(USA)

John S M Turner
Fasken Martineau
(Canada)

William I M Turner Jr
Chairman and CEO
Exsultate Inc.
(Canada)

Dr Paul Twomey
Founder
AgroP@cific
(USA)

Peter Warner
Partner
Gleacher Shacklock LLP
(British)

Simon Webley
Research Director
Institute of Business Ethics
(British)

Viscount (William) Weir
Former Chairman
Balfour Beatty Plc
(British)

Frederick B Whittemore
Advisory Director
Morgan Stanley & Co., Inc.
(USA)

Dr David A Wilson
President and CEO
Graduate Management Admission Council
(USA)

Margaret S Wilson
Chairman and CEO
Scarbroughs
(USA)

Hon Michael Wilson
Former Canadian Ambassador to Washington
(Canada)

Simon Wooller
Managing Director
Corporate Real Estate Group
Trillium
(British)

Lord (Anthony) Young of Norwood Green
House of Lords
(British)

BNAC Officers

UK Chairman

SIR PAUL JUDGE
Chairman
Schroder Income Growth Fund plc

US Chairman

WILLIAM E MAYER
Founder
Park Avenue Equity Partners

Canadian Chairman

DEREK OLAND
Executive Chairman
Moosehead Breweries

Chairman, Executive Committee

DAVID WILSON
President and CEO
Graduate Management Admission Council

Offices and Staff

For North America

Ms. Elena Pak, Director
Ms. Mary Micevych, Program Coordinator
BNAC US Secretariat
The Atlantic Council of the United States
1101 15th Street NW, 11th Floor
Washington DC 20005
Phone: (202) 778 4993
Fax: (202) 463 7241
epak@acus.org; mmicevych @acus.org
bnac@acus.org
www.acus.org

For United Kingdom

Ms. Melanie Jones
BNAC UK Coordinator
British-North American Research Association
St Clement's House, 27-28 Clement's Lane
London EC4N 7AE

Phone (020) 3207 9432
Fax: (020) 3207 9134
melanie.jones@underlinegroup.com
www.bnac.org

For Canada

Mr. Danylo Dzwonyk
Canadian Liaison Officer
Massey College
University of Toronto
4 Devonshire Place
Toronto, ON M5S 2E1
Telephone: 416-978-2549
Fax: 416-971-3032
danylo.dzwonyk@utoronto.ca