

The role of transparency in financial services reform

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What is the interest of Transparency International (TI) in financial services reform?

TI has long recognised that the key to preventing corruption in the private sector is the creation and maintenance of corporate integrity systems. Ethical leadership, good corporate governance, anti-corruption compliance systems and regulatory oversight are the principal ingredients of corporate integrity. But additional checks and balances are provided within the system by rating agencies, investors, employees, media and civil society watchdogs fulfilling their respective roles. The interlocking and mutually reinforcing nature of these elements comprise the integrity system.

The financial crisis and other recent controversies have highlighted that the corporate integrity system in the financial services sector has not functioned well, with major lapses in corporate governance, risk management, regulatory oversight and the performance of credit rating agencies. Highly problematic instances of conflict of interest have been exposed (Goldman Sachs failure to disclose its interest in the products it sold to clients) and there have been high-profile accusations of mis-selling (e.g. Payment Protection Insurance) and fraud (Anglo Irish Bank).

The financial system also deserves special attention as it is an important conduit for illicit funds in many, if not most, cases of corruption and money-laundering. Improving governance standards and corporate integrity in financial institutions may have the important effect of helping to staunch the flow of such funds, as well as ensuring the long-term sustainability of the business.

Therefore, TI is seeking to influence global reform efforts to ensure that what emerges is a more robust corporate integrity system for financial services. The TI 2015 strategy states that it aims to enshrine principles of *transparency, accountability and integrity* into the regulations that control the global financial system.

The importance of transparency in financial systems

There is a great deal of agreement on the importance of transparency for well functioning markets in general and in financial markets in particular. By transparency, we mean the disclosure of all information that will ensure the proper accountability of institutions to their boards, investors, shareholders, regulators and other stakeholders.

Transparency benefits financial systems in at least 3 ways:

- It helps to fight fraud and corruption (one only has to think of Madoff's 'black box' or accusations of bid-rigging on the US municipal bond market¹);
- It improves market efficiency by facilitating price discovery, uncovering hidden costs and, more generally, by ensuring a level playing field and fairer market conditions;
- It provides protection for investors by removing informational asymmetry and allowing better analysis of the risks associated with financial products (think of the case of Citigroup failure to expose its exposure to the sub-prime market to investors²).

Evidence of benefits of transparency

Moreover, this intuitive understanding of the benefits of transparency is supported by empirical evidence. Studies have shown that greater bank disclosure and the consequences of bank transparency have positive economic effects on the stability of the banking sector³. Findings indicate that banking crises are less likely in countries where transparency and regulatory disclosure are high. A high level of transparency leads to a higher supervision level, lower financing cost and also a lower risk profile thus limiting the likelihood of failure⁴.

While the system-wide benefits of transparency are clear, there may be individual cases where it can be pernicious. More disclosure of financial information generates market reactions that can exacerbate - often unfairly - a bank's situation⁵. In other words, transparency can make a bad situation worse and lead to a banker's worst nightmare, a run on the bank. Consequently it is entirely rational for Bank executives to be concerned about increased transparency on the basis that any bank, no matter how well managed, may be negatively impacted by events beyond their control. The natural instinct of bank executives to protect the interests of their institution may militate against the very thing that is necessary for the protection of the whole system, transparency and disclosure.

This instinctive wariness may also explain some of the hostility to recent measures in the EU and US to improve the transparency of financial markets. History shows, however, that fears about the negative impact of new disclosure measures can also be misplaced. In 1993, FASB (Financial Accounting Standards Board), the professional accounting standards organization, proposed mandatory expensing of option grants for executives. Large portions of the business community were alarmed and initiated a lobbying effort in opposition to the measure. The claim was made that expensing

¹ <http://lawprofessors.typepad.com/securities/2011/05/ubs-settles-sec-charges-of-fraudulent-bidding-practices-involving-investment-of-municipal-bond-proce.html>

<http://www.lexisnexis.com/community/corpsec/blogs/corporateandsecuritieslawblog/archive/2011/02/15/scc-enforcement-trends-2011-significant-market-crisis-cases.aspx>

³ Tadesse (2006). The Economic Value of Regulated Disclosure : Evidence from the Banking Sector », *Journal of Accounting and Public Policy*, vol.25, pp.32-70.

⁴ Nier E.W., 2005, "Bank Stability and Transparency", *Journal of Financial Stability* vol.1, pp.342-354.

