



CENTRAL BANK &
FINANCIAL SERVICES
AUTHORITY OF IRELAND

EUROSYSTEM

CONSULTATION PAPER

CP 41

**CORPORATE GOVERNANCE REQUIREMENTS FOR
CREDIT INSTITUTIONS AND INSURANCE UNDERTAKINGS**

PROPOSAL

- 1.1 It is now widely recognised that one of the causes of the international financial crisis was inadequate oversight of credit institutions and insurance companies. Many Boards did not seem to analyse critically the strategy/business models that credit institutions and insurance undertakings adopted and they did not fully understand the associated risks and costs not only to the firms themselves, but also to the economy and society at large. Enhanced corporate governance requirements will improve the long term sustainability of financial firms. This enhancement of governance along with more demanding regulatory requirements and intrusive supervision will contribute to the improvement of the resilience of the Irish financial sector to any future stresses.
- 1.2 This Consultation Paper is part of a wider strategy to update the domestic regulatory framework applying to credit institutions and insurance undertakings. We also plan to develop corporate governance frameworks for other sectors of the financial services industry which we regulate. We are in discussions with the funds industry regarding a corporate governance code appropriate to that industry. The question of the appropriate governance framework for credit unions will be considered in the context of the forthcoming Strategic Review of the Credit Union Sector. In the case of investment firms, we would welcome submissions on the appropriateness of applying the requirements contained in this Consultation Paper to them.
- 1.3 The Financial Regulator proposes to issue further requirements, including remuneration requirements and a revised fitness and probity framework, in due course. The Financial Regulator will also consider the need for additional requirements in respect of internal governance and risk management as international initiatives in these areas are published.
- 1.4 This Consultation Paper proposes a regulatory framework for corporate governance for credit institutions and insurance undertakings (hereafter referred to as institutions). Corporate governance refers to the procedures and processes according to which an organisation is directed and controlled. The Requirements propose minimum standards that institutions shall meet in this area. It also sets out clearly the expectations of the Financial

Regulator and attempts to align corporate governance requirements with recent international regulatory initiatives in the governance field.

1.5 In this Consultation Paper the Financial Regulator is proposing to, inter alia:

- Impose requirements in terms of the minimum number of directors on the Board;
- Limit the number of directorships which directors may hold so as to ensure they can comply with the expected demands of Board membership of an institution;
- Require that Board membership is reviewed at a minimum every 3 years;
- Require clear separation of the roles of Chairman and CEO and preclude an individual who has been CEO, director or senior manager during the previous five years from becoming Chairman of that institution;
- Set out clearly the role of the independent non-executive directors;
- Require the Board to set the risk appetite for the institution and to monitor adherence to this on an ongoing basis;
- Set out the minimum requirements for Board committees; and
- Require annual confirmation of compliance to the Financial Regulator.

2.0 LEGAL BASIS

2.1 The Requirements will be introduced as conditions to which institutions are subject pursuant to Section 10 of the Central Bank Act, 1971, Section 16 of the Asset Covered Securities Act 2001, Section 17 of the Building Societies Act, 1989 and Section 24 of the Insurance Act 1989.

2.2 In addition, the Financial Regulator is of the opinion that these Requirements are necessary to institutions' compliance with the following:

- i) Regulation 16 of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (S.I. No. 395 of 1992);
- ii) Article 10(3) of the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994);

iii) Article 10(3) of the European Communities (Life Assurance) Framework Regulations 1994 (S.I. No. 360 of 1994).

2.3 To the extent that an institution is obliged under the Requirements to submit returns and information to the Financial Regulator, such information and returns shall also be required under Section 18 of the Central Bank Act 1971, Section 41A of the Building Societies Act 1989 and Section 16 of the Insurance Act 1989, as applicable.

2.4 The obligation to submit an annual compliance statement to the Financial Regulator pursuant to paragraph 22.1 of the Requirements shall be imposed by notice under section 25 of the Central Bank Act 1997.

2.5 The Requirements may be amended or supplemented by the Financial Regulator from time to time.

2.6 A contravention of these Requirements would be liable to administrative sanction under Part IIIC of the Central Bank Act 1942 and would also be an offence.

3.0 SCOPE

3.1 It is proposed to apply the Requirements to all credit institutions and insurers licensed or authorised by the Financial Regulator. The Requirements will not apply to foreign incorporated subsidiaries of an Irish financial institution. However, institutions are encouraged to adopt equivalent good corporate governance practices in their foreign incorporated subsidiaries.

