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Stay Tuned...

Assured for the Capital Markets in 2009:

Reforms and Accountability

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Stay Tuned . . .

Assured for the Capital Markets in 2009: *Reforms* and *Accountability*

BY HANK BOERNER

Every year at this time we have set out for you our list of issues and events to *Stay Tuned to* in the new year. In most years we've looked at events in motion and projected the potential trajectory of the issues involved … such as the coming proxy season issues, or investor expectations regarding exec compensation (such as investor "say on pay" sentiments). This year, given the extra-ordinary and mostly unpredictable — *unfathomable?* — directions that events in the capital markets have taken, we have to say that *anything* is possible (again) in 2009.

But some areas are coming into sharp focus and should be watched closely in the coming months. The key words for the year for IROs to watch are: *Regulation, Reform, Accountability, Transparency, Investor Protection, Trust, Risk Management*, and *Integrity.* More on this shortly.

Regulations and oversight of financial services and banking regulations are traditionally domestic affairs for sovereign states. The Great Depression of the 1930s stirred congress into action and today's investor protections and securities rules-of-the-road are direct descendants of the statutes adopted in 1933 and 1934 by the 72nd Congress. In 2009, as the 111th Congress convenes, sure to be high on the agenda will be new and additional reforms for publicly owned corporations, financial services and banking enterprises, probably hedge funds, other investment vehicles that are not now regulated, and more.

But what will be different next year will probably be an unprecedented level of global cooperation on market reforms, unlike anything seen since the historic Bretton Woods conference in the closing days of World War II (which established global financial rules, and such institutions as the International Monetary Fund and the World Bank).

Stay Tuned to … Global Cooperation in Market Reforms

In November, as the U.S. and other economies seemed to be teetering on the edge of an unknown abyss, the White House hosted a gathering of the world's largest economies. The leaders of the world's

G7 leading economies (or G8 when Russia is included) were joined by a dozen of the important emerging economies, such as the "BRIC" countries (what Goldman Sachs has dubbed Brazil, Russia, India and China). Conspicuous in their presence at the summit were the oil and resource-rich nations to which hundreds of billions of dollars were transferred from the developed world in recent years. They are the new players at the financial and monetary decision-making table.

As IROs at a growing number of companies well know, a number of these countries have important Sovereign Wealth Funds (SWFs) and national pension funds, wealthy individual investors, and other institutional investors with growing stakes in the future financial wealth of the United States. The wealth generated by sale of natural resources in emerging nations is rapidly being cycled back to the 21st Century wealth-building vehicles of modern capital markets.

At the meeting of the Group of Twenty there were short-, medium- and long-term agenda items on which consensus was reached — incredibly fast, considering that this was just a one-day event! Consensus focused on some underlying principles, study and recommendation items, and immediate action items. The Group of Twenty could be said to be the *New World Order* for oversight of global capital markets, financial services and banking, and the international financial institutions (IFIs) such as the World Bank and International Monetary Fund.

Looking first at underlying principles, the Group of Twenty agreed on these shared beliefs:

- The causes of the current financial crisis are known (chasing higher yields while not appreciating the risks, too much risk-taking, too little oversight, too many unregulated financial instruments with unknown risks).
- Despite the turmoil in the financial markets, free market principles *are* important and must be maintained and encouraged by all nations.
- Open trade and investment regimes — especially cross border investments — will continue unimpeded (the national leaders agreed not to impose barriers to current flow).
- Effectively regulated financial markets foster the "dynamism, innovation, and entrepreneurship essential" for economic growth, employment and reduction of poverty.

With all that is going on in the capital markets, the G20 stress they remain committed to addressing critical issues — energy security, climate change, food security, the rule of law, the fight against terrorism, and eliminating poverty and disease.

Stay Tuned to … Action to Come From the G20

The national leaders left Washington with agreement to develop frameworks (and specific action recommendations) by the various nations, and existing collaborative efforts (such as IASB-FASB negotiations, Basle banking protocols), addressing such issues as:

- Potential reforms for financial institutions to assure more transparency and stronger risk management, necessary to prevent another crisis but flexible enough to encourage market innovation.
- More transparency and accountability in financial instruments, especially for the types of complex vehicles developed in recent years; avoidance of conflicts of interest among capital markets players.
- Stronger oversight of the credit risk agencies (watch for heated debate on this in the new congress).
- Widespread promotion of integrity in the capital markets.
- More international cooperation, while preserving sovereign (domestic) regulation and enforcement. The Group of Twenty is considering creation of "Colleges" of regulators to confer on needed actions and oversight. (This might help nations keep pace with rapid changes in financial services innovations, such as credit default swaps.)

