Introduction known as the global financial crisis

Business, Accounting

Introduction The financial crisis of 2007–2008, also known as the global financial crisis and the 2008 financial crisis, isconsidered to have been the worst financial crisis since the Great Depressionof the 1930. The financial crises start in December 2007, in which the lost of trustof American investors in secured mortgage lead to a crises of liquidities whichdeterminate a substantial injection of capital in the financial market from AmericanFederal Reserve, Bank of England, and Central Bank of Europe. TED spread indexjumps in July 2007, it grows for one year and then it grows again in 2008, reaching a new record of 4, 65% in October 2008. The crises got worse in 2008because the exchange stock went in a period of instability and then fall down. In the weeks followed a big number of banks, creditors and insurance companieswent bankrupt.

The collapse of the FederalHousing Administration (US) is often made responsible for the crisis. But thevulnerability of the financial system was caused by complicated and leveragedfinancial and leveraged contracts and monetary policy, the US monetary policy. setting a negligible credit price and thus favoring a very high leverage ratioand, according to American economist John Bellamy Foster. Overview of Petrobas.

Petrobras is the biggestoil company in Braziland one of the biggestworld. Created in 1953 under the government of GetúlioVargas. On October 3, Petrobras, abbreviation of PetróleoBrasileiro S. A., Brazilian oil and gas company engaged in the exploration, production, refining, and transport of domestic petroleum and petroleum products. Originally was a state-owned monopoly, Petrobras became majority-owned by thestate but competes against other Brazilian companies as well as against foreigncompanies.

Petrobras also forms partnerships with domestic and foreigncompanies, and it operates in more than 25 countries around the world.

It thebiggest company in Brazil and South America. Its headquarted in Rio de Janeiro. Petrobras was granted a monopoly over Brazil'simports of crude oil in 1963, and it took over Brazil's privately ownedrefineries after they were nationalized in 1964. In 1995, as part of a campaignto privatize state-owned industries, the Brazilian government proposed aconstitutional amendment ending Petrobras's monopoly over exploitation of thecountry's oil and natural gas.

With the passage of the amendment in 1997, theseindustries were opened to foreign competition for the first time, obligingPetrobras to submit competitive bids to the Agência Nacional do Petróleo (ANP; National Petroleum Agency), the state organ responsible for grantingconcessions to produce oil and gas on Brazilian territory. At the same time, the amendment relieved Petrobras of its old requirement to meet productionquotas, while allowing the company to enter joint ventures with foreign companiesto produce, refine, and distribute oil and natural gas products in Brazil. In 2006 a consortium between Petrobrasand British and Portuguese companies made the first of several important oiland gas discoveries some 250 km (150 miles) offshore in the Santos Basin. Located under 2, 000 metres (6, 500 feet) of water and as much as 5, 000 metres(16, 500 feet) of oceanic crust, these so-called pre-salt finds (located belowthick salt formations) were so large that they held out the possibility ofreestablishing Brazil as a world-class petroleum producer. The Brazilian stateresponded by creating a new agency, Petrosal, to regulate production of thereserves, and it mandated that Petrobras be involved in every project in thepre-salt zone. Beginning in late 2014, Petrobras—already suffering from declining international oil prices—founditself at the centre of a huge political scandal. A sweeping investigationalleged that Petrobras officials, the ruling Workers' Party and some of itmembers, and members of its coalition partner, the Party of the BrazilianDemocratic Movement, had received millions of dollars in kickbacks forcontracts with Petrobras, principally from construction firms.

The Board of Directors approved a neworganizational structure management and governance model. Petrobras decided to do this changesto as a response of the reality of the oil and gas industry, which is leadingthem to prioritize more the profitable activities . The restructuring involvesactivity redistribution, area mergers, and a review of the decision-makingmodel. One of the central objectives is to enhance the control and compliancemechanisms. The changes are expected to allow for cost reductions worth up toR$1. 8 billion per year. Also planned is a reduction of at least 30 percent inthe number of managerial positions in non-operational areas. We have about 7500approved management functions, of which 5300 are in non-operational areas.

This reformulation adjusts the structure andmanagement to the vision set forth under our 2015-2019 Business Plan, theultimate goals of which are to create value and deleverage. In addition, itextends the efforts to reinforce the control, compliance, and transparencymechanisms. The first phase of the restructuringwill result in the reduction of 14 positions in senior management. The numberof departments will be decreased from seven to six with the merger of theDownstream and Gas & Power areas. The total managerial positions linkeddirectly to the Board of Directors, the president, and the directors, meanwhile, will be reduced to 41, down from 54. The second phase, will cover the othermanagement team positions. Appointments and team allocations will take placefrom March. Accountability and complianceSix Statutory Technical Committeeswill be created comprising executive managers who will be tasked withprescreenning and issuing recommendations on issues to be decided by thedirectors, who will share responsibility in decision-making.

Because of theirstatutory nature, the committees' acts will be subject to the oversight of theSecurities and Exchange Commission (CVM). There will be new integrity, technicalexpertise, and management analysis criteria for the appointment of executivemanagement. In addition, the Board of Directors will be responsible forapproving both appointments and terminations for these positions.

