

Risk, Governance and Accounting Policy Division
Central Bank of Ireland
P.O. Box 559
Dame Street
Dublin 2

1st October 2013

Response to consultation on the review of the Corporate Governance Code for credit institutions and insurance undertakings

Dear Sir/Madam

DIMA welcomes the CBI initiative to review the Corporate Governance Code for credit institutions and insurance undertakings following the developing experience since its implementation in 2011. We have made specific responses to questions posed by the CBI in its consultation paper, and welcome many of the proposed amendments which reflect the substantive experience of the code.

General comments

Where the proposals suggest an enhancement to the current requirements, these may foreshadow requirements to be brought in with Solvency II, and we would request that transitional arrangements and timelines are synchronised with the European requirements as they are introduced.

We actively support the discussion around diversity in board composition, and suggest that this debate is widened to encompass the many faces of diversity. We are concerned that rigid quota requirements could be counterproductive to the diversity agenda; instead, an environment including training and mentoring of a more diverse generation of future board members may ultimately be more successful, promoting meritocratic appointments from a wider community.

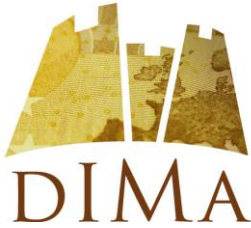
Specific comments

Summary of the more specific proposed amendments

i. Risk committee (Section 23: p7)

Proportionality is a central tenet of the regulatory framework. The application of the principle to the committee is appropriate. All aspects of proportionality – nature, scale and complexity – should be considered when looking at the composition of the risk committee. Thus as long as proportionality is maintained, the risk committee proposed amendments are a welcome addition to the corporate governance code.

More specifically, the requirement that the risk committee comprise a minimum of three members may be excessive. We propose that the principle of proportionality is applied for the risk committee composition.



The proposal that the risk committee comprise a majority of non-executive directors may be overly restrictive, potentially reducing the committee's overall quality and effective. We propose that this be amended to reflect the requirement for an appropriate mix of members, both non-executive and representatives of the management team, for greater effectiveness.

ii. Chief Risk Officer (Section 12, p7)

The risk control function is embodied in the Pillar 2 requirements of Solvency II as a function rather than a designated CRO role. This approach appears to be reflected in the application of the proportionality principle within the CBI proposals, which is welcomed. Regulated entities which will fall under the forthcoming Solvency II regime are in the process of implementing risk management functions and strategies, and it is important that timelines and structures reflecting the approaching European requirements are intrinsic to the CBI's approach.

From a timeline perspective, it is also important to ensure there will be an appropriate transition period available for a regulated entity should the CBI decide to change that entity's PRISM rating to one which would require structural changes in managing the risk control function.

There are a number of entities for which the appointment of a full-time CRO would be excessive, and we welcome the CBI's recognition of this through the proposal for the CRO role to be shared with another pre-approval control function. However, the caveat that "there is no conflict of interest between the two roles" may be unfeasible. Instead, we suggest that the regulated entity, when notifying the CBI of a shared role arrangement, should provide information about the management of any potential conflict of interest.

iii. Board meetings (Section 16, p8)

The move from quarterly board meetings to four board meetings per year better reflects the annual business cycle and associated board activity, and is a welcome and sensible amendment which will improve the functionality of the board for non-High Impact institutions.

The requirement for the boards of High Impact institutions to meet 11 times per year may not properly respond to the corporate need for meeting frequency, and in some cases may limit the pool of eligible directors to positions on those boards from the perspective of the international community of directors.

iv. Chairman (Section 8, p9)

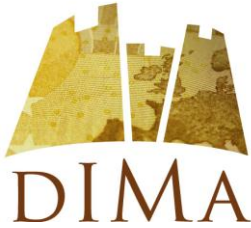
This proposal will bring benefits to the regulated entity in Ireland and is welcomed.

v. Chief Executive Officer (Section 9, p9)

Enabling a CEO of a Medium-Low or Low Impact designated institution to hold up to two additional CEO roles, subject to certain criteria and CBI approval, will facilitate lower PRISM rated companies to access a wider pool of talent for these positions, and is welcomed.

vi. Committees of the board (Section 19 & Appendix 1 Additional obligations on High Impact institutions, p10)

In the case of Medium-Low and Low Impact designated institutions, the requirement for the chairman of the audit committee to be a member of the risk committee and vice versa may impose unnecessary requirements on INEDs in those institutions. In addition, the requirement



that these committees comprise a minimum of three members may also be excessive. Although we agree with a member of each of the committees sitting on the other, we propose that the principle of proportionality is applied for the committee membership requirements.