4.0 REPORTING TO FINANCIAL REGULATOR

4.1 The Financial Regulator will monitor adherence to the requirements through its ongoing supervision of institutions.

4.2 The Requirements require institutions to notify the Financial Regulator within 5 working days of identifying a deviation from the Requirements, advising of the background to the deviation and the proposed remedial action.

4.3 The Financial Regulator proposes to require each institution to submit an annual compliance statement specifying whether the institution has complied with the Requirements.

5.0 TRANSITIONAL ARRANGEMENTS

5.1 The Requirements will apply to existing Boards and directors. The Regulator is conscious that institutions may need time to implement changes to systems and structures in order to ensure compliance with the Requirements when these are finalised and issued. It is proposed that when the Requirements are imposed institutions will be given a period of six months to introduce the necessary changes. Where changes to Board membership are necessary this period will be extended to twelve months in order to allow institutions to identify and assess candidates prior to making appointments.

6.0 CONSULTATION PROCESS

6.1 The Financial Regulator will consult with the Consultative Industry and Consumer Panels as part of the consultation process.

6.2 The closing date for submissions is 30 June 2010. We welcome submissions from all interested parties. You can comment on the draft Requirements or suggest additional items for inclusion. The consultation paper proposes that these Requirements be imposed on credit institutions and insurance companies but we would be interested in the views of respondents as to whether these Requirements should be extended to investment firms. To the extent that respondents consider potential costs to be a significant factor they should set out the basis for this view giving a breakdown of the costs and an estimate of the amount involved.

6.3 Conscious of proportionality, the Financial Regulator is not minded to apply the full Requirements set out in this paper to the vast majority of captive insurers. We are considering which elements of the paper might be appropriately dis-applied. To assist us in our consideration of these issues, we invite submissions from the captive industry, with specific proposals to address any concerns they may have while at the same time ensuring there is an appropriate corporate governance regime in place.

6.4 Please make your submissions in writing or, if possible, by e-mail. We intend to make all submissions available on our website. We will not publish any material that we deem potentially libellous or defamatory. Submissions should be marked "Corporate Governance" and send to:

Prudential Policy Unit
International Credit Institutions
Financial Regulator
PO Box 9138
College Green
Dublin 2

E-mail: corpgov@centralbank.ie

International Credit Institutions
27 April 2010

CONSULTATION PAPER

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1.0 Background

- 1.1 The financial crisis and the resulting turmoil that financial institutions experienced triggered the provision of unprecedented government support to banks and some insurance companies. This outcome has highlighted the importance of aligning good corporate governance with good regulation. Credit Institutions and Insurance Undertakings (hereinafter called 'institutions') have shown an ability to impact on all aspects of the economy and the danger of poor decision making resulting in public support of these institutions justifies the need for the Financial Regulator to issue requirements that are more prescriptive than those applying to non financial companies. Therefore, the Financial Regulator has decided to issue corporate governance requirements for credit institutions and insurance undertakings that set out the minimum standards they shall meet.
- 1.2 Effective governance should see a Board that actively understands and engages with the business it governs. Scrutiny and challenge of management should be part of this process.
- 1.3 The requirements draw on leading research and guidance in the governance area including the Basel Committee on Banking Supervision ("BCBS"), the International Association of Insurance Supervisors ("IAIS"), the Organisation of Economic Co-operation and Development ("OECD") principles, the BCBS proposed enhancements to the Basel II framework and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) advice. It also considers developments arising from the introduction of Solvency II and those relating to changes to the Capital Requirements Directive. We have also reviewed recent G20 proposals to strengthen corporate governance.
- 1.4 The Financial Regulator considers that the requirements in this document are applicable to all credit institutions and insurance undertakings. Nevertheless, we recognise differences in the nature of business and risk characteristics of different institutions. The full extent of the requirements will apply to major institutions. Institutions with lesser economic significance and lower risk activities as well as those that are part of a larger financial services group within a comparable corporate governance framework will also be subject to the requirements but implementation may be applied proportionately.

- 1.5 These requirements are in addition to, and shall not affect, corporate governance obligations and standards to which an institution is subject otherwise than under these requirements.