⁵ Cordella and Yeyati, 1998, "Public Disclosure and Bank Failures", *International Monetary Fund Staff Papers*, vol.45, n°1.

options would destroy the growth of the high tech sector, costing jobs. A study by the Employment Policy Foundation claimed that the loss to the US economy would be more than \$2.3 trillion over a decade. Consequently, in 1995, FASB relented and proposed a watered down requirement for companies to either expense or at least disclose in the footnotes the impact of options awards on earnings per share. However, in the wake of the dotcom bubble and the Enron accounting scandal, the issue was revisited in 2004 when FASB issued a new rule finally requiring companies to expense option awards in their financial statements. Predictions of economic disaster were proven to be unfounded and the disclosure measures became generally accepted in the market⁶.

Transparency Paradox?

Despite the evidence for, and widespread acknowledgement of, the benefits of transparency, there has been resistance in some quarters to measures such as the US Dodd Frank Act that aims to dispel some of the fog and opacity that surrounds financial markets, in particular over-the-counter (OTC) derivatives markets. Critics have noted that 30 years of transparency reform did not prevent the financial crisis. As Rick Waugh, chief executive of Canada's Bank of Nova Scotia and vice chairman of the Institute of International Finance (representing 460 of the world's largest financial institutions) has claimed. "No regulation, no rule, prohibited us from participating in subprime, CDOs, high-yield bonds, covenant-light loans, all of these toxic, toxic assets". Indeed there is an apparent paradox in the fact that countries with some of the most far-reaching disclosure and transparency measures, and with banks subject to the most sophisticated regulation, were at the centre of the recent financial crisis.

How should we address this apparent paradox? Our view is that the trend toward more stringent formal disclosure requirements has been more than offset by 3 factors:

- (i) Financial innovation and the growth of opaque financial markets
- (ii) Lax supervision and enforcement at all levels
- (iii) Failure to deal with systematic conflicts of interest

We will address each of these factors in turn.

Financial innovation and the growth of opaque financial markets

One of the features of the recent market crisis was the build up of hidden risk in financial institutions, which not only was substantially unrecognized by the individual institutions, but also was left unmanaged on an aggregate basis by the national financial regulators.

The recent US Senate subcommittee report on the financial crisis⁷ has demonstrated in forensic detail the extent to which structured financial products⁸ engineered and sold by investment banks disguised problematic conflicts of interest. In at least one case (Goldman Sachs) the fact that a bank failed to disclose that it was shorting the very CDO securities it was marketing raises questions about whether it complied with its

⁶ <http://bettingthebusiness.com/2011/04/28/margins-end-users-3-chicken-little/>

⁷ http://hsgac.senate.gov/public/files/Financial_Crisis/FinancialCrisisReport.pdf

⁸ E.g. Retail Mortgage Backed Securities (RMBS), Collateralised Debt Obligations (CDO) securities and Credit Default Swaps (CDS) contracts

obligations to issue suitable investment recommendations and disclose material adverse interests. The impossibility of investors finding out about the short position it was taking made it easier for the bank to evade its disclosure requirements. The report makes it clear that this is just one egregious example of the type of practice that was widespread within investment bank circles, particularly those that were exposed to the subprime markets.

The risk attached to these products was also difficult for investors to assess, making them more reliant on the flawed assessments of credit rating agencies. This made it more difficult to put in place reliable risk management strategies.

In another case, Sean Quinn, formerly one of Ireland's wealthiest entrepreneurs, built up an undisclosed 30% stake in Anglo Irish Bank using Contracts for Difference (CFDs), a contract that allows investors to speculate on shares without having full ownership of the underlying asset. The undisclosed nature of the relationship also allowed Quinn to take out a number of loans from the Bank which would have been prohibited under a more conventional relationship. Here again we see how the opacity of financial derivatives markets allows individuals to evade disclosure requirements, breeds conflicts of interest and prevents regulators from carrying out their functions.

It should come as no surprise therefore that recent regulatory reforms, such as the US Dodd Frank Act and the European Commission's European Market Infrastructure Regulation (EMiR) proposal, have put derivative markets in the spotlight and are pushing for central clearing of OTC contracts and their recording in trade repositories as a way of introducing greater transparency and market discipline. The US Act has also created an Office for Financial Research⁹ that will have the responsibility of supporting supervisors by collating all this information to better understand complex financial products, more effectively uncover fraud and better monitor risks from large financial institutions. Both these measures indicate that regulators believe that a systemic approach to market transparency is required, one that does not depend on the disclosure by individual firms of their risk exposure to regulators.

