



## CORPORATE OWNERSHIP & CONTROL

### Special Conference issue

The First Annual Online International Conference on Corporate Governance and Regulation in Banks,  
Sumy, Ukraine, May 27-June 2, 2010

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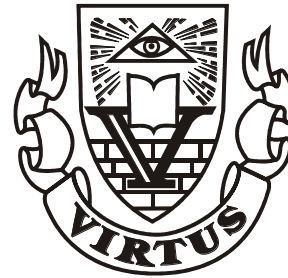
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# CORPORATE OWNERSHIP & CONTROL

## Volume 8, Issue 1, Fall 2010

### Special Conference Issue (2nd Issue)

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## **EDITORIAL**

On May 27 – June 2, 2010 International Centre for Banking and Corporate Governance, Ukrainian Academy of Banking, in cooperation with international referred journals “Corporate Ownership and Control” and “Banks and Banking Systems” conducted the first annual online international conference on corporate governance & regulation in banks. This conference appealed to academics, policy makers and business professionals. The conference provided a forum in which delegates can interact and network, with the topic areas being at the forefront of corporate governance developments in an international context.

The conference was headed by Prof. Anatoliy Epiphanov, Chancellor of the Ukrainian Academy of Banking and the conference committee was chaired by Prof. Alexander Kostyuk, Chairman of the Board of the International Center for Banking & Corporate Governance, Ukrainian Academy of Banking of the National Bank of Ukraine.

Experts in corporate governance and regulation were invited to submit a paper on:

- Corporate governance in banks;
- Anti-crisis corporate governance issues in banks;
- Banking regulation;
- Banking reforms in crisis;
- The state programs of the bank recovering;
- Bank recapitalization;
- Board of directors in banks;
- Bank director remuneration;
- Internal control in banks;
- Bank ownership;
- Corporate social responsibility in banks;
- Financial reporting and disclosure in banks;
- Stock market and banks;
- Bank shareholders’ rights;
- State financial support of the banks: an international review.

We are grateful for your active participation in the First Annual Online International Conference on Corporate Governance & Regulation in Banks. In the crisis such kind of events establishes a new discussion forum for academics and practitioners. It is a pleasure for us to declare that we have established such forum successfully in international context.

We have received 27 papers submitted by authors from 13 countries of the world. We were proud of receiving papers from such countries as Germany, the USA, the UK, Italy, Spain, Finland, Turkey, Russia, Ukraine, Egypt, Tunisia, Nigeria, Cambodia.

The conference discussion forum was held at the conference web-site <http://corpgov.academy.sumy.ua> with participation of representatives of central banks, Association of British Bankers, academics, etc. Almost 80 participants took part in the conference. They represented more than 28 countries of the world.

The conference forum was very active and we accounted more than 340 posts sent by the conference participants. The conference organizers address special thanks to the most active participants of the conference forum from various countries:

- Prof. Tom Berglund, Director of Master program in Corporate Governance, Hanken School of Economics and HECER (Finland);
- Prof. Monal Abdel-Baki, Department of Economics, School of Business, The American University in Cairo (Egypt);
- Prof. Markus Stiglbauer, Department of Management and Organization Design, Faculty of Business, Economics and Management Information Systems, University of Regensburg (Germany);
- Prof. Francesco Marchionne, Università Politecnica delle Marche and MoFiR (Italy);
- Dr. F. Dilvin Taşkin, Department of Business Administration, Faculty of Business, Dokuz Eylül University (Turkey);
- Dr Clare Chambers, Senior Law Lecturer, Bristol Law School (UK);
- Prof. Thomas Wenger, Department of Business and Economics, Passau University (Germany);
- Prof. Xavier Sales, EADA Business School, Aragó 204, 08011-Barcelona (Spain);
- Prof. Andrei Vernikov, Higher School of Economics, Moscow, Russia, and Institute of Economics RAS, Moscow (Russia).

Active administrative support has been made by Ms. Olga Neselevska, conference web-site administrator, representing Ukrainian Academy of Banking of the National Bank of Ukraine.

The conference participants discussed and concluded that the banks worldwide are very unique institutions. They require a more sophisticated approach in regulation by the Central banks and other regulatory agents. At the same time, it was noted by the participants that many banks over-estimated their capacity to mitigate risk and that - whether in terms of culture, appetite or processes - their boards and risk management fell short of the required standard. Thus, it is a common point of view that the crisis issued a unique request – for the balance of the internal power of the banks and regulatory power by the bank regulators. It is likely that this balance could be achieved through the basic principle “unified (international) banking reforms and its unique (country) implementation”.

We have received many proposals from the conference participants concerning the issue of the conference outcomes. We did our utmost to meet their requests. Therefore, we provided the conference participants with:

- 1) Printed special conference issues of the referred journals “Corporate Ownership and Control” or “Banks and Banking Systems”;
- 2) Printed Conference publication with all papers presented at the conference;
- 3) Personal report (signed by the conference Chairman) including all comments sent by each participant during the conference forum and statistics on feedbacks received;
- 4) The Conference Memorandum based on conclusive and overall comments.

