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Economía y empresa

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Mr. Mats Isaksson
Head
Corporate Affairs Division
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RE: Public Consultation on Corporate Governance and the Financial Crisis

I am pleased to present some comments on your consultation.

- ***Monitoring, implementation and enforcement.*** The effectiveness of the implementation of existing standards and codes can also be measured by the impact of CG practices on company results and on key stakeholders' results. To the effect you could consider guidelines aimed to enrich the annual report with these kind of CG relevant results:

1. A more systematic use of economic value creation/destruction indicators.
2. A corporate governance explanation of which stakeholders received net transfers, donations or subsidies from the corporation, because of price differentials in transactions with respect to market standards –when those transfers can be clearly identified-, because of retention of certain risks in the company, and the rationale for those realities or the actions taken by the board to correct them.
3. A sensitivity analysis chart showing by how many percentage points the total compensation of directors and officers would had increased/decreased in case the main annual outcomes would had increased /decreased by 5%, 10%, 25% over the actual figures.

- ***Specific areas for improvement***.

1. Board practices.
    a. As more and more banks and finance companies become State Owned Enterprises or at least Government controlled, it is important to include **political independence** among the standards that independent directors are expected to fulfill. It is not enough to rely exclusively in economic independence criteria. A politically independent member of the board should be someone who has nothing to gain or to lose from the Government, because of the way he votes board decisions of an SOE bank. One way to enforce political independence would be to separate part of the independent directors of a SOE bank so that their period begins and finishes under different administrations. Another way is to increase prohibitions or time restrictions for the independent directors to be named for government posts –or to stand as a candidate for elected offices- after their period comes to an end.
    b. More specifically, there is the risk that –allegedly in order to mitigate the crisis impact- the Governments take steps to direct banking credit artificially to industries/ regions/customers favored by political mandates, which would not contribute to the efficient resource allocation. If the Governments begin to co-manage banking boards, credit committees and interfere designating / firing executive officers, then SOE finance companies would not be commercially run. If they lend on less than

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sound basis, how can they get the loan repayments and how can they be trusted by depositors and investors?

2. Effective implementation of risk management.
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3. Governance of the remuneration process.
   a. Take into account the flaws that could come from the way targets tied to the budgeting process become into powerful incentives for executives to distort goals and performance data, as analyzed in detail by professor Michael C. Jensen (Paying People to Lie: the Truth about the Budgeting Process, European Financial Management, Vol. 9, No. 3, 2003, 379–406). Professor Jensen offers advice on how to fix the distorted incentives, while maintaining the variable compensation schemes aligned to the corporate goals.

4. The exercise of shareholder rights.
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Thanks for this opportunity to join with comments. I wish you success in your important endeavor.

Sincerely

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