Definitions

The following is a list of definitions of terms used in the Requirements:

Corporate Governance: Procedures, processes and attitudes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making

Institution: A bank licensed under Section 9 of the Central Bank Act 1971 or a building society authorised under the Building Societies Act 1989, including a credit institution registered as a designated credit institution under the Asset Covered Securities Act 2001, and an insurance undertaking holding an authorisation within the meaning of paragraph (a) of the definition of ‘authorisation’ in Article 2(1) of the European Communities (Non-Life Insurance) Framework Regulations 1994 or Article 2(1) of the European Communities (Life Assurance) Framework Regulations 1994.

Major institution: An institution that has a sufficiently large presence on the local market or has large international activities.

Non-executive director: A director who does not have assigned to him or her executive management responsibilities.

Independent Non-executive director: A non-executive director who satisfies the criteria for director independence.

Director Independence: Independence is defined as the ability to exercise sound judgement and decision making independent of the views of management, political interests or inappropriate outside interests.

The following criteria shall be considered and given reasonable weight when determining if a director is independent:

- any financial or other obligation the individual may have to the financial institution or its directors;
- whether the individual is or has been employed by the financial institution or a group company in the past and the post(s) so held;
- whether the individual has been a provider of professional services to the financial institution in the recent past;
- whether the individual represents a significant shareholder;
- circumstances where the individual has acted as an independent non-executive director of the financial institution for extended periods;
- any additional remuneration received in addition to the director's fee, related directorships or shareholdings in the financial institution; and
- any close business or personal relationship with any of the company's directors or senior employees.

Control Functions: Internal Audit, Risk Management, Compliance, and Actuarial Functions are deemed control functions.

2.0 Legal Basis

- 2.1 The Requirements will be introduced as conditions to which institutions are subject pursuant to Section 10 of the Central Bank Act, 1971, Section 16 of the Asset Covered Securities Act 2001, Section 17 of the Building Society Act, 1989 and Section 24 of the Insurance Act 1989.
- 2.2 In addition, the Financial Regulator is of the opinion that these Requirements are necessary to institutions' compliance with the following:
- i) Regulation 16 of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (S.I. No. 395 of 1992);
 - ii) Article 10(3) of the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994);
 - iii) Article 10(3) of the European Communities (Life Assurance) Framework Regulations 1994 (S.I. No. 360 of 1994).
- 2.3 To the extent that an institution is obliged under the Requirements to submit returns and information to the Financial Regulator, such information and returns shall also be required under Section 18 of the Central Bank Act 1971, Section 41A of the Building Societies Act 1989 and Section 16 of the Insurance Act 1989, as applicable.
- 2.4 The obligation to submit an annual compliance statement to the Financial Regulator pursuant to paragraph 22.1 shall be imposed by notice under Section 25 of the Central Bank Act 1997.
- 2.5 The Requirements may be amended or supplemented by the Financial Regulator from time to time.
- 2.6 A contravention of these Requirements would be liable to administrative sanction under Part IIIC of the Central Bank Act 1942 and would also be an offence.

3.0 General Requirements

- 3.1 The Requirements are the minimum requirements that an institution shall meet in the interest of promoting strong and effective governance.
- 3.2 The Board retains primary responsibility for corporate governance within the institution at all times. Nevertheless, senior management play an important part in ensuring effective governance. Senior management shall operate effective oversight consistent with Board policy.
- 3.3 All institutions shall have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and adequate internal control mechanisms, including sound administrative and accounting procedures and remuneration policies and practices that are consistent with and promote sound and effective risk management both on a solo basis and at group level. The system of governance shall be subject to regular internal review.
- 3.4 The governance structure put in place by each institution shall be sufficiently sophisticated to ensure that there is effective oversight of the activities of the institution taking into consideration the nature, scale and complexity of the business being conducted.
- 3.5 No one individual may have unfettered powers of decision.
- 3.6 The corporate governance structure and policies shall be articulated clearly and communicated to all relevant staff within the institution.
- 3.7 Any director who has any concern about the overall corporate governance of an institution shall report these concerns promptly to the Financial Regulator.

3.8 An institution shall comply with these Requirements on an individual basis. Accordingly while an institution may adopt policies or procedures developed at a group level, the institution shall satisfy itself that such policies or procedures meet all of these Requirements.