The Conference Memorandum has been sent to all international regulatory institutions in banking, including Basel committee, FSA in the UK, Bank of England, etc.

We express a lot of thanks to all the conference participants and expect to see you again at the Second Annual Online International Conference on Corporate Governance and Regulation in Banks.... in December 2010!

We consider an extreme importance of the international forum and will arrange the next conference on December 6-10, 2010!

We hope for your active participation once again!

Sincerely yours,  
The conference committee members

## KEY ISSUES OF BRITISH REFORMS OF CORPORATE GOVERNANCE IN THE FINANCIAL CRISIS: THE BOARD ISSUE

*Masha G. Oleschuk\**, *Oleg A. Ruban\*\**, *Alexander N. Kostyuk\*\*\**

### Abstract

Since the 1990s various reports on corporate governance issues were considered the general aspects about the role played by non-executive directors. In 2002 Higgs and in 2009 Walker specified a fixed number of days a non-executive director should devote to their duties on the board. The purpose of this paper is to account the non-executive director's time commitment. We identify workload of non-executive directors in hours per year. This paper considers the role of non-executive directors as part of corporate governance structures based on Anglo-Saxon system (unitary board and two-tier board system). This paper presents a study of the improvement workload of non-executive director in Ukrainian banks. In this study we provide evidence of necessity to develop Code of Corporate Governance for Ukrainian banks.

**Keywords:** non-executive director, time commitment, workload, Anglo-Saxon model.

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## Introduction

The events of the financial crisis exposed material shortcomings in the governance and risk management. Although poor corporate governance was only one of many factors contributing to the crisis, it has widely been acknowledged to have been an important one. This has led to substantial regulatory activity in relation to governance at international level.

Key issue of discussions of corporate governance is the question about NED's effectiveness and possibility to solve the various principal problems that arise in a firm.

Since Berle and Means (1932) identified a separation of corporate ownership from control, the issue of how the diversified organization can be governed has been central to governance studies. The dominant theoretical issue for examining corporate governance is agency theory. Agency theory provides a rationale for how the modern organization can be governed, primarily through the provision of two broad sets of controls: an external mechanism, the market for corporate control, and internal mechanisms, primary among them the Board of Directors.

Corporate governance is concerned with the duties and responsibilities of a company's Board of Directors in managing the company and their relationships with the shareholders of the company and other stakeholder groups. Typically full time executive directors have acquired substantial powers in respect of the affairs of the company they are paid to run on behalf of the shareholders. However, executive directors have not always had the best interests of the shareholders in mind when performing their executive duties and this has led to attempts to make directors more accountable for their policies and activities. Non-executive directors have an important role to play in this respect.

Decision-making responsibility is delegated by shareholders to executives within an organization, but potential agency costs are then reduced by boards exercising decision control, which involves monitoring managerial decision-making and performance (particularly through independent non-executive directors or outside directors). And it is very important to account NED's time commitment to minimize agency costs. Our research questions consist of identification different factors that influence for optimization NED's workload.

## Literature review

A lot of researchers have been explored different aspects of NED's activity.

Sale H. (2006) considers the role of non-executive directors as securities monitors. Rather than engaging in the debate about whether non-executive directors are good or bad, important or unimportant, he takes their existence and basic governance role as a given, focusing on their role as detailed in the federal securities laws, regulations, and releases.

Farmer T. (2009) investigates some problems, that help to identify: whether a company would benefit from appointing non-executive directors; the expectations that a board and its shareholders may have of a non-executive director; the support and information that may be

expected from the company management so that the non-executive director can fulfill his or her remit; the duties and responsibilities of individual directors; potential risks to each director.

Vernikov A. (2007) focuses on real interests of all stakeholders, namely bank and stock market regulators, bank owners, investors, non-executive directors, top managers and other insiders.

Gregory A., Tharyan R. and Tonks I. (2007) examine whether the category (executive or non-executive) and the gender (male or female) of the director differ in the information they possess about their own firms, how they trade on this information and how markets respond to their trades.