Another reason why the true state of the financial institutions' balance sheets were hidden from supervisors and indeed in some cases from those institution's boards of directors, was the evolution and growth of the parallel or "shadow" banking sector. These are entities, often located in off-shore jurisdictions, which are structured outside of the regular banking system and yet perform bank-like functions. Such entities are intertwined with the regular banking system and include hedge funds, private equity groups and money market funds. They rely to a degree on the regulated banking sector to act as business intermediaries and to provide back-office functions. Many of the entities are specifically designed to evade supervision and exploit regulatory loopholes. They include off-balance sheet vehicles that were created to avoid holding capital against complex securities.

Finally, a more recent development has been the emergence of unregulated private exchanges and trading platforms where professionals can trade the shares of unlisted companies. Any proposed measures to introduce greater transparency and disclosure into the financial system need to take into account the possibilities for evading regulation that these exchanges provide.

⁹ <http://www.ce-nif.org/faqs-role-of-the-nif/office-of-financial-research>

Lax supervision and enforcement

Although advanced economies had developed elaborate supervisory and governance structures, their failure to anticipate the crisis or deal with warning signs is well documented. There are some striking examples of regulatory supervisors' passivity in the face of clear signals. Between 2004-08, The Office of Thrift Supervision in the US identified over 500 serious deficiencies at Washington Mutual Bank - the 6th largest bank in the US at the time of its failure in 2008 – but failed to take action to force the bank to improve its lending operations and even impeded oversight by the bank's backup regulator, the Federal Deposit Insurance Corporation (FDIC)¹⁰. This should be seen against a wider backdrop of lax enforcement of standards world wide. The Report of the Commission of Investigation into the Banking Sector in Ireland points out that despite the pivotal position of the Irish Central Bank, it did not take forceful measures but largely confined itself to providing reminders of existing risks, even where there were clear breaches of prudential sector lending limits¹¹. It also notes the “passivity” of the Financial Regulator with regard to sanctioning weaknesses in governance and risk management in some institutions.

The history of the financial crisis is also replete with examples of the failure of boards and senior management to curb excesses and question dubious business practices. The case of Washington Mutual and its subprime lender, Long Beach Mortgage Corporation, is a textbook case of poor governance: they failed to enforce compliance with their own lending standard; exercised weak oversight over third-party mortgage brokers who supplied the majority of their loans; tolerated the issuance of loans with fraudulent or erroneous borrower information; and designed compensation systems that rewarded loan personnel for issuing a large volume of high-risk loans. The US subcommittee report is at pains to point out that unacceptable lending and securitization practices were not restricted to Washington Mutual, but were present at a host of financial institutions that originated, sold and securitised billions of dollars of high-risk, poor quality home loans that inundated financial markets. This was not a case of a ‘few bad apples’.

The collapse of Lehman Brothers also exposed the failure of corporate governance systems, in this case to detect or remedy fraudulent accounting practices. The ‘Repo 105 program’ aimed to disguise the true amount of leverage the firm had taken on through a set of transactions engineered by its UK subsidiary to avoid US accounting rules. None of this was disclosed to investors or regulators. The examiner's report into Lehman's bankruptcy provides evidence of senior executives' knowledge of this program and concludes that ‘is sufficient evidence to support a finding that claims of breach of fiduciary duty exist against Fuld, O'Meara, Callan and Lowitt [Lehman's CEO and 3 CFOs, respectively]’. Without exception, former Lehman directors were unaware of the transactions.

¹⁰ http://hsgac.senate.gov/public_files/Financial_Crisis/FinancialCrisisReport.pdf

¹¹ *Misjudging risk: causes of the systemic banking crisis in Ireland*, Report of the Commission of Investigation into the Banking Sector in Ireland, pp. vi-vii
<http://www.finance.gov.ie/documents/publications/reports/2011/nybergreport.pdf>,

What explains this gross failure of supervision at all levels?

