



# IBAT CONVENTION

## *CORPORATE GOVERNANCE: HOW TO ACT IN A POST BAILOUT ERA*

*OCTOBER 12, 2009*

*Cathy Ghiglieri, President, Ghiglieri & Company, Austin, Texas*



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*“How to keep your bank from being on the front page of the newspaper.”*

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# Corporate Governance

**How the Board of Directors  
manages the bank.**



# 2002-Boardroom Scandals





## Sarbanes- Oxley

- Passed in 2002
- To restore confidence in corporate governance of public companies.



Sarbanes-  
Oxley

- Best practices are applicable to private companies.



# Collapse of Wall Street





# Why is Good Corporate Governance so Important?

2009 Harris  
Poll

40%  
surveyed

Banks do  
bad job.



• **Predatory Lending**

• **Foreclosures**

• **Bailouts**



**Good corporate  
governance practices  
help directors  
to fulfill  
their  
duties.**





# Duties of Directors

- ❖ Duty of Loyalty
- ❖ Duty of Care





## Duty of Loyalty

- Should place the bank's interests above the Director's.
- Not take advantage of corporate opportunities through advance or inside knowledge.



## Duty of Care

Exercise the same care and diligence that an ordinary person would exercise under similar conditions.



# Fulfilling the Duty of Care

Attend  
Board  
Meetings

Be  
Informed  
&  
Actively  
Participate

Exercise  
Independent  
Judgment  
&  
Set the  
“Tone at the  
Top”



# Breaches of the Duty of Care

- > Failure to hold board meetings.
- > Failure to attend board or committee meetings.
- > Failure to read examination reports and take corrective action.



**“Last week many of us had a tight schedule so our meeting was rushed and very short. Miss Jones, please read the seconds of our last meeting.”**



# Good Corporate Governance

- ❖ Can help the Board make sound decisions.
- ❖ Can avoid or combat a negative public image.



# SEVEN SUGGESTIONS TO IMPROVE CORPORATE GOVERNANCE PRACTICES AT YOUR BANK...





# 1. BOARD CHAIRMAN

Appoint a Non-CEO  
Board Chairman





## 2. BOARD INFORMATION

- \* Distribute board packets a week in advance.
- \* Never hand out new information at the meetings and ask for a vote.



### 3. BOARD PACKETS

- \* Review contents.
- \* Review germaneness.





Board Packets should contain...

- > Exceptions to policy
- > Loan documentation exceptions
- > Concentrations of credit



## 4. EXECUTIVE SESSION

- \*Meet without bank management
- \*Hold session at every board meeting
- \*Appoint Lead Director to run meeting



## 5. AUDIT COMMITTEE COMPOSITION

- \* All independent directors.
- \* Chairman - a financial expert.

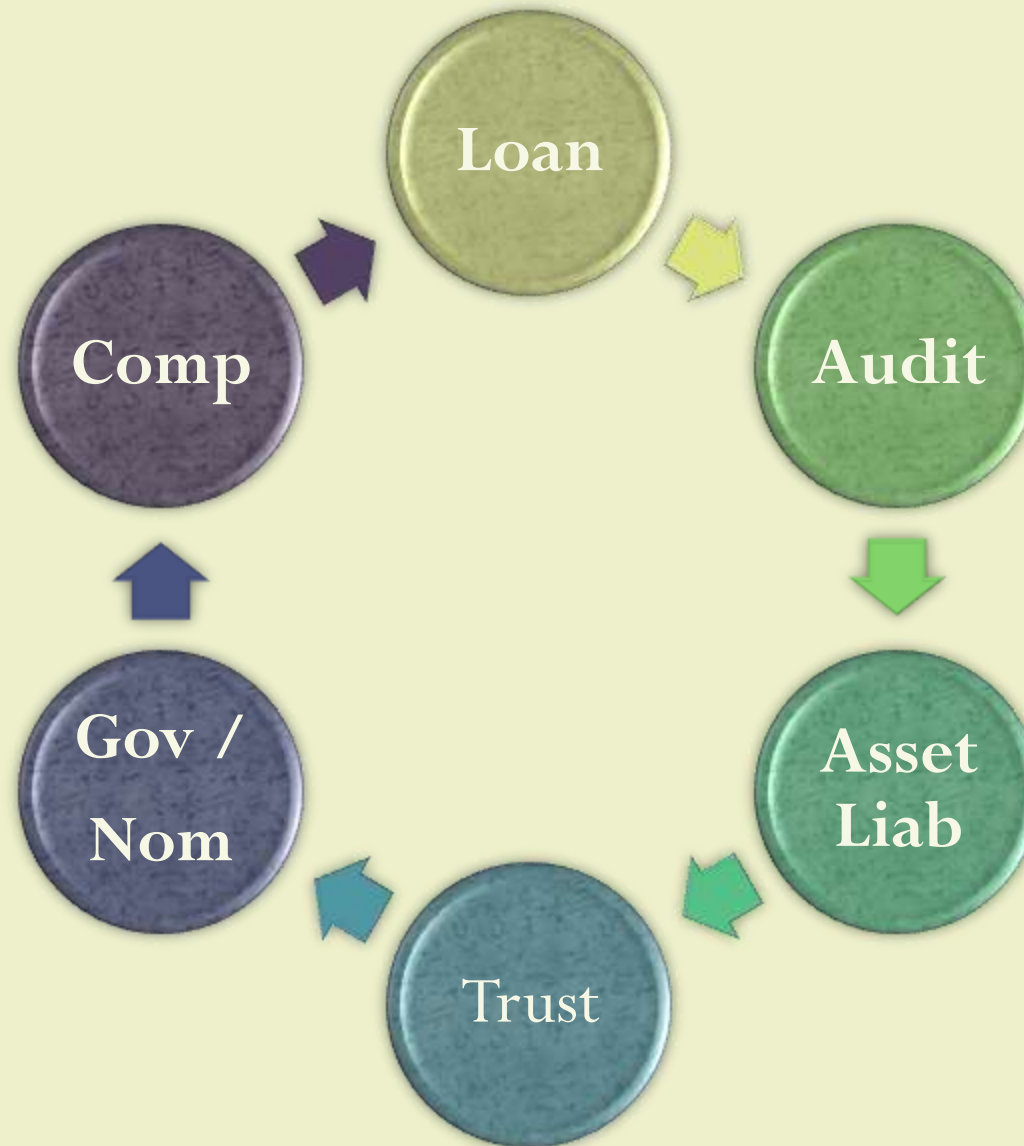


## 6. BOARD COMPOSITION

- \* Majority independent
- \* Size of the Board
- \* Expertise of the Board



# Board Committees





# Board Expertise

- \* Banking experience
- \* CPA or accounting experience
- \* Experience in loan areas i.e.  
real estate, agriculture,  
construction



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*"Then it's moved and seconded that the compulsory retirement age be advanced to ninety-five."*



## 7. BOARD TRAINING

- \* Orientation for new directors
- \* Training for new directors
- \* Refresher training for seasoned directors



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