



Grant Thornton

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Central Bank of Ireland

Grant Thornton response to consultation paper CP69 on the review of the corporate governance requirements for credit institutions and insurance undertakings

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Executive Summary

This paper includes Grant Thornton's comments on Consultation Paper 69 on proposed revisions to the Corporate Governance Code for Credit Institutions and Insurance Undertakings.

We welcome the proposed changes which contain a number of clarifications and enhancements. In particular we welcome the recognition of the importance of proportionality in a number of provisions in the application of the Code to institutions rated medium-high, medium-low and low.

We note and welcome the introduction of the requirement to appoint a chief risk officer with responsibility to promote an appropriate risk culture throughout the organisation. This responsibility should also include the requirement to embed an appropriate compliance culture in the firm.

However, we believe that the Central Bank should avail of the opportunity to support the standing of compliance as a function in firms to which the Code applies.

It is noted that in a number of other jurisdictions the existence of compliance committees is well established. In the absence of an explicit requirement to appoint a chief compliance officer we suggest that consideration be given to broadening the remit of the chief risk officer and the risk committee to include oversight of compliance within of the organisation.

Response to individual requirements

Summary of the more significant proposed amendments

Risk committee (Section 23)

In principle it makes sense for the risk committee to be chaired by a non-executive director. However there will be a number of cases where to impose this might be disproportionate given the nature, scale and complexity of the business in question e.g. where a material functions may be outsourced. We propose that what is most important is the balance of knowledge, skills and expertise on the risk committee. In particular the chair, whether executive or non-executive, should have a strong background in risk and the knowledge to provide oversight of a risk management function.

We note the comparatively narrow mandate of the Risk Committee which does not include any responsibility for the oversight of compliance.

Chief Risk Officer (Section 12)

We note the new requirement to appoint a chief risk officer. We welcome this change, subject to the requirement for proportional application of the rule.

We note however the absence of a requirement in relation to the appointment of a chief compliance officer. The lack of formal positioning and authority for compliance, through representation on or appropriate interaction with the board, has the potential to undermine the efforts of the organisation to embed a culture of compliance in the firm. It is arguable that the role of the chief compliance officer is as important as that of the chief risk officer in assisting the business to implement its business strategy whilst navigating a complex and fast changing market and regulatory environment.

Board meetings (Section 16)

We welcome the proposal to amend the existing requirement to permit institutions to hold one board meeting per half year with the balance to be scheduled as the board deems appropriate.

Chairman (Section 8)

We welcome the proposed change which acknowledges the value that may be brought to bear to a subsidiary by a group chair.

Chief Executive Officer (Section 9)

We welcome the proposed change which, consistent with principles in other comparable governance regimes, recognises the importance of nature, scale and complexity in determining what is appropriate.

Committees of the board (Section 19 and Appendix 1)

We agree with the proposed changes in respect of the chair and composition of key board committees.

Annual Compliance Statement (Section 26)

In the interests of clarity and consistency we welcome further information from the Central Bank in respect of its expectations regarding the Section 26 Compliance Statement.

Board responsibilities (Section 13)

The responsibility of the boards of organisations to which the Code applies for overseeing the management of their organisation's internal control, compliance and risk is specifically referenced in section 12.1 of the existing Code which refers to the responsibility of the institution to 'ensur[e] that risk and compliance are properly managed'. In the case of banks, this approach is explicitly endorsed by the Basel Committee on Banking Supervision. We welcome the more explicit emphasis in the proposed code on the role of the board in relation to these critical matters.

Specific areas for comment**Composition of the board (Section 7)**

See above in relation to board responsibilities and the appointment of a chief risk officer.

Directorship limits (Section 7 and Appendix 1)

We welcome the revised language in section 7.5 which allows for non-physical attendance at board meetings.

Other matters**Definitions**

We welcome the introduction of consistent language as between the Code and the Central Bank's supervisory regime, PRISM.

Further suggestions**Section 3.6**

Section 3.6 deals with conflicting requirements and standards. It is unclear however how firms would determine what regime is stricter. Could the Central Bank clarify or provide guidance in this respect.

Section 4.2

This imposes a requirement upon the board to notify the Central Bank where a breach of the Code occurs which is material. It would be highly beneficial to include a definition or criteria against which firms may determine materiality, either in the code or in separate guidance.

Section 7.10

The revised section 7.10 specifies the requirement to notify public interest or pro bono directorships to the Central Bank. It is unclear whether this requirement is to notify periodically (e.g. annually) or at time of appointment.

Section 9.5

Presumably the Central Bank's intention that the CEO's contract be reviewed every 5 years; however, the wording appears to require a review of the *renewal* of the CEO's contract every 5 years, rather than a review of the contract itself. This language may be misleading and could be clarified. If

the intention is that the term of such a contract should not exceed five years, this should be specified also.

Section 12.8

Whilst it is arguably already implied by the existing wording, we suggest inclusion of additional language to clarify, such that the provision would read, '*the CRO shall report to the board risk committee or, in its absence, the board, with direct access to the chairman of the board*'.

Section 16.1

The revised language provides that the board should meet at least four times per calendar year and at least one per half year. This opens the possibility for a board to convene, for example, twice in January and twice in December, which would be consistent with your stated requirement but perhaps not in the spirit of the Code. We suggest changing the language to read '*four times per calendar year and at least once every six months*' which would ensure that no more than six months can pass without a board meeting.

Section 23.5

This provides that the risk committee as a whole should have relevant financial experience. We suggest including the requirement for the committee to also demonstrate suitable risk management experience. Firms to which the Code applies face a larger subset of risk than financial risk only. The board risk committee should have a blend of financial and risk experience.



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