This may apply similarly to other institutions, as the effectiveness of the committees is determined by the expertise and skills of the committee members.

vii. Annual Compliance Statement (Section 26, p10)

This is a welcome development to the Corporate Governance Code. It would be further enhanced if the annual compliance statement submission is aligned with the annual returns.

viii. Board responsibilities (Section 13, p11)

Industry welcomes the increased level of information about the CBI expectations with regard to the responsibilities of the board.

Specific areas for comment

i. Composition of the board (Section 7, p12)

While diversity in general is most welcome, there are concerns that setting quota requirements may undermine the perception of the calibre of directors who could be seen as fulfilling quota requirements rather than appointed on their own merits. DIMA welcomes and supports the debate for more diversity on boards in its widest sense. There is an interest in how diversity is ultimately attained, including encouraging training, education and mentoring initiatives to support the development of a diverse community of suitably skilled individuals to fill board positions. Diversity considerations should not be confined to gender but should encompass a variety of aspects. It is key that the focus remains on ensuring there is an appropriate mix of skill sets on every board.

The focus should be on diversity “encouragement” as opposed to “requirements”.

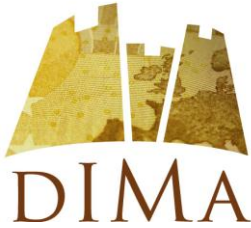
ii. Directorships limits (Section 7 & Appendix 1 Additional obligations on High Impact institutions, p13)

The first three-year cycle for INEDs has not yet been completed following the implementation of the Corporate Governance Code, thus it is difficult to assess and comment on this issue at this stage because regulated entities have not yet refreshed the INED members of their boards.

The dominant priority in this area is INEDs’ ability to have sufficient time to commit to each of their appointments.

In the case of run-off companies, in many cases less time is required of INEDs, and therefore there is a question whether the directorship limitations as they currently stand are appropriate to these types of scenarios.

An alternative treatment could be a self-certification by directors stating that they have sufficient time to allocate to each of their directorships.



Other matters

i. Definitions

If a company is moved to a higher PRISM ranking, there will need to be sufficient time given by the CBI to implement the necessary changes to reflect the new corporate governance requirements associated with the higher ranking. The CBI should accommodate a transitional period to implement changes to structures after a company has been moved up a PRISM category.

Appendix 1

Proposed changes to the Corporate Governance Code for credit institutions and insurance undertakings

1. Scope

1.4 This is a welcome addition to the Corporate Governance Code which reflects the nature of run-off business.

3. Legal Basis

3.6 Industry welcomes this clarification.

5. Transitional arrangements

In circumstances such as restructures relating to Solvency II, the appointment of a CRO or movement between PRISM categories, as described previously in this submission, transitional arrangement timelines would be welcomed. We would encourage the CBI to discuss this in more detail with industry.

7. Composition of the Board

7.5 This is a welcome addition to the Corporate Governance Code which reflects the international make-up of many boards.

7.8 The dominant priority in this area is INEDs' ability to have sufficient time to commit to each of their appointments.

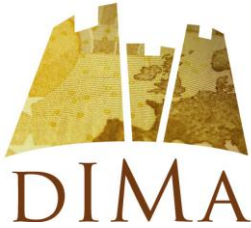
In the case of run-off companies, in many cases less time is required of INEDs, and therefore there is a question whether the directorship limitations as they currently stand are appropriate to these types of scenarios.

An alternative treatment could be a self-certification by directors stating that they have sufficient time to allocate to each of their directorships.

We would welcome the opportunity to discuss with the CBI the determination of entities which are deemed to be within the same group.

8. Chairman

8.11 The proposed amendment for a Chairman of a non-High Impact institution to hold the position of Chairman of another group entity is welcomed.



9. Chief Executive Officer

9.2 The amendment proposing that the CEO of a Medium-Low or Low Impact institution may hold up to two additional CEO positions is welcomed. This will provide institutions with greater access to appropriate individuals for the role.

12 Chief Risk Officer

12.1 To reiterate the earlier comments relating to the CRO proposals:

The risk control function is embodied in the Pillar 2 requirements of Solvency II as a function rather than a designated CRO role. This approach appears to be reflected in the application of the proportionality principle within the CBI proposals, which is welcomed. Regulated entities which will fall under the forthcoming Solvency II regime are in the process of implementing risk management functions and strategies, and it is important that timelines and structures reflecting the approaching European requirements are intrinsic to the CBI's approach.

From a timeline perspective, it is also important to ensure that there will be an appropriate transition period available for a regulated entity should the CBI decide to change that entity's PRISM rating to one which would require structural changes in managing the risk control function.

