

Citizens' summary

EU consultation – corporate governance and pay in financial institutions

WHAT'S THE ISSUE?

The recent financial crisis has revealed significant weaknesses in **the way financial institutions are run** (corporate governance), including:

- insufficient **board oversight** and control
- weak **risk management**
- inappropriate **pay structures** for both directors and traders, leading to excessive risk-taking and short-termism
- insufficient **shareholder control** over risk-taking.

Although these weaknesses did not themselves cause the crisis, more timely and effective checks and balances might have mitigated it.

WHAT IS THE EU DOING?

Consulting the public on ways to improve corporate governance in financial institutions, focusing on:

- improving the **functioning and composition of boards**, to ensure proper oversight of senior management
- establishing a **risk culture** at all levels of an institution, to ensure consideration of its long-term interests
- increasing the involvement in corporate governance of **shareholders, financial supervisors** and **external auditors**
- installing **pay policies** that discourage excessive risk-taking.

WHO WOULD BENEFIT AND HOW?

- **consumers and other stakeholders** – financial institutions would more systematically take their interests into account.
- the **institutions themselves** – better managed and less prone to bankruptcy in the longer term.
- the **economy as a whole** – more stable, with growth more sustainable.

WHY DOES ACTION HAVE TO BE TAKEN BY THE EU?

- The regulation of financial institutions in the EU is largely standardised at European level, so any initiative on their internal governance is most effective if taken by the EU.

WHEN WILL THE CONSULTATION – AND RESULTING ACTION – TAKE PLACE?

- The consultation will be open for responses **until 1st September 2010**.
- The Commission will then consider what proposals it can make (if any), for likely **adoption in 2011**.

Data for search engines	
Title tag (<i>± 70 characters with spaces</i>)	EU consultation – corporate governance/pay in financial institutions - summary
Description (<i>± 150 characters</i>)	Explained – EU public consultation on improving how financial institutions are run and regulated.
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