

Transparency International: financial sector transparency needs urgent overhaul

-- Public disclosure the key to more effective bank governance--

Ahead of the European Parliament debate on proposals for the reform of bank governance and remuneration [1], Transparency International is calling for stronger checks and balances on risk-taking by banks. These include greater public disclosure of banks' exposure to risk, increased responsibility of bank directors and strengthened shareholder democracy. Further details are available [here](#).

Jana Mittermaier, Head of TI EU Liaison Office, said, "As recent events have shown, bank governance is too important to be left to banks alone. Shareholders, other market participants and the wider public also have a role in monitoring and enforcing governance arrangements if the right information is disclosed. Supervisors often lack sufficient resources and have been prone to group-think and complacency, so their oversight should also be subject to public scrutiny. This is a rare opportunity to ensure a major overhaul of the transparency and accountability of the sector in the EU".

Robust corporate governance is necessary to manage risks that threaten integrity. Serious lapses in corporate governance of the financial sector were exposed by the 2008 financial crisis and recent trading losses amounting to billions at one institution show that banks have failed to learn lessons about effective risk management and internal controls.

That is why TI is encouraged by the European Commission's proposals for mandatory changes to corporate governance in financial institutions. The proposals, however, fall short in important areas and should be completed by the following measures:

- **Greater public disclosure:** there is surprisingly little information available on banks' exposures to different business sectors, customer classes and other financial institutions, including off-balance sheet entities. There should be detailed public disclosure of financial institutions' risk profile, as well as other information necessary to monitor risk such as intra-group transactions, loan performance data, and asset valuation models. Financial institutions should also report annually on the measures they are adopting to strengthen risk management at board level.
- **Transparent supervision:** supervisors should also make public elements of the review process, such as stress test data and sanctions and warnings issued.
- **Shareholder rights:** shareholders' rights need to be reinforced so that they have a vote on important decisions, such as pay and board membership.
- **Enhanced executive responsibility:** the board of directors' responsibility for the safety and soundness of the institution should be explicitly acknowledged.

For further information, please contact Jana Mittermaier at the address given below.

[1] On Tuesday 4 October the European Parliament's Economic and Monetary Affairs (ECON) Committee will have a second exchange of views on the European Commission's proposals on corporate governance and remuneration in financial institutions, contained in the *proposal to amend the directive on the access to the activity of credit institutions and prudential supervision of credit institutions (2002/87/EC)*

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