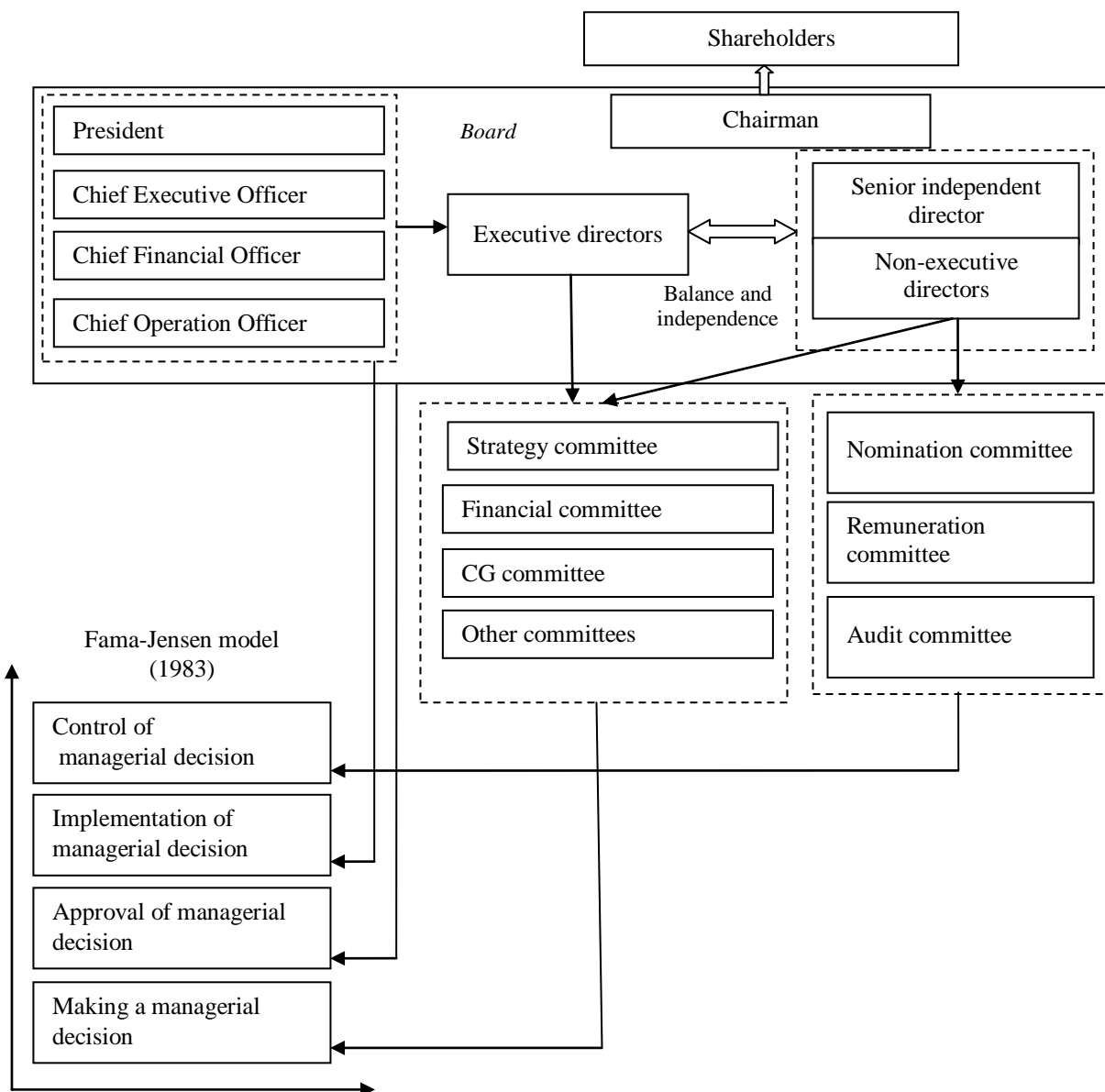
Ravina E. and Sapienza P. (2007) compare the trading performance of non-executive directors and other officers of the firm. Bhagat S. and Black B. (1996) conduct the first large sample, long-horizon study of whether the proportion of independent directors or the proportion of inside directors on a firm's board of directors affects the firm's performance. Bhagat S. and Black B. (1998) find the evidence on the relationship between board composition and firm performance.

At the same time the issue of NED's time commitment still needs further research.

## Anglo-Saxon model (unitary board) in banks: a search for factors affecting time commitment of NEDs

For a few decades United Kingdom has been a leader of development corporate governance policy. Many countries consider UK opinion to create effective corporate governance.

The Anglo-Saxon system, found in United Kingdom, Irish, North American and Australasian-based companies, is characterized by dispersed networks of shareholdings, a high degree of institutional share ownership, highly developed stock markets, an active market for corporate control and an emphasis on short-run financial returns backed up by intensive internal monitoring and performance evaluation.



**Figure 1.** Anglo-Saxon model of corporate governance in United Kingdom

A key element of Anglo-Saxon system is that shareholder interests dominate and other stakeholders have a fewer rights. Indeed, the threat of takeover is the main discipline on existing management, with barriers to hostile take-over being weak. One way of avoiding hostile bids is thus “through attempting to maximize the share price which makes it expensive to a potential bidder, and through distributing a high proportion of profits in the form of dividends in order to retain the loyalty of fickle shareholders”.

In the Anglo-Saxon tradition, the corporate governance concept is based on a fiduciary relationship

between shareholders and managers. Based on the concept of market capitalism, the Anglo-Saxon system is founded on the belief that self-interest and decentralized markets can function in a self-regulating, balanced manner. It comes as no surprise that these institutional settings are based on and reinforce profit-oriented behaviour and a struggle for material income by individual entrepreneurs and managers. This short-term, profit-oriented behaviour and individualism are combined with a set of appropriate institutions to enhance their effectiveness in the Anglo-Saxon model.