4.0 Composition of the Board

4.1 The Board of an institution shall have a minimum of five directors and shall be of sufficient size and expertise to oversee adequately the operations of the institution. For major institutions, a larger board may be more appropriate. The Board shall have a majority of independent non-executive directors (this may include the Chairman). The following exceptions may apply:

- a) Where an institution is a subsidiary of an entity regulated by the Financial Regulator, or an equivalent competent authority, the Board of the institution shall have a majority of non-executive directors, but they need not all be independent. They may include directors or senior management of group companies other than executives of the institution or its subsidiaries. However, in such cases there shall be an independent chairman and a balance between independent and other directors. Independent directors on the boards of other group companies may sit as independent directors on the board of the institution.
- b) Where an institution is a subsidiary of an entity not regulated by the Financial Regulator, or an equivalent competent authority, independent directors on the boards of other group companies may sit as independent directors on the board of the institution.

4.2 The balance between executive and non-executive directors shall be evidenced by the composition of Board members present and eligible to vote at each Board meeting; the majority of directors present and eligible to vote at all Board meetings shall be non-executives.

4.3 An institution shall ensure a majority of its directors are reasonably available to meet the Financial Regulator at short notice, if so required.

4.4 Each member of the Board shall have sufficient time to devote to the role of director and associated responsibilities. This is particularly important in the case of non-executive

directors. The Board shall indicate a time commitment expected from directors in letters of appointment.

- 4.5 The number of directorships held by directors of institutions shall be limited. The Financial Regulator requires that the number of directorships of credit institutions and insurance undertakings held by a director shall not exceed three. This restriction does not apply to multiple directorships within a financial services group.
- 4.6 Where directorships are held outside of credit institutions and insurance undertakings, the Financial Regulator considers that an individual holding more than 5 directorships creates a rebuttable presumption that the director has insufficient time available to fulfil his role and functions as a director of a financial institution. However, the nature of the directorships and the time commitments required is also a factor, hence fewer than five directorships may also indicate a possible constraint on the ability of a director to comply. Where it is proposed that a director of an institution hold more than five directorships, the institution shall satisfy itself as to whether this is appropriate and seek the prior approval of the Financial Regulator. The institution shall also provide the Financial Regulator with a detailed rationale together with supporting documentation as to why it considers the number of directorships does not constitute an inordinate constraint on their time. Factors that shall be covered in such a submission include the degree to which the directorships held are with respect to companies actively trading, the degree of complexity of the operation of such companies and whether such companies are part of a group.
- 4.7 Non-executive directors shall ensure that they have sufficient time available to fulfil their role and functions as a director of an institution.
- 4.8 The Board shall also satisfy itself as to the appropriateness of the non- executive director to be a director.
- 4.9 In considering director appointments, the Board shall assess and document its consideration of possible conflicts of interest among its members, including but not limited

to personal relationships, business relationships and common directorships among its members or proposed members.

- 4.10 Appointments shall not proceed where possible conflicts of interest may emerge which are significant to the overall work of the Board.
- 4.11 Directors shall not participate in any decision making/discussion where a reasonably perceived potential conflict of interest exists.
- 4.12 Institutions shall review board membership at least once every three years. Institutions shall formally review the membership of the Board of any person who is a member for nine years or more and it shall document its rationale for any continuance and so advise the Financial Regulator in writing. The frequency with which Board membership is renewed shall be documented. The renewal frequency shall consider the balance of experience and independence sought.

5.0 Chairman

- 5.1 There shall be a Chairman appointed to the Board of every institution.
- 5.2 The Chairman shall lead the Board, encourage critical discussions and challenge mindsets. In addition, the Chairman shall promote effective communication between executive and non-executive directors.
- 5.3 The Chairman shall have a financial background or be required to undertake relevant and timely comprehensive training.
- 5.4 The Chairman shall attend and chair Board meetings.
- 5.5 The roles of Chairman and CEO shall be separate.
- 5.6 The Chairman shall be an independent non-executive director. If a deputy Chairman is required, the role shall be taken by an independent non-executive director.
- 5.7 The Chairman of the Board shall be proposed for election or reappointment on an annual basis.
- 5.8 The required time commitment for a Chairman may be significant. In light of this and to ensure that a Chairman has sufficient time to devote to his responsibilities as Chairman, the prior approval of the Financial Regulator shall be obtained prior to taking on any other directorships.
- 5.9 An individual who has been the CEO, executive director or member of senior management of an institution, during the previous 5 years, shall not advance to the role of Chairman of that institution.
- 5.10 The Chairman shall not hold the position of Chairman or CEO of a credit institution or insurance undertaking for more than one institution at any one time.