◆ The G20 will take a closer look at the world's accounting rules, especially disclosure standards, with progress to be made on harmonizing the major accounting frameworks (U.S. GAAP and IFRS rules). (Our projection: Watch for acceleration of harmonization efforts between U.S. rules-based and international principles-based systems, or even a more rapid movement to adopt global rules in the U.S.)

◆ The participants agreed that they should take a closer look at off-balance-sheet vehicles.

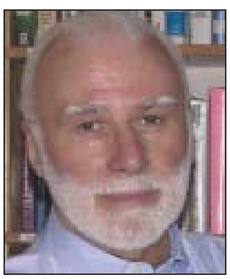
◆ Financial services organizations will see closer examination of their capital reserve requirements especially for structured credit and securitization.

◆ Nations were asked to bring their best practices to the G20 regarding the (potential) regulation of hedge funds and private pools of money.

◆ New rules will be recommended to assure greater transparency of credit derivatives markets, and to reduce derivatives risk.

◆ Regulators should take a close look at enterprise risk taking and innovation (such as in the banking world) and the management rewards for same.

◆ The governance structures and mandates of the international financial institutions (IMF, etc.) will be reviewed and updated (of special concern to the leaders of the developing nations).



Hank Boerner

Looking Ahead — Staying the Course

First things first for the Group of Twenty: The nations will continue to cooperate to stabilize the financial system. They'll pump liquidity into the system as needed to quickly unfreeze credit markets. These are immediate tasks — underlined in various ways by participants agreeing that investor trust must be re-established and strengthened so recovery can begin. The comprehensive list of intended reforms will be circulated to all national leaders by March 31, 2009, just a short time after the new Congress convenes in the U.S., and the start of operations by the Obama Administration; watch for lots of hearings and meetings. The Group of Twenty will meet again to chart action steps on April 30, 2009.

Stay Tuned to … Change in 2009

The new Obama Administration and the 111th Congress came to power on the wings of promises of *change*. Many things we know and probably have taken for granted in the way banks and financial services organizations have operated are dramatically changing — and the pace of change could accelerate. The public's well-documented views of large corporations is today characterized by widespread mistrust, lack of confidence in corporate management, and serious disappointment in the state of accountability and responsibility at the top of most (not all) financial services organizations.

And such public opinion shapes perceptions and then drives realities. The reaction will be the action steps ahead as public officials, media, issue advocates, investors, money managers, and others collectively move to reform the U.S. financial markets. Squarely in the middle of the fray to come: investor relations professionals. Buckle your seat belts! IRU

Hank Boerner *is editor of NIRI IR Update, and has been a NIRI member for two decades. He's a member of the Senior Roundtable, and VP-membership and board member of the New York Chapter. The views here are his own. E-mail him at* ***hboerner@niri.org.***

NIRI — YOUR REGULATORY COUNSELOR AND ADVOCATE

Given the recent financial market crisis, we can be sure that financial regulation will be overhauled and those involved in our capital markets — issuers, investors, risk managers and speculators — will feel the impact of new regulation and the development of new interaction between investors and issuers. Investor relations professionals can look with confidence to NIRI to help guide them, as well as advocate for them, as we move through this period of regulatory reform. Just a few examples of recent NIRI advocacy include:

- Participation in the **Shareholder Communications Coalition**, a group of organizations committed to informing the public and Washington policymakers about significant challenges in the current system used by investors to vote their shares in corporate elections.
- Public support for **improved short position disclosure** and a reinstatement of short-selling uptick rules or the implementation of short-selling circuit breakers in times of extreme market volatility.
- Comments before the **SEC Advisory Committee on Improvements to Financial Reporting** (CIFiR), Subcommittee on Delivering Financial Information, regarding the substance, timing and mechanics of quarterly earnings press releases issued by public companies.

NIRI advocacy will be even more critical in the coming months as financial reform is a top priority of the new Obama administration. Look for information on these and future NIRI advocacy efforts through regular updates in NIRI's ***IR Weekly***, ***IR Update*** and **Executive Alerts**.