In the Anglo-Saxon or market-based system, markets play a decisive role. The government is at arm's length relationship with corporations while creating a strong competitive environment in which firms operate. Firms are put under pressure in the product and factor markets, whilst managers are put under pressure in the managerial labour markets. The belief underlying this system of corporate governance is that competition and working of the market system will force companies and managers to act truly in the best interest of shareholders. However, when it comes to performance measurement, the role and values of other stakeholders need to be understood. One of the tasks of the board is to determine the nature of other stakeholders and their importance compared to shareholders.

Over the last two decades, non-executive directors have attracted a great deal of attention from different quarters of the academic community and from corporate governance reformers.

The caliber of non-executive directors will determine the contribution that they can make to the company and to the board's discussions on various issues. The non-executive directors' previous experience, including knowledge of business, the City, knowledge of a particular functional specialism (for example, finance or marketing); knowledge of a particular technical process/system; their reputation; their ability to have an insight into issues discussed at the board and to ask searching questions; and their ability to interact with the other directors, will all help determine how much value NED can add to the business.

Independence is a basic, but extremely important, requirement for the majority of non-executive directors, as evidenced by the emphasis given to it in corporate governance codes and guidelines around the world.

The board should comprise a balance of executive and non-executive directors, preferably with a majority of non-executive directors, of whom sufficient should be independent of management for shareowner interests (including minority interests) to be protected.

The appointment of a non-executive director should be the result of a complex process involving careful consideration of what each party wants out of the appointment.

When a company reaches a certain stage in its evolution, the appointment of one or more non-executive directors is often proposed. Such a proposal needs to be carefully evaluated to decide if it would add value, what would be expected of the NED, what the company can offer the candidate and who to appoint. A NED on the board of a private company can be very beneficial; however, this is not always the case and it may be an unfulfilling and expensive decision if the role has not been carefully analyzed, defined, and communicated beforehand, and the best individual appointed to the position.

A NED is expected to bring his or her experience and an external viewpoint in order to assist and, where necessary, challenge the board of a company, making sure that board decisions are balanced and not dominated by a single or small group of executive directors. The NED is expected to be independent of mind and rigorous in his or her analysis. Non-executive directors are not

involved in the management of the company on a daily basis, nor in the internal running of the company.

Specifically, independence was deemed to be most assured when a non-executive director:

- is not a substantial shareholder of the company;
- had not been employed in any executive capacity by the company within the last few years;
- is not retained as a professional adviser by the company (either personally or through their firm);
- is not a significant supplier or customer of the company;
- has no significant contractual relationship with the company other than as a director.

The key role for every non-executive director is to bring an independent, objective and external perspective to the board. They should challenge constructively and help develop proposals on strategy. They should scrutinize the performance of management in meeting agreed goals and objectives. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

A non-executive director can bring important benefits to any corporate entity, whether large or small. It is essential that the non-executive director operates as part of the overall board and not in isolation from the executive management. Non-executive directors make valuable contributions in determining corporate strategy and can provide guidance on achieving strategic goals and the allocation of corporate resources to support strategic plans.

Companies who are not currently tapping into the non-executive director knowledge and experience base should strongly consider doing so. By playing a proactive role and introducing the wider perspective that they bring, non-executive directors can significantly improve a company's corporate governance arrangements and its overall success.

One of the most influence institutions of corporate governance in United Kingdom is Financial Services Authority. FSA is an independent body that regulates the financial services industry in the UK and specializes in the following areas: the effectiveness of risk management at board level, including the incentives in remuneration policy to manage risk effectively; the balance of skills, experience and independence required on the boards of UK banking institutions; the effectiveness of board practices and the performance of audit, risk, remuneration and nomination committees; the role of institutional shareholders in engaging effectively with companies and monitoring of boards; and whether the UK approach is consistent with international practice and how national and international best practice can be promulgated.

UK has some experience in solving problems of corporate governance through acceptance of codes. So, in 1992 the Cadbury code was published, that emphasis on a role and position of board of directors. We offer the evolution of corporate governance codes of United Kingdom (Table 1).