Group think: The Irish Commission of Investigation highlights the role of consensus and the deliberate suppression or sanctioning of contrarian opinion. In its view, “the conformity of views and self-limitation of responsibility...tended to reduce the perceived need for monitoring, checking and thinking about what was really going on”. This group think was reinforced by a relatively long period of market stability. In addition, there was a notable lack of diversity on the boards. In the case of Lehman Brothers, 7 members of the board were serving or former chief executives. As a number of reports have noted, there was a lack of experience of financial markets which might have promoted more prudent policies.

Regulatory capture and revolving doors: the highly technical and specialist nature of much of financial services regulation meant that the normal processes of consultation and expert advice were dominated by the industry itself. This reinforced the group think that was prevalent in these circles. A good example is the domination of the Lamfalussy process (responsible for designing a uniform set of rules for European financial services) by industry representatives. The former Level Three bodies (committees of supervisors and regulators) had at total of 20 consultative expert groups and consultative panels: 15 were comprised entirely of representatives of the private financial sector. Such regular and close links between regulators and industry has inevitably led to a “revolving door” scenario, with senior figures moving seamlessly between positions in regulatory bodies and commercial banks. For example, the former Chief Executive of the Irish Financial Regulator, Liam O’Reilly, took up positions at 2 banks following the end of his mandate, both of which were at that time the subject of investigations by the authorities. The permeability of the boundaries between supervisor and supervised raises troubling questions as to potential conflicts of interest.

Another example concerns Sir James Crosby, former CEO of Halifax Bank of Scotland (HBOS), was the chief architect of the high-risk, “grow assets at all costs” strategy that led the company to the brink of collapse and its forced acquisition by Lloyds TSB Bank with government assistance. Unchallenged executive power was identified by the former Head of Group Regulatory Risk at HBOS, Paul Moore, as one of the main reasons for the downfall of the company in his evidence to a public enquiry. Crosby became the Deputy Chairman of the UK Financial Services Authority (FSA) in 2008, advising the government on how to remedy the financial crisis¹².

Lack of skills: Effective supervision requires the availability of the necessary specialist skills and experience at all levels and this was lacking in many cases. The House of Lords select committee reported that the Chairs of Audit Companies of Banks showed only “cloudy grasp” of valuation models of complex financial instruments¹³. The Irish Banking Commission urged Banks to ensure that senior management has extensive practical lending and risk management expertise¹⁴. Similar lacunae in skills were apparent in the regulatory and supervisory bodies.

¹² Example taken from Dr R. Thomas (2011) “Ethics – or lack of Ethics – in the Global Financial Crisis 2007-10” (in Thomas (ed.) *Business Ethics*, Centre for Business and Public Sector Ethics, Cambridge, p.60)

¹³ <http://www.publications.parliament.uk/pa/ld201011/ldselect/ldconaf/119/11909.htm#a17>

¹⁴ Report of the Commission of Investigation into the Banking Sector in Ireland, p.x

Lack of fiscal clarity: The global financial crisis was in part the product of the failure of regulators and international accounting standard setters to provide fiscal clarity. Lack of transparency, inadequate accounting rules and auditing confusion allowed firms to hide losses and misprice assets.

Lack of information or information sharing: supervisors were unable to make good decisions about the health of individual banks and their risk management strategy because they lacked basic information. In part this was due to the opacity of OTC derivatives markets. The lack of centralised data made it very difficult to assess the net exposure of an institution to these markets. In some cases this was due to poor governance in institutions, which meant that they were unable or unwilling to provide accurate information to the relevant authorities when crucial decisions were being made. In the case of the blanket guarantee given to Irish banks by the sovereign, this had long-term and catastrophic effects.

However, lack of information was not the only problem. Even when information was not hidden from view and accessible to the authorities, lack of information sharing between supervisors played a critical role. The assessment of the Irish Commission of Investigation was that the Central Bank and Financial Regulator did not cooperate in a sufficiently meaningful way in assessing financial stability. The poor state of loan documentation and the insufficiency of collateral in some banks were well known to the Financial Regulator, but this information was not shared with the Central Bank.

