



16 June 2015

Review of the Number of Directorships held by Individuals within the Investment Funds Industry

Dear Chairman

The Central Bank of Ireland (the ‘Central Bank’) recently undertook a thematic review to assess the number of directorships held by individuals on the Boards of corporate investment funds and fund management companies (“Boards”). This review included an assessment of the time allocated by individuals to these directorships. The objective of the review was to assess the impact on effective investment fund governance where multiple directorships are held by individuals in the industry and also to analyse the expected time commitment required by investment fund directors to fulfil their obligations.

Analysis of Findings

The thematic review demonstrated that the Irish funds industry has a substantial population of 2,057 active directors with a broad range of expertise. Amongst this population, there is clearly a strong level of commitment to pursue high ethical standards and directorial responsibility. However, there are 13 individuals who hold 652 directorships in the funds industry in Ireland with an extensive level of aggregate professional time commitments¹.

¹ This includes: director positions on the boards of fund management companies, administrators, UCITS self-managed investment companies, designated investment companies and depositories.

Good Corporate Governance

Good governance in the funds industry is a key pillar underpinning the Central Bank's mandate to protect investors. The Central Bank is concerned that governance standards in the funds industry may be undermined as a result of a concentration at board level amongst a small number of directors. Effective board oversight requires each director to bring their expertise and judgement to bear and to pose important questions where necessary. This is especially true of independent non-executive directors whose detachment from executive responsibilities affords the unique possibility of posing challenging questions on operational and strategic matters. Whilst the argument will be made that experience on multiple boards brings valuable insight and expertise, the Central Bank believes that good corporate governance in the funds industry as a whole requires a sufficient degree of diversity amongst the population of individuals that hold directorships in the industry. Given the extensive number of capable directors in Ireland with experience in financial services, (including the funds industry), the Central Bank believes that there is potential for the overall level of corporate governance in the funds industry to improve with reductions in the concentration of directorships. The Central Bank has a range of supervisory tools and regulatory powers which it will use to achieve this outcome.

Board Responsibilities

One of the responsibilities of a Board is to establish that each director has the capability and capacity to meet the requirements of good governance at board and board committee level. Individual directors must also be cognisant of their own obligations and responsibilities as Board members. The Central Bank expects Boards to assess their effectiveness on an on-going basis, a key component of which is an assessment of the time commitment of its directors both at the time of appointment and at regular intervals thereafter. The Central Bank has prepared guidance to assist Chairs, Boards and individual directors in assessing the time commitment required for individual directors to fulfil their role, a copy of which can be found on the Central Bank website at the following [link](#). The Central Bank will assess how this guidance is being adhered to when conducting future reviews of Board effectiveness and director time commitments.

High Risk Directors

The Central Bank assesses individual investment fund directors on the basis of a range of criteria, including capability and time commitment. Where the Central Bank assesses that an individual director has aggregate professional time commitment in excess of 2,000 hours a year, including commitments to at least 20 fund boards, the Central Bank would deem that individual to be at a high risk of not being able to fulfil their board roles to an appropriate standard and, by implication, that there is a high risk to the quality of performance of those boards where the individual is a director. For the avoidance of doubt, the Central Bank takes other factors into account when assessing the risk that individual directors may be unable to fulfil their board roles to an appropriate standard.

The Central Bank considers high levels of directorships combined with high aggregate levels of professional time commitment as an indicator of the risk that an individual director may not be able to fulfil their directorial roles to an appropriate standard. Where a risk indicator, such as the aforementioned, is triggered, both the individual concerned and the boards on which they serve are likely to receive additional supervisory attention under the Central Bank's risk-based approach to supervision.

Accordingly, in the case of a proposed appointment of a director who may be deemed to be high risk, as above, the Central Bank:

- will request a letter from each Board which will set out the proposed time commitment for that director in accordance with paragraph 4.5 of the Code²;
- cannot commit to the 24-hour authorisation timeframe for corporate QIAIFs; in each such case, the Central Bank will be considering additional enquiries which will not be capable of being completed within that timeframe.

² The Irish funds Industry Association's Corporate Governance Code for Collective Investment Schemes and Management Companies

Conclusion

As outlined above, the ultimate responsibility for compliance with all regulatory obligations and related guidance rests with the Boards and the individual directors. We therefore ask you to review your current Board composition, taking the guidance into account, to ensure that each director appointed has sufficient time allocated to this important role and that directorship numbers are kept at an acceptable and manageable level.

It is requested that this communication is brought to the attention of your current directors and also any potential Board members.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Patricia Dunne".

Patricia Dunne

Deputy Head - Investment Firm and Funds Supervision Division

Markets Supervision Directorate