**Table 1.** Evolution of corporate governance codes of United Kingdom

№	Name Code	Publication Date	The issue of NED's*
1	Cadbury Report (The Financial Aspects of Corporate Governance)	1 December 1992	+
2	Greenbury Report (Study Group on Directors' Remuneration)	15 July 1995	+
3	Hampel Report (Final)	January 1998	+
4	Internal Control : Guidance for Directors on the Combined Code (Turnbull Report)	September 1999	-
5	The KPMG Review Internal Control: A Practical Guide	October 1999	+
6	Hermes Statement on International Voting Principles	13 December 1999	+
7	The Combined Code: Principles of Good Governance and Code of Best Practice	May 2000	+
8	Code of Good Practice	January 2001	+
9	Review of the role and effectiveness of non-executive directors (Consultation Paper) Higgs D.	7 July 2002	+
10	The Hermes Principles	21 October 2002	-
11	The Responsibilities of Institutional Shareholders and Agents - Statement of Principles	21 October 2002	-
12	The Higgs Report: Review of the role and effectiveness of non-executive directors	January 2003	+
13	Audit Committees - Combined Code Guidance (the Smith Report)	January 2003	+
14	The Combined Code on Corporate Governance	23 July 2003	+
15	Corporate Governance: A Practical Guide	24 August 2004	+
16	Good Governance: The Code of Governance for the Voluntary and Community Sector	30 June 2005	+
17	Pension Scheme Governance - fit for the 21st century: A Discussion Paper from the NAPF	July 2005	+
18	Corporate governance in central government departments: Code of good practice	July 2005	+
19	Internal Control: Revised Guidance for Directors on the Combined Code	October 2005	-
20	Good practice suggestions from the Higgs Report	June 2006	+
21	The Combined Code on Corporate Governance	June 2006	+
22	Guidelines for Disclosure and Transparency in Private Equity	20 November 2007	-
23	The Combined Code on Corporate Governance (Revised June 2008)	June 2008	+
24	A review of corporate governance in UK banks and other financial industry entities (The Walker Review)	16 July 2009	+
25	A review of corporate governance in UK banks and other financial industry entities: Final recommendations (The Walker Review)	26 November 2009	+
26	2009 Review of the Combined Code: Final Report	1 December 2009	+
27	A Stewardship Code for Institutional Investors	19 January 2010	-
28	The Audit Firm Governance Code	January 2010	+
29	Effective corporate governance (Significant influence controlled functions and the Walker review) (Consultation Paper)	January 2010	+

\* - the issue of NED's is considered or not

«+» - the issue of NED's is considered

«-» - the issue of NED's isn't considered

The fundamental contribution that non-executive directors make to a company is that they bring a fresh and wider view to board discussion and decision-making. Some of the benefits that this wider perspective can bring to a board's discussion and decision-making processes include:

- seeing issues in their totality – because of their managerial responsibilities, executive directors may not be best equipped to give proper weight to the differing aspects faced by the board. Non-executive directors can usually view matters from a broader perspective;

- giving the external view – As non-executive directors are not involved in the daily running of the company, they can bring a wider judgement to bear on matters before the board. This is particularly useful in the context of strategic planning, or when events of a special importance to the company's future, such as mergers, acquisitions and large capital projects are involved;

- independent viewpoint on conflicts of interest – non-executive directors can help to ensure that the correct balance is struck between the various interests and stakeholders of a company. This role assumes particular importance when the executive directors' interests may conflict with those of shareholders;

- advising on public statements of the company – non-executives can make an important contribution to the correct content, style and format of public documents and statements issued by companies.

The board, which includes executive and non-executive directors, is collectively responsible for the success or failure of the company. As a result they must fully understand how the company operates and how risks are managed. Non-executive directors are a mainstay of good governance.

### Development approach to form NED's time commitment

One of the latest FSA's publications of effective corporate governance is Consultation Paper "Significant influence controlled functions and the Walker review" (CP 10/3), that is actual nowadays.

After publication CP 10/3, we took part in working out propositions and we would like to submit it for your consideration.

Analysing CP 10/3 we would like to pay your attention to our remarks and propositions, as they might help to solve some problems in corporate governance. This document has a lot of discussion questions, on which we try to pay FSA attention (absence principles which was used to form mechanism of hiring NED's and others).

One of the most actual problems is problem which concerns workload and accounting NED's time commitment, in other words confirming workload parameters and transforming it in a hours to use it in a remuneration system in future (give a bonus or malus).

In this way we propose to fix minimal workload, which should be spent to perform SIF (Significant influence functions).

In fact we do not agree with the approach to indication time commitment for NED's, because:

1. This approach is not developed enough.

2. This approach is not reasonable to use for NED's, as they don't work in staff list.

3. Accounting performing in days prevents from clear identification of contribution to perform of Board of Directors. As a result, it might be a problem to form a base for future "bonus or malus" principles.

It would be better to account a time commitment in hours. That is why we propose to form a structure of minimum workload for NED's in hours. It will be figured out by next formula:

$$\text{Workload} = x_1 + x_2 + x_3 + \alpha + x_5 + x_6 + \beta, \quad (1)$$

Constant components:

$x_1$  – the formal participation in the meeting of board of directors. As usual, the meeting of board of directors holds four times in a year. In this case, NED's should spend minimum 10 hours.

$x_2$  – the formal participation in the committee's meeting. If there are 10 NED's in the company, each of them would be a member of minimum two committees. For this reason the minimum time commitment should be 20 hours.

Variable components:

$x_3$  – participation in creating agenda (Agenda includes initiative propositions). If NED works through 12 initiative propositions, minimum time commitment would be 30 hours.