Procedures for sharing crucial information between supervisors and other gatekeepers such as auditors were also absent or inadequate. The crisis also demonstrated that cooperation among national supervision had failed to keep pace with the international, cross-border nature of modern banking. Financial supervision bodies failed to gather and pool all relevant information on cross-border systemic risk. These macro-prudential inefficiencies stem from the European fragmentation of “supervisory styles” and models, based upon very different economic approaches. Among the differences, one can quote the Spanish model characterised by a system of “permanent exam”, differing from other member states’ models based upon ex-post exam (i.e. supervision rests on data sent regularly by the national banks). Even at national level, there was inadequate information sharing by all stakeholders. A recent UK House of Lords select committee report noted the lack of regular contact between bank auditors and supervisors and concluded “we regard the recent paucity of meetings between bank auditors and regulators, particularly in a period of looming financial crisis as a dereliction of duty by both auditors and regulators”.

The opportunities for regulatory arbitrage and the lack of a clear single rulebook to govern the financial services industry exacerbated the situation whereby any one regulator only had a partial view of the information necessary to make good judgements as to the viability of the institutions under its purview.

Competing and overlapping agency mandates: there were also examples of regulators not only failing to exchange relevant information but actively impeding each other due to competing mandates or perceived rivalry. An example from the US is the way in which the Office of Thrift Supervision resisted calls from the FDIC, the bank’s back-up regulator, for stronger enforcement measures and even denied FDIC examiners office space and access to bank records.

Failure to deal with systematic conflicts of interest

There were a variety of conflicts of interest in both the industry and the public sector regulators that were highlighted by the financial crisis. We have already referred to some of these. However, 2 systemic and pervasive conflicts of interest directly contributed to the crisis and deserve special attention in the context of explaining the failure of supervision and risk management strategies.

Credit Rating Agencies: inflated credit ratings contributed to the financial crisis by masking the true risk of many financial products. The reasons for these inaccurate ratings were only partly a result of the complexity of the products themselves and inadequacy of ratings models. The US Senate subcommittee identified the inherent conflict of interest arising from the system used to pay for credit ratings. Credit rating agencies were paid by financial institutions that sought their ratings and profited from the products being rated. Under an “issuer pays” model, rating agencies were dependent on financial institutions to bring them business. They weakened their standards as each competed to provide the most favourable ratings to win business and market share.

External Auditors: The UK House of Lords inquiry points to the timidity of auditing firms with regard to their customers, the UK Banks. The report concludes, “We do not accept the defence that bank auditors did all that was required of them. In the light of what we now know, that defence appears disconcertingly complacent. It may be that the [auditing firms] carried out their duties properly in the strictly legal sense, but we have to conclude that, in the wider sense, they did not do so”¹⁵. The same conditions that permit conflicts of interest to arise in the case of Credit Ratings Agencies – institutions dependent on financial institutions for business and market share; a “user pays” model – are also present in the auditing market. The House of Lords select committee concludes that the oligopolistic position of large auditing firms should have prevented it from being “cowed” by global banking groups, but in practice this did not happen.

What is to be done?

When ensuring wider market transparency, there is a case for greater **regulation** since without coordinated and standardised disclosure of information there will be powerful incentives for some actors not to reveal their position.

If the regulation is to be effective, then the question of the financial sectors’ involvement with the **parallel banking system** must be addressed. Otherwise there is a ‘Magenot Line risk’ as former US economic advisor Larry Summers had put it: that which is being defended will be impregnable, but not difficult to circumvent. This will require a global effort, but regional actors such as the EU can do their part by proposing measures that would shed more light on the interconnections between the regular banking system and the problematic elements of the parallel banking system. Disclosure of these connections and transactions should be reported separately to the appropriate regulator. This would enable the regulator to decide on the appropriateness of the risk management measures applied and suggest remedial action where necessary. Hedge funds and other operators registered in offshore centres should also be required to publicly disclose the rationale for registering offshore.

In the case of **supervision**, this needs to be addressed at 3 different levels:

¹⁵ <http://www.publications.parliament.uk/pa/ld201011/ldselect/ldconaf/119/11909.htm#a17>

(i) Within the firm, state of the art **corporate governance** and compliance management systems should allow all stakeholders – investors, depositors, shareholders, bondholders, supervisors, employees and the public – a deeper insight into quality of management and the sustainability of the business. Contrarian thinking must be encouraged through board diversity. Whistleblower protection would also help. Remuneration policies should be devised to avoid short-term focus on profitability and reward performance with integrity. Risk management should be integrated into all business processes and structures, e.g. the creation of risk committees and the allocation of the responsibility for risk oversight to individual directors or the board as a whole. Banks should report, at a minimum on an annual basis, to their shareholders (and to the public) on the continuing measures they are adopting to strengthen risk management at the executive level and board governance of all aspects of risk management.