6.0 Chief Executive Officer

- 6.1 The Chief Executive Officer is the top executive responsible for the institution with ultimate executive responsibility for the institution's operations, compliance and performance. The CEO serves as the main link between the Board and the executive.
- 6.2 The CEO shall not hold the position of CEO of a credit institution or insurance undertaking for more than one institution at any one time.
- 6.3 The CEO shall have a financial background or be required to undertake relevant and timely comprehensive training.
- 6.4 The renewal of the CEO contract shall be reviewed at least every 5 years.

7.0 Independent Non-Executive Directors

- 7.1 As an integral component of the Board, independent non-executive directors represent a key layer of oversight of the activities of an institution. It is essential for independent non-executive directors to bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the management and of the institution.
- 7.2 Independent non-executive directors shall be identified clearly in the institution's annual report.
- 7.3 The independent non-executive directors shall have a knowledge and understanding of the business to enable them to contribute effectively.
- 7.4 The independent non-executive directors shall comprise individuals with relevant skills, experience and knowledge (including accounting, auditing and risk management knowledge) who are able to provide an independent challenge to the executive directors of the Board.
- 7.5 Dedicated support shall be available to independent non-executive directors on any matter requiring additional and/or separate advice to that available in the normal board process.
- 7.6 To ensure independence, an independent non-executive director shall be independent of management and large shareholders and not have any business or other relationship that could materially interfere with the exercise of independent judgement. Institutions shall seek to maximise both expertise and independence when selecting independent non-executive directors.

8.0 Role of the Board

- 8.1 The Board of each institution is responsible for the effective, prudent and ethical oversight of the entity and is ultimately responsible for ensuring that risk and compliance is properly managed in the institution.
- 8.2 The role and responsibilities of the Board shall be clearly documented.
- 8.3 The Board may delegate authority to sub-committees or management to act on behalf of the Board in respect to certain matters but, where the Board does so, it shall have mechanisms in place for monitoring the exercise of delegated functions. The Board cannot abrogate its responsibility for functions delegated.
- 8.4 Where a credit institution or insurance undertaking, being part of a larger group, applies group policies or uses group functions, the Board shall satisfy itself as to the appropriateness of these policies and functions for the institution.
- 8.5 The Board shall be able to explain its decisions to the Financial Regulator.

9.0 Appointments

- 9.1 The Board shall be responsible for endorsing the appointment of people who may have a material impact on the risk profile of the institution and monitoring on an ongoing basis their appropriateness for the role.
- 9.2 The Board shall be responsible for appointing a Chief Executive Officer and senior management with appropriate integrity and adequate knowledge, experience, skill and competence for their roles.
- 9.3 The Board shall be responsible for appointing non-executive directors and the Board shall ensure that non-executive directors are given adequate training about the operations and performance of the institution. The Board shall routinely update the training as necessary to ensure that they can make informed decisions.
- 9.4 The Board shall define and document the responsibilities of directors, Board committees and senior management to ensure that no single person has unfettered control of the business.
- 9.5 The Board shall formally review the overall Board's performance and that of individual directors, relative to the Board's objectives, at least annually. The review shall be documented.
- 9.6 The Board shall ensure that there is an appropriate succession plan in place.
- 9.7 The removal from office of the head of a Control Function shall be subject to prior Board approval. Any decision to remove a head of a Control Function shall be reported within 5 working days to the Financial Regulator with clear articulation of the underlying rationale for the removal. An institution shall not enter into any agreement with a head of Control Function that would purport to preclude, or would dis-incentivise, the provision of information to the Financial Regulator by the head of Control Function.

10.0 Risk Appetite

- 10.1 The Board is required to understand the risks to which the institution is exposed and shall establish a documented risk appetite of the institution. The appetite shall be expressed in qualitative terms and also include quantitative metrics to allow tracking of performance and compliance with agreed strategy (e.g. value at risk, leverage ratio, range of tolerance for bad debts, acceptable stress losses, economic capital measures). It shall be subject to annual review by the Board.
- 10.2 The risk appetite definition shall be comprehensive and clear to all stakeholders. The definition shall clearly distinguish the appetite and address separately the short, medium and long term horizons.
- 10.3 The Board shall ensure that the risk management framework and internal controls reflect the risk appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the Board on compliance with the risk appetite.
- 10.4 In the event of a deviation from the defined risk appetite measure, the details of the deviation and of the appropriate action to remedy the deviation shall be communicated to the Financial Regulator promptly in writing.
- 10.5 The Board shall satisfy itself that all key control functions such as internal audit, compliance and risk management are independent of business units, and have adequate resources and authority to operate effectively.
- 10.6 The Board shall ensure that it receives timely, accurate and sufficiently detailed information from risk and control functions.
- 10.7 The Board shall ensure that the institution's remuneration practices do not promote excessive risk taking. The Board shall design and implement a remuneration policy to meet that objective and evaluate compliance with this policy.