$\alpha$  – participation in informal meeting. Let's suggest that structure of such expenditure of time might include next perform types:

- work on year report;
- work on quarter reports;
- work on press releases.

Counting expenditure of time for working through such information content NED should spend nearly 100 hours in a year.

$x_5$  – expenditure of time for organization of meetings (for chairman of committee). It takes nearly 70 hours in a year.

$x_6$  – participation in different international meeting to represent organization interest (e.g. association of banks). Let's suggest that every NED will participate in the meeting of association of banks minimum one time in a year. In this case NED will have next expenditures:

- of time to work at a meeting;
- of time for business trip;
- of time for preparation of a speech.

Counting all types of expenditures of time which were mentioned, NED should work 14 hours.

$\beta$  – other expenditures of time. It might be transaction expenses of time, which NED spends on realization of formal procedures. For example: arrival to destination and place of residence. For minimization expenses of the NED's time, they should arrive for 8 meeting (4 times for meeting the first committee, 4 times for meeting board of directors and meeting the second committee, which will be hold at the same time). Therefore, minimum time commitment will be 64 hours.

Thus, we got next results on the table 2.

**Table 2.** The Walker review / the author proposal

	Time commitment, hours	Time commitment, days	Time commitment, which is proposed by Walker, days
Chairman of committee	308	38,5	30-36
NED	238	29,75	30-36

The above method helps to form remuneration system.

### **Prior experience of setting time commitment**

Higgs D. (2007) is certain, that NEDs should be required to devote sufficient time to their duties. It is not practicable to specify a fixed number of days a NED should devote to the company. Although possibly an exaggeration, the table below illustrates how a committed NED, who is a member of both the audit and the remuneration committees, might need to devote 50 days a year to the role. Higgs proposes next structure (Table 3):

**Table 3.** Time commitment, which is proposed by D. Higgs

Structure of time commitment	Time commitment, days
Attendance at one board meeting a month	12
Preparation for above	12
Attendance at quarterly audit committee meetings	4
Preparation for above	4
Attendance at 2 remuneration committee meetings	2
Preparation for above	2
Attendance at “away weekend”	2
Preparation for above	2
Other duties and contingency	10
Total	50

NEDs need to be able to devote sufficient time to be effective in their role. The amount of time a NED needs will depend on many factors. These include: the size and complexity of the organization, the organizational culture, the availability of relevant information, the business risks faced by the organization, the adequacy and quality of assurance from internal and external auditors and the NED's informed perception of risks to probity and conflict of interest, as well as his/her prior experience and managerial skill.

In practice, NEDs will spend considerable time assessing information provided to them by management. Quality of information is obviously more important than the quantity. NEDs should make their own judgement about the sufficiency, relevance and accuracy of information and be prepared to devote time to making their own enquiries and to satisfying themselves as to the appropriate action to take, if the quality of information provided appears inadequate.

It is not practicable to specify a fixed number of days a NED should devote to the company. The table 3 illustrated how a committed NED, who is a member of both the audit and the remuneration committees, may need to devote as many as 50 days per year to the role.

Historically non-executives have been expected to spend about 17 to 20 days per year on each directorship, on the basis of up to 12 board meetings a year, a typical slice of Remuneration, Audit and Nominations committees, plus a strategy meeting or two and preparation and follow-ups to the meetings - ITNEA Discussion Paper time commitment totals up to about 24 days per year. Currently most non-executives plan on less, partially because the role is not defined in this way and partially because annual fees are often only related to the time needed for the formal Board meetings.

But, we don't completely agree with these opinions. We propose to account a time commitment in hours and NED should devotes 238 hours (29,75 days) per year.

Also, we would like to pay your attention to execution of these temporal frames. FSA doesn't consider this problem in CP10/3, similarly as in the Walker report.

In our view proposed remuneration system is needed to pay the special attention, because it is not

possible to form the mechanism of extra charge of bonus without the correct mechanism of accounting time.

In our opinion next mechanics account might be used for accounting time:

1) in labour contract should have the temporal frames of work, that will be controlled and influence on decision about bonus or malus;

2) chairmen of committees should be responsible for NED's account time commitment on meetings (points 1, 2, 3, 6). Secretaries have to account individual time (point 4, 5, 7);

3) to form necessary documents for secretaries to the account of the NED's work. Such documents would be consist of requirements, that describes in the point 4.14 CP 10/3:

- honesty, integrity and reputation;
- competence and capability;
- financial soundness.

Thus, there is the mechanism of accounting NED's time commitment and mechanism of forming bonuses for their work will be formed.

### **Application of our approach for Ukrainian banks**

Our proposal is also actual for banks of Ukraine.

International practice of corporate governance regarding committees in Supervisory Board is not widely spread among the Ukrainian banks. In fact control committees are not formed in the Ukrainian banks. In case of the existence of committees they don't actually perform their control functions.

Only several banks in Ukraine, declare the establishment of the Audit Committee and Risk Management one (Table 4).

