Preface

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Directors are responsible for good corporate governance. Corporate governance is a hot topic because of Enron, Tyco, WorldCom, and dozens of other corporate scandals. In response to these scandals, Congress passed the Sarbanes-Oxley Act of 2002 (SOX), which imposed additional pressures and costs on firms. In addition, the USA PATRIOT Act (2001) increased the regulatory burden and costs on all financial institutions. Financial institutions, in the context of the Bank Secrecy Act and anti-money laundering laws, include but are not limited to commercial banks, all subsidiaries of bank holding companies, US branches and agencies of foreign banks, savings and loan associations, credit unions, federally regulated securities brokers, dealers, and investment companies, money service businesses, casinos, card clubs, futures commission merchants, insurance companies offering selected products, and mutual funds.

The motivation for this book came when I interviewed some of the directors of a financial institution that had suffered serious problems due to lack of proper oversight. The directors were intelligent, and very successful in their own professions. However, they had little or no background in financial institutions, which can be extraordinarily complex. Accordingly, this book differs significantly from other sources of information about corporate governance because it contains advice from existing directors of banks, credit unions, and insurance companies, regulators, lawyers, and academics from the US, Europe, and Australia about what directors of financial institutions need to know in order to perform their duties. It covers a wide range of subjects, including corporate social responsibility, directors’ and officers’ liability insurance, directing credit unions, forces of change in financial markets, Islamic banking, regulatory compliance, starting a new bank, subprime lending, and other essential topics for directors of financial institutions.

The bottom line is that there are increased pressures on boards of directors to protect shareholder and public interests. Failure to do so can have unfortunate consequences for both the directors and their companies. Enron is only one example.