11.0 Meetings

- 11.1 The Board shall meet as often as is appropriate to fulfil its responsibilities effectively and prudently, reflective of the nature, scale and complexity of the institution. In any event, subject to the exception below, the Board shall meet at least once each calendar month. A Board of an institution with lesser scope and low risk profile may meet less frequently than once every calendar month if an institution believes the requirement for monthly meetings is disproportionate and the Financial Regulator has given its prior written consent.
- 11.2 A detailed agenda of items for consideration at each Board meeting together with minutes of the previous Board meeting, sufficient and clear supporting information and papers shall be circulated in advance of the meeting to allow all directors adequate time to consider the material.
- 11.3 Detailed minutes of all Board meetings shall be prepared with all decisions, discussions and points for further actions being documented. Dissents or negative votes shall be documented in terms acceptable to the dissenting person or negative voter. The minutes of meetings shall provide sufficient detail to evidence appropriate Board attention where necessary and shall be agreed at the subsequent Board meeting.
- 11.4 The Board shall establish a documented 'conflict of interest' policy for its members and where conflict of interests arise the Board shall ensure that they are noted in the minutes.
- 11.5 If ongoing conflicts of interest arise, consideration shall be given to changing the membership of the Board.

12.0 Reserved Powers

12.1 The Board shall establish a formal schedule of matters specifically reserved to it for decision. This schedule shall be documented and updated in a timely manner.

13.0 Consolidated Supervision

13.1 The Board shall exercise adequate control and oversight over the activities of all subsidiaries including financial institution subsidiaries whether they are incorporated in Ireland or overseas.

14.0 Committees of the Board

- 14.1 The Board shall establish, at a minimum, both an Audit Committee and a Risk Committee. Major institutions are also required to establish Remuneration and Nomination Committees. Where an institution is part of a wider group where Remuneration and Nomination committees exist, they may not need separate such committees. The Financial Regulator shall be informed of this decision promptly and retains the discretion to require the establishment of these committees.
- 14.2 Committees shall have documented terms of references evidencing all delegated authorities given to them.
- 14.3 The non-executive directors and in particular independent non-executive directors shall play a leading role in these committees.
- 14.4 In deciding whether or not to establish Board sub-committees, the Board shall ensure that in the absence of establishing a sub-committee it continues to have appropriate time available to it to adequately discharge its responsibilities.

15.0 General Requirements of Committees

15.1 Institutions shall adhere to the following general requirements in relation to the activities of sub-committees of the Board:

- a) Agendas and all relevant material for the meeting shall be circulated to all committee members in a timely manner in advance of the meeting;
- b) Detailed minutes of all committee meetings shall be prepared recording time of meeting, location held, attendees, all key decisions and discussions;
- c) When appointing committee members, the Board shall review and satisfy itself as to the relevant expertise, skill of members and their ability to commit appropriate time to the committee;
- d) Committee members shall attend committee meetings regularly. Where a member is unable to provide sufficient time to attend over the medium to long term, the Board shall remove such member from the committee and replace them with a member with appropriate availability, experience and expertise;
- e) Cross committee membership by an individual shall be managed by the institution to ensure that no one individual exercises excessive influence or control;
- f) Committee membership shall be reviewed by the institution and subject to renewal by the institution with an appropriate frequency. The renewal frequency shall consider the balance of experience and independence sought;
- g) Committees shall report regularly to the Board and the minutes of all sub-committees shall be circulated to the Board in advance of Board meetings.

16.0 Terms of Reference of Committees of the Board

16.1 The authority, functions, membership and reporting lines of the committees as well as meeting frequency, voting rights and quorums shall be clearly outlined in written terms of reference established by the Board.

16.2 The terms of reference shall be reviewed regularly by the committees to ensure continuing appropriateness and recommendations on revisions shall be provided to the Board, where necessary. Such reviews shall be documented and shall take place at least annually.