Also in Ukrainian banks it's reported only sporadic cases of the setting the operational committees, and only with members of the Supervisory Board. Typically, it's a committee on corporate governance. At the same time, working together in these committees, involving representatives of the Supervisory Board and Executive Board, as required by the theory and practice of corporate governance is not a common principle in Ukraine (Figure 2).

**Table 4:** Committee System Structure in Ukraine

Committees System Structure	There are at least 3 control committees on the Board	Bank Forum
	There are 2 control committees on the Board	Raiffeisen Bank Aval, Ukrgazbank
	There are less than 2 control committees	Khreschatyk, Ukrsotsbank, Alfa-bank, Bank Nadra, Bank Pivdenny, Brokbiznesbank, Bank Biznes Standart

Source: Kostyuk A., Takeda F., Hosono K (2010). *Anti-crisis paradigms of corporate governance in banks: a new institution outlook*, Sumy: Virtus Interpress, 486 p.

From March 2007 the Decree of the NBU №98 “About methodical recommendations of improvement corporate management in Ukrainian banks” is operative.

This document is based on Basel recommendations of 2005 year and should be looked over, as in 2010 Basel committee will issue the 3-th version, which cancels previous.

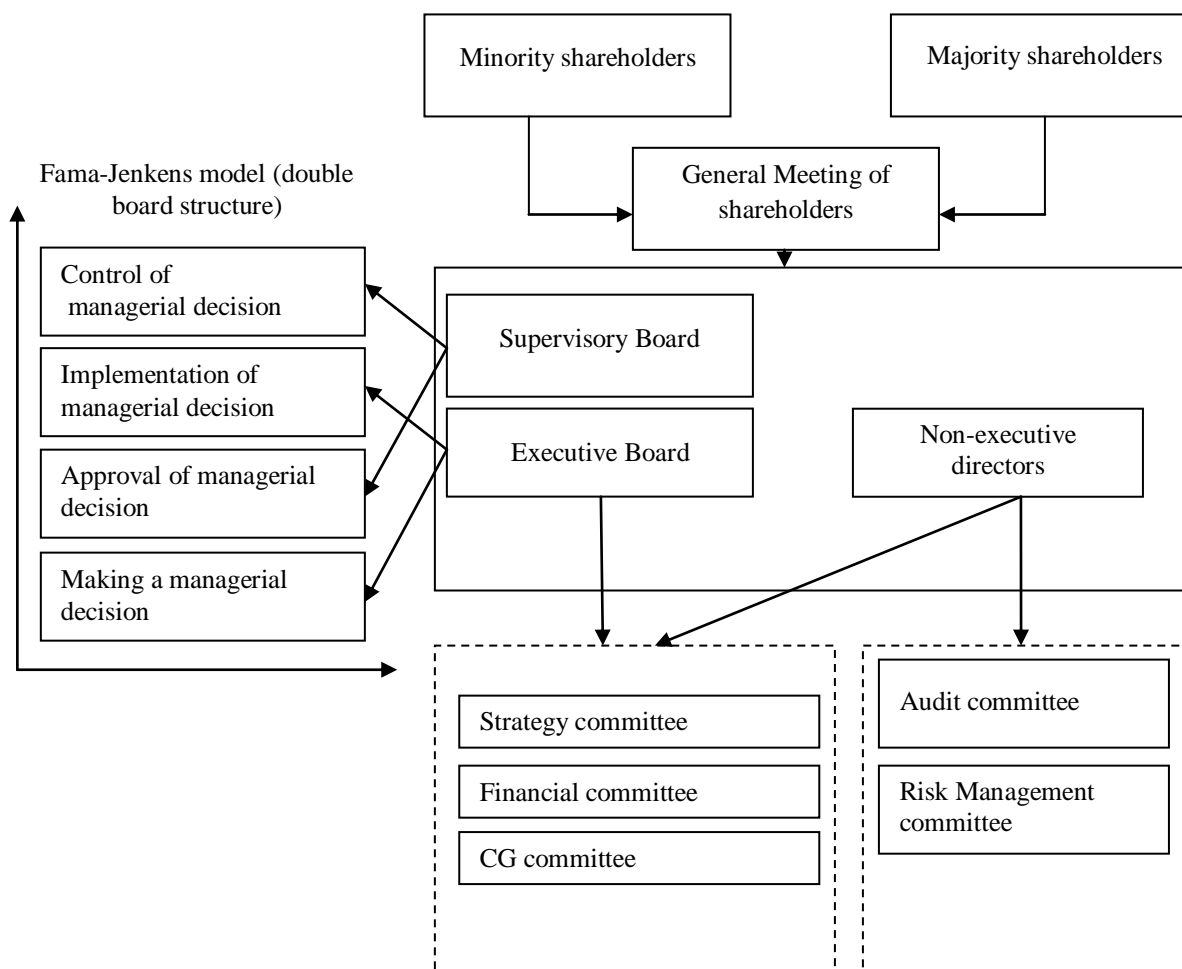
Alas, but this document has a low value on some reasons:

- it has too theoretical nature;

- does not concern the instruments of banks working in the system of corporate management;
- describes only audit committee working.