Bystrengthening commitment to compliance, our restructuring provides for changesin internal control over hiring and investments. Good and service procurementactivities will be concentrated at the new Human Resource, SMS, and ServicesDepartment. Investment project deployment will becentralized at the new Production Development & Technology Department(DP&T). This new structure will concentrate project deployment managementand technical skills. Hiring for investment projects, as arule, three departments: the department of the requester, which conceives thebasic technical project; DP&T, which will develop the project, and the HR, SMS and Services Department, which shall bid and contract goods and services. This redesigned project and service hiring process avoids excessiveconcentration in decision making. Aiming to increase businessprofitability, the new model promotes area mergers to improve the use ofsynergies among them.

Thus, Downstream and Gas & Power will comprise theRefining and Natural Gas Department. The Exploration and ProductionDepartment will be organized per asset class, with the creation of structuresfor Deep Waters, Ultra-Deep Waters, Onshore and Shallow Waters, enabling theimproved management of the value added by the assets and the optimization ofoil and gas production A Brief History Of Corporate Governance Corporate Wrongs Over the Recent PastOver the past two decades, the investment world has seen a large number ofscandals relating to companies which are attributed to failure of governance. These have been caused by a combination of number of factors, principally thethree corporate sins. Company mangers (principally theexecutive directors) lost sense of business or corporate ethics. Earningsbecome the prime measure of a company’s success.

Directors were not prepared toshow low profits or losses. This led to the use of unethical practices (likecreative accounting, falsification of books etc.) to increase or show higherearnings. Boards were generallyineffective and played into the hands of executive directors, approvingimproper financial statements and condoning unfair corporate decisions. Mangersawarded themselves huge bonuses and stock options, often at the expense ofother shareholders. Company concentrated on short term gains and showing highercurrent profits, often sacrificing the long term objectives. Auditors colluded or failed to stop theexecutive directors from using improper accounting policies.

In the process theylost their independence which they surrendered for getting higher audit fees. Thedisparity in remunerations between higher and lower level employees grew touncomfortable levels. A culture of greed developed among senior managers.

Mostsmall investors lost interest in long term investments and concentrated onshort term gains through share price movements. Some Major Corporate Tragedies Arising out OfPoor Governance in UK is Barings Bank . The management of this bank failedcompletely in its internal controls, letting a single employee cause a loss of$1. 4 billion in stock trading. When Nick Leeson, its head of settlementsdepartment was made of trading, he was not asked to relinquish the formercharge. This was a fatal internal control failure that allowed his activitiesgo completely unchecked. The bank never questioned the legitimacy of hugepayments authorized by Leeson to Singapore Money Exchange (SIMAX) and OsakaStock Exchange (OSE).

The bank with 233 years history and considered one ofBritain’s best merchant banks eventually had to close its operations inSingapore. Polly Peck International This company went from being a small firm witha market capitalization of just £300, 000 to being a constituent of FTSE 100index in less than 10 years with a market value of over £1. 7 billion.

Itsprincipal owner, Asil Nader, set up or bought over 200 subsidiary companies invarious parts of the world including interests in Japanese Company Sansui, butmostly in Turkey and Northern Cyprus. A large number of irregular payments toCyprus companies were detected, totaling over £58 million. Asil Nader wasformally charged with 70 counts of fraud when the company collapsed in 1991The world reaction to these corporatewrongs was massive and led to the development of laws and codes for bettercorporate governance. Some of theinternational initiatives on governance are: Cadbury Report 1992 (UK) . Following serious financial scandals and collapses and a perceived general lackof confidence in the financial reporting of many UK companies, the FinancialReporting Council, the London Stock Exchange and the Accountancy Professionestablished the Committee on the Financial Aspects of Corporate Governance, inMay 1991.

It was chaired by Sir Adrian Cadbury and came out with its landmarkreport in Dec. 1992, recommending a Code of Best Practice with which the boardsof all listed companies should comply. The organization of Economic Cooperation andDevelopment (OECD) published its principles of Corporate Governance in 1999.

Prior to its issuance, the document was discussed with the governments ofmembers countries, private sector and relevant international organizations likethe World Bank. The main principles ordained by the document are : the rights ofshareholders must be protected, allshareholders should be equitably treated. , all stakeholders should be allowedto play their role as provided in the law, importance of timely and accuratedisclosures to promote transparency. Accountability and responsibility ofthe board of directors. Basle Committee Guidelines (1999). Thiscommittee issued its guidelines in 1999 related to enhancing corporategovernance in the banking companies. These have been influential in thedevelopment of corporate governance practices in the banks across the world.

Itcovers many things, including: compensation issues of directors, there shouldbe appropriate oversight by and on senior management, the importance of thework by both internal and external auditors, and internal checks. Smith Report 2003 (UK) . This report coveredthe role and importance of audit committees. It stated that while all directorshave a duty to act in the interest of the company, the audit committee has aparticular role, acting independently from executive directors, to ensure thatthe interests of shareholders are properly protected in relation to thefinancial reporting and internal controls. Code of Corporate Governance issued by SECP, 2002 Pakistan's regulatory body SEC issued a code of corporate governance in2002 which was subsequently revised in 2005. All stock exchanges were requiredto add the code clauses to their listing requirements. There are six main areasaddressed by this code, i.

e. the board of directors, CFO and company secretary, corporate and financial reporting framework, corporate ownership structure, audit committee and compliance with the code of corporate governance. Emergence of Corporate GovernanceModels. Corporate Governance refers to the way companies are financed andstructured in an economy in terms of entrepreneurial and functionaldecision-making.

Over the past forty years or so, three main models ofcorporate governance have been emerged in the world. Most of countries in theworld have one or other of these models. These are: Anglo-American Model (AAM), Japanese Model (JM), German Model (GM) .