

Risk and Corporate Governance

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Swiss Re Peer Discussion

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High Profile Disasters

- ◆ Barings
- ◆ Metallgesellschaft
- ◆ Daiwa Bank
- ◆ Maxwell pensions
- ◆ Morgan Grenfell A M
- ◆ Long Term Capital
Management
- ◆ Enron

and the problem is not just financial disasters...

- Union Carbide, Bhopal
- Shell's Brent Spar
- Perrier contamination
- Coca Cola Belgium
- Firestone Tyres / Ford
- Monsanto & GM food
- British Nuclear Fuels
- Railtrack

Almost all failures feature...

- ❖ Inadequate Board Oversight
- ❖ Lack of Management Supervision
- ❖ Poor Control Systems
- ❖ Inadequate Auditing / Regulation

The role of the Board of Directors in Enron's collapse

- Fiduciary failure
- High risk accounting
- Inappropriate conflicts of interest
- Extensive undisclosed “off the books” activity
- Excessive compensation
- Lack of independence

Source: Report of the Permanent Subcommittee on Investigations of the Committee on Government Affairs, United States Senate July 8, 2002

“RED FLAGS” KNOWN TO ENRON’S BOARD

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| <ul style="list-style-type: none"> 1 – Audit Committee told Enron accounting practices “push limits” 2 – Board approves Fastow’s Code of Conduct waiver for LJM1 3 – Whitewing moved off-balance sheet with \$1.5 billion 4 – Board approves second Fastow waiver for LJM2 5 – LJM2 update: “Q41999: 8 days/6 deals/\$125 million”; \$2 billion in funds flow to Enron; Board approves Raptor 1 6 – Executive Committee approves Raptor II 7 – “Project Summer” to sell \$6 billion in assets fails; Board approves Raptor III/IV 8 – Board approves third Fastow waiver for LJM3; Board told \$27 billion in assets off-balance sheet 9 – Board told total revenues jump from \$40 billion in 1999 to \$100 billion in 2000; Audit and Finance Committees review LJM procedures and FY2000 transactions | <ul style="list-style-type: none"> 10 – Fortune article questions Enron’s earnings and accounting 11 – Board told 64% of international asset portfolio “Troubled” or “Not Performing”; 45 million Enron shares at risk in Raptors and Whitewing 12 – Board told of \$2.3 billion deficit in market value of Enron’s international assets 13 – Fastow sells interest in LJM to Kopper 14 – Skilling resigns; Finance Committee told of \$6.6 billion in prepays and FAS 125 transactions 15 – Lay defends use of SPEs in online session with employees 16 – Finance Committee told of \$800 million earnings write-down from Raptors; Audit Committee told of closed investigation into the Watkins letter |
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Stock Price

\$100

\$80

\$60

\$40

\$20

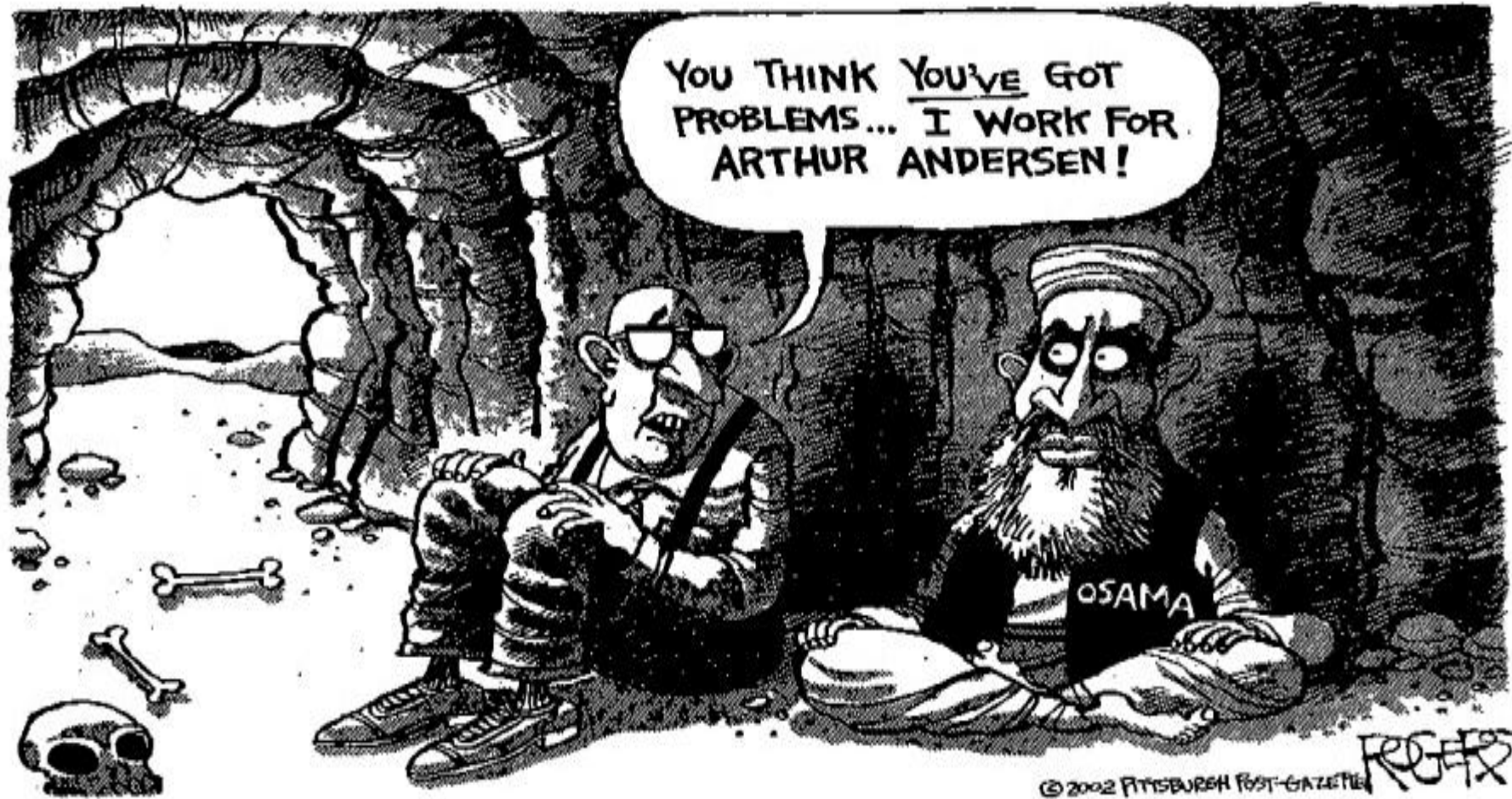
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Reputational Risk



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Recent Examples

- Andersen
- ABB
- Vivendi
- Swiss Life