There are a number of entities for which the appointment of a full-time CRO would be excessive, and we welcome the CBI's recognition of this through the proposal for the CRO role to be shared with another pre-approval control function. However, the caveat that "there is no conflict of interest between the two roles" may be unfeasible. Instead, we suggest that the regulated entity, when notifying the CBI of a shared role arrangement, should provide information about the management of any potential conflict of interest.

12.2 In the case of a subsidiary, the CRO cannot be responsible for monitoring the institution's risk management framework across the entire organisation, as proposed in this amendment. Instead, deleting the phrase "across the entire organisation" will properly focus the CRO function within the group context.

12.3 Clarification of the CRO role is welcome. We would, however, suggest the wording is amended to read "...to identify, assess, monitor and report..." to better reflect the CRO responsibilities.

Focussing on the subsidiary/group relationship as discussed in the previous comment, we propose the reference to "and at group level" is removed for the aforementioned reasons.

12.7 It is unclear from this amendment where the demarcation lies between the CRO role and the Risk Committee role.

12.8 Amend sentence to read "... to the board risk committee and shall have direct access..." for the purpose of clarification.



13. Role of the Board

13.1 The clarifications on the role of the board are welcomed.

In relation to the “adequate internal control framework”, it is important that this does not become too prescriptive.

16. Meetings

16.1 To reiterate the earlier comment on this proposal:

The move from quarterly board meetings to four board meetings per year better reflects the annual business cycle and associated board activity, and is a welcome and sensible amendment which will improve the functionality of the board for non-High Impact institutions.

19. Committees of the Board

19.7 To reiterate the earlier comments on this subject:

In the case of Medium-Low and Low Impact designated institutions, the requirement for the chairman of the audit committee to be a member of the risk committee and vice versa may impose unnecessary requirements on INEDs in those institutions. Although we agree with a member of each of the committees sitting on the other, we propose that the principle of proportionality is applied for the committee membership requirements.

20. General requirements of committees

20.1 The option of directors attending sub-committee meetings by videoconference or teleconference when physical attendance due to location is not possible is welcome, and reflects the international nature of the industry.

22. Audit committee

22.1 To reiterate earlier comments on committees, the requirement that the audit committee comprise a minimum of three members may be excessive for Medium-Low and Low Impact entities, and proportionality should be applied.

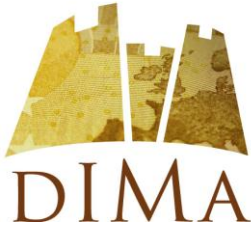
22.2 This item appears to contradict item 19.1.

In relation to the “adequate internal control framework”, it is important that this does not become too prescriptive (see comment at 13.1).

22.4 We would welcome a discussion with the CBI on further examining the ambit of appropriate qualifications.

23. Risk committee

23.2 In the case of Medium-Low and Low Impact designated institutions in particular, the requirement that these committees comprise a minimum of three members may be excessive. We propose that the principle of proportionality is applied for the risk committee composition.



23.4 Particularly in the case of Low and Medium-Low Impact institutions but also for other rated institutions on a case-by-case basis, this requirement may be overly restrictive on the composition of the risk committee, potentially reducing its overall quality and effectiveness. We propose that this be amended to reflect the requirement for an appropriate mix of members, both non-executive and representatives of the management team, for greater effectiveness.

26. Compliance statement

26.1 We welcome this proposed amendment.

APPENDIX 1 to the Corporate Governance Code for Credit Institutions and Insurance Undertakings (“The Code”)

ADDITIONAL OBLIGATIONS ON HIGH IMPACT INSTITUTIONS

15. Meetings

15.1 The requirement for the boards of High Impact institutions to meet 11 times per year may not properly respond to the corporate need for meeting frequency, and in some cases may limit the pool of eligible directors to positions on those boards from the perspective of the international community of directors.

DIMA would be happy to meet with representatives of the Central Bank of Ireland to further discuss any aspects of these responses, as the CBI sees appropriate.

Yours faithfully

Sarah Goddard
CEO
DIMA

Sarah Goddard – Chief Executive Officer, Tim Byrne – Company Secretary
Stephen Devine (Chairman), Debbie O’Hare (Vice Chairman) (UK), Patricia Kavanagh (Treasurer),
Michael Brady, Tim Hennessy, Stephen Hodgins, Marco Nuvoloni, Ann O’Keeffe, Viviana Pascoletti (Italy), Tony Pearson (UK),
Martin Scullion (UK), Larry Sherin, David Stafford, Eddy Van Cutsem (Belgium)
Registered Office: Grand Mill Quay, Barrow Street, Dublin 4, Ireland
Company Registration No: 394270

Pavilion House, 31/32 Fitzwilliam Square, Dublin 2, Ireland.
tel: +353 1 775 9448 fax: +353 1 775 9409 email: executive@dima.ie web: www.dima.ie