In consideration of main problem that is concerned NED’s workload in banks of Ukraine, it is necessary to take into account the following:

- banks of Ukraine has two ties board system with supervisory board and board of directors;
- lack of risk committee, nomination committee and remuneration committee.



**Figure 2.** Anglo-Saxon model of corporate governance in Ukraine

Taking into account Ukrainian peculiarity, we propose to form a structure of minimum workload for NED’s in hours. It will be figured out by next formula:

$$\text{Workload} = x_1 + x_2 + x_3 + \alpha + x_5 + x_6 + \beta, \quad (2)$$

Constant components:

$x_1$  – the formal participation in the meeting of board of directors. As usual, the meeting of board of directors

holds four times in a year. In this case, NED's should spend minimum 10 hours.

$x_2$  – the formal participation in the committee's meeting. If there are 10 NED's in the company and one committee (audit committee), than not all NED's would be enter in this committee. Thus, there is selected extra top-out, which means additional participation in a committee. For this reason the minimum time commitment should be 20 hours.

Variable components:

$x_3$  – participation in creating agenda ( Agenda includes initiative propositions). If NED works through 8 initiative propositions, minimum time commitment would be 20 hours.

$\alpha$  – participation in informal meeting. Let's suggest that structure of such expenditure of time might include next perform types:

- work on year report;
- work on quarter reports;
- work on press releases.

Counting expenditure of time for working through such information content NED should spend nearly 100 hours in a year.

$x_5$  – expenditure of time for organization meetings (for chairman of committee). It takes nearly 70 hours in a year.

$x_6$  – participation in different international meeting to represent organization interest(e.g. association of banks). Let's suggest that every NED will participate in the meeting of association of banks minimum one time in a year. In this case NED will have next expenditure of time:

- work at a meeting;
- spending for movement ;
- for preparation speech.

Counting all types of expenditure of time which were mention NED should work 14 hours.

$\beta$  – other expenditures of time. It might be transaction expenses of time, which NED spends on realization of formal procedures. For example: arrival to destination and place of residence. For minimization expenses of the NED's time, they should arrive for 4 meeting (meeting audit committee and meeting board of directors, which will be hold at the same time). Therefore, minimum time commitment will be 32 hours.

Taking to account that the board of directors forms one committee (audit committee), it is possible to propose, that not all NED's will enter in that committee. Thus, another group NED's (NED's\*) should work only on a quarterly and annual meeting. Bringing the counts, we get such results (Table 5).

**Table 5:** The author proposal for Ukraine

	Time commitment, hours	Time commitment, days	Time commitment, which is proposed by Walker, days
Chairman of committee	256	32	30-36
Extraordinary	186	23,25	30-36
Ordinary	166	20,75	30-36

In this case our proposition is next: National bank of Ukraine (NBU) should form corporate governance code, taking into account considered problems and inculcate practical recommendations that are offered by us for CP 10/3.

Ukraine have used Corporate code for banks, but the result was not enough effective, as such document had recommendation nature and it is not necessary to use. Trying to compare strength and weaknesses of Decrees and Codes we can form following table 6.

**Table 6:** Description of Corporate code and Decree of NBU

Corporate code	Decree of NBU
Code describes practice aspects of corporate governance in banks.	Decree of NBU forms appropriate theoretical aspects of corporate government.
There might be a few models of solving problem. Bank has opportunity to choose one of them or reject all recommendations.	Decree of NBU is required to perform.
Forming and adoption code take less time then Decree of NBU	Decree of NBU takes a long time to come into force. In such case it might lose it's actual.

We tend to thing that code should be formed in Ukraine. It might be formed on NBU initiative. But in our mind, discussion group should consist of:

- Ukrainian bank association
- Stock exchange
- Securities and stock market state committee

Thus, the code can touch upon a question not only about problems in banking, but also problems in joint-stock companies.

## Conclusions

This paper investigates the information available to the non-executive directors sitting on the board of British corporations. We identify NED's workload in hours per year and compare it with Higgs and Walker recommendations. Our results do not consist with their views. The key points of our approach for identify NED's workload is the NED's formal participation in the meeting of board of directors, the formal participation in the committee's meeting, participation in creating agenda participation in informal meeting, expenditure of time for organization meetings, participation in different international meeting to represent organization interest.

Our conclusion is that regulation institution should fix NED's workload in hours in different Acts. Counting performs in a days prevents from clear identification contribution to perform of Board of Directors. As a result, it might be a problem to form a base for future bonus or malus. It would be better to account a time commitment in hours. That is why we propose to form a structure of minimum workload for NED's in hours. In this study we also investigate the necessity to develop Code of Corporate Governance for Ukrainian banks and provide evidence of it advantages comparing with Decree of NBU.

The several directions for future research would be concern on identification the expenditures on time for NED's participation in informal meeting.

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