Addressing the Challenges of the Global Economy

A major shake-up of regulation, the way non executive directors are appointed and operate and a new approach to corporate governance in the financial sector have been called for by ACCA members as a response to the global economic crisis.

Non executive directors (NEDS) in large banks have proven to be ineffective and that there needs to be a new structure to ensure that NEDs have the independence, skills and resources to exert supervision over the executive in future, a debate by members on the challenges of the global economy has concluded.

While recognising there were mitigating factors, such as the fact that independent NEDs must rely on company information which can lead to them being misled and that the complexity of company issues and the NEDs' distance from them make it difficult to govern – the lack of understanding was not acceptable as an excuse.

Accountants at a recent conference in London entitled Addressing the Challenges of the Global Economy called for a new structure for NEDs, with a way to prevent dominant chief executives from steering Board decisions and over ruling NED impartiality. They felt that there could be potential solutions by changing remuneration to target and focus the right individuals, by increasing accountability of NEDs, by regular evaluations of boards and a refreshing of boards.

The meeting also called for a co-ordinated national systems of regulation, with delegates agreeing that while there are advantages to global regulation to deal with global issues, there needed to be national enforcement of those regulations.

With commercial banking critical to national interest, it is important that there should be national regulation, the meeting agreed.

Regulations needed to recognise uniqueness of individual countries and markets, and the different attitudes which nations have to enforcement of regulation.

Any such regulation needs to consider politics, ethics and cultures, and also needs to understand that people will shop around for the regulation they prefer.

The meeting also heard that there is a need to recognise diversity, which is currently not done by national regulatory systems.
Accountants also accepted they needed to take more responsibility – by being tougher on how they recognised profit. They would also need to look at what impact this might have on bonuses.

ACCA members called for connectivity and transparency between banking systems.

The meeting also called for a new approach to effectively monitor and control behaviour within the financial sector rather than to attempt to restructure the corporate governance combined code.

Delegates said that the current combined code appears to be ineffective. There is a real need and potential for a radical new approach, but actually achieving this will be difficult.

ACCA members made a number of suggestions about what that new approach should include:

- It should ensure executive directors do not choose their own non-executive directors
- It should ensure stronger consequences for not following the code
- There should be a change to reporting lines, which are currently too narrow
- It should not focus only on backward looking narrow financial data and should not focus only on short-term profit making, monitor indicators of the well-being of the organisation
- It should reduce rewards for short term success which puts the business at risk, use incentives to create a long term mindset
- It should introduce “ethical committees” into organisations
- It should educate young people so that when they become investors they can make wise decisions and hold financial sector organisations more accountable.

Delegates also agreed that regulators should continue with principles based regulation and that banks which were seen as too big to fail, too big to challenge and too big to rescue should be left as they were but should be subject to much closer supervision.