17.0 Audit Committee

- 17.1 The number of members of an Audit Committee shall be sufficient to handle the size and complexity of the business conducted by it.
- 17.2 An Audit Committee shall be composed of non-executive directors, the majority of directors being independent.
- 17.3 The Chairman of the Audit Committee shall be an independent non-executive director.
- 17.4 Neither the Chairman of the Board nor the CEO shall be a member of the Audit Committee. Attendance of the CEO or Board Chairman at Audit Committees shall be by invitation and shall be managed to ensure the independence of the committee and the maintenance of appropriate relationships with other parties especially external auditors.
- 17.5 Audit Committee meetings shall be held at regular intervals and where appropriate to coincide with important financial reporting dates. They shall usually only be attended by the Chairman and members of the Audit Committee. However, members may also request the attendance of key individuals such as the external auditor, head of internal audit and the finance director. The Audit Committee shall operate in a manner consistent with ensuring its independence.
- 17.6 Without prejudice to the responsibility of the Board of directors, the responsibilities of the Audit Committee shall include at least the following:
- a) monitoring the effectiveness of the company's internal control, internal audit and risk management systems;
 - b) liaising with the external auditor particularly in relation to their audit findings;
 - c) reviewing the integrity of the institution's financial statements and ensuring that they give a "true and fair view" of the financial status of the institution; and
 - d) reviewing any financial announcements and reports and recommending to the Board whether to approve the institution's annual accounts (including, if relevant, group accounts).

18.0 Risk Committee

- 18.1 Institutions shall establish a Board Risk Committee separately from the Audit Committee with responsibility for oversight and advice to the board on the current risk exposures of the entity and future risk strategy. Smaller institutions or those involved in less complex business models may propose to the Financial Regulator that the Board itself carry out the functions which would otherwise be delegated to a Risk Committee. The Financial Regulator's prior approval in writing shall be obtained if an institution wishes to fulfil this requirement without creating a separate committee of the Board.
- 18.2 The Risk Committee shall have a balance of non-executive and executive directors appropriate to the nature, scale and complexity of the business of the institution.
- 18.3 The role of the Risk Committee shall be to advise the Board on risk appetite and tolerance for future strategy, taking account of the Board's overall risk appetite, the current financial situation of the institution and, drawing on assessment by the Audit Committee, the capacity of the institution to manage and control risks within the agreed strategy. The Risk Committee shall oversee the risk management function.
- 18.4 The Risk Committee shall ensure the development and on-going maintenance of an effective risk management system within the financial institutions that is effective and proportionate to the nature, scale and complexity of the risks inherent in the business.
- 18.5 The Risk Committee shall advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the institution.

19.0 Remuneration Committee

- 19.1 The number of members of a Remuneration Committee will depend on the size of a financial institution.
- 19.2 Where possible, all members of the Remuneration Committee shall be independent non-executive directors but, in any event, the majority of members of the Committee shall be independent non-executive directors.
- 19.3 The Chairman of the Board shall not be the Chairman of the Remuneration Committee.
- 19.4 The Remuneration Committee shall establish remuneration policy and procedures within the institution based on best practice including compliance with CEBS Guidelines, EU Commission Recommendations and any requirements which the Financial Regulator may issue¹.

¹ The Financial Regulator will in due course issue its specific requirements on remuneration in financial institutions.

20.0 Nomination Committee

- 20.1 The number of members of the Nomination Committee will depend on the size of an institution, but the majority of members of the Committee shall be independent non-executive directors.
- 20.2 The Nomination Committee shall make recommendations to the Board on all new appointments of both executive and non-executive directors.
- 20.3 In considering appointments the Nomination Committee shall prepare a comprehensive job description, taking into account for Board appointments, the existing skills and expertise of the Board and the anticipated time commitment required.
- 20.4 The Nomination Committee shall be involved in succession planning for the Board, bearing in mind the future demands on the business and the existing level of skills and expertise.

21.0 Compliance Statement

21.1 An institution shall submit to the Financial Regulator a compliance statement specifying, in accordance with any relevant guideline issued by the Financial Regulator, whether the institution has complied with these Requirements during the period to which the statement relates. This compliance statement shall be submitted to the Financial Regulator on an annual basis or with such other frequency as the Financial Regulator may notify to the institution from time to time.