Corporate Governance of Banks – International Standards

Corporate governance weaknesses in banks were not the main cause of the financial crisis. It is, however, considered that issues like insufficient board oversight and control, weak risk management, inappropriate pay structures for directors and traders contributed to uncontrolled and excessive risk-taking and short termism which ultimately put the whole financial system in jeopardy.

In order to effectively serve their purpose of maintaining stability while promoting value creation, corporate governance arrangements in banks need to be sufficiently robust to capture the complexity of bank business and to identify and mitigate risks that the banks are exposed to.

In recent years, standard-setting bodies such as the Basel Committee for Banking Supervision (“BCBS”), Financial Stability Board (“FSB”) and European Banking Authority (“EBA”) have taken significant efforts to address the weak corporate governance practices of banks that were exposed by the financial crisis.

Some of the key standards and guidelines can be found on the links below:

1. Corporate Governance Principles for Banks (BCBS, 2015),
2. External Audits of Banks (BCBS, 2014),
3. The Internal Audit Function in Banks (BCBS, 2013),
4. Compliance and the Compliance Function in Banks (BCBS, 2005),
5. Principles for an Effective Risk Appetite Framework (FSB, 2013),
7. Principles for Sound Compensation Practices (FSB/FSF, 2009),
10. Guidelines on sound remuneration policies (EBA, 2015)

* * *

Taking inspiration form the standards above, the EBRD has worked together with OECD and IFC for the development of two Policy Briefs targeting Corporate Governance of Banks in South East Europe and Corporate Governance of Banks in Eurasia (available in English and in Russian).