(ii) Good **supervision, checks and balances at institutional level** (with proper resources and tools for enforcement). This refers primarily to national regulators in regular dialogue with bank auditors. There is also a need for transparency on the formation and oversight of the supervisory colleges of large and complex financial institutions.

Supervision at this level also requires that systemic conflicts of interest between financial institutions and **Credit Ratings Agencies** should be resolved.

In addition to managing the potential conflicts of interest inherent in the current ‘user pays’ model, there should be action by regulators to with regard to the oversight of **auditing firms** to ensure the public reporting of accurate and fully comprehensive data. Comprehensive in this case means formerly “off-balance sheet” items. The transparency of the audit process itself should also be reassessed to ensure that meaningful and comprehensive information is supplied¹⁶.

(iii) Good **supervision, checks and balances at the macro- or system level** (in EU the European Systemic Risk Board and other European agencies, e.g. European Banking Authority and European Securities Markets Agencies)

Crucially there must be more transparency in how these supervisory processes work - e.g. the operation of sanctions and corrective action - to ensure a greater number of checks and balances by stakeholders, particularly civil society organisations, media and the public.

Supervisors, boards, auditors and risk managers will be aided in their work by clear fiscal and accounting rules and there should be a single, understandable set of international standards for asset valuation in financial services firms.

¹⁶ The UK House of Lords select committee quotes the Professor Stella Fearnley of the University of Bournemouth: “The quality of the audit is quite often unobservable to the client themselves.” In the words of Mr Guy Jubb, Head of Corporate Governance at Standard Life Investments, “the output of the audit is the audit report and that is what we see. We have very little transparency currently as to what the actual audit process involves ... audit reports ... are very, very standardised in their content ... are often ... riddled with ‘get out of jail free’ clauses”.
<http://www.publications.parliament.uk/pa/ld201011/ldselect/ldconaf/119/11909.htm#a17>

All these elements must work together to create a corporate integrity system that is systemic and works across borders – just like the financial system.

Would greater transparency requirements have an impact on economic growth?

There have been objections raised to the notion that the finance industry, and in particular financial markets, requires greater transparency. Firstly, the argument is made that there will be unintended negative consequences for liquidity of some markets. It is said that requiring participants in quote-driven illiquid markets to disclose their positions, for example, will reduce transactional efficiency, since disclosure of private information can reduce market-makers' incentives to compete on spreads. In short, some of the markets will simply disappear. Secondly, it is objected that many of these markets do not lend themselves to any further improvements in transparency because of the high degree of trade customisation caused by the need to create perfect hedges. In general, it is said that the proposed reforms will lead to the disruption of secondary markets, with the result of making less capital available, raising the cost of capital and ultimately hampering economic growth.

Responses

There is no short answer to these concerns. What is clear is that there is no 'one size fits all' transparency regime. There will be a need for careful calibration of the transparency requirements to the operational details of particular markets. The level of transparency that it may be feasible to require of all post-trading activities (registration of transactions with central counterparties and trade repositories) may not be practical for pre-trading activities in secondary markets (bonds, derivatives and structured products). Depending on the market structure, more or less transparency may be possible (auction markets should have a high level of pre-trade transparency for example). If some markets cannot currently operate transparently without severe loss of liquidity, then regulators should consider options that involve changing market structures. The exemptions and waivers necessary to maintain market liquidity in some pre-trading activities should be subject to intense scrutiny and regular review by regulators and supervisors. The assumed benefits of practices that evade disclosure requirements – such as contract customisation - should be closely examined with a view to preventing abuse.

What TI will prioritise in the ongoing EU reforms?

- i. Transparency and accountability of EU level supervision (the effective functioning of the new supervisory structures will be important ensure a single rulebook/ level playing field in financial services. These will be monitored to ensure that their performance is not hampered by conflicts of interest)
- ii. Ensure that the ongoing reforms are not undermined by the potential for regulatory arbitrage that the parallel or "shadow" banking industry represent
- iii. Improve corporate governance and financial disclosure
- iv. Removal of conflicts of interest in the wider system of checks and balances, e.g. credit rating agencies and auditing firms
- v. Improve transparency in markets and financial products



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