

Response to Central Bank of Ireland's Consultation on the Review of the Corporate Governance Code for Credit Institutions and Insurance Undertakings (CP69)

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Specific areas for Comment - ii. Directorship limits

In my view the current system of numerical limits poses unnecessary difficulties for professional Independent Non-Executive Director's (INED's) credit institutions & insurance undertakings and indeed the Central Bank of Ireland (CBI), as they:

- **Act as a barrier to the movement of INED's between regulated sectors.** INED's operating in sectors where directorship limits more accurately reflect their available time, will be slow to take up positions within credit institution & insurance undertakings given the increased regulatory burden. This is particularly pertinent when you consider the importance of asset management skills for insurance undertakings.
- **Act as a barrier to the movement of INED's between High Impact and Non High Impact Institutions.** The current system of limits impedes the creation of a broad pool of INED's with the skills base required by institutions operating within the sector. An INED currently at the limit for non high impact firms, of 5 and 8, would potentially have to resign from 6 boards (3 financial and 3 non financial) to take up a position in a high impact institution, irrespective of whether the INED had existing spare capacity. Conversely an INED with one high and two low impact appointments would be unable to take on an additional financial appointment, irrespective of the amount of spare capacity the INED has.
- **Dissuade individuals from pursuing a career as a professional INED within the sector.** The current limits restrict the percentage of their available capacity which an INED (with as little as one appointment in this sector) will be able to utilise in pursuing their chosen occupation (irrespective of what other sectors of Irish or international markets they wish to work in). Clearly a situation which can restrict a professional INED to utilising ,in many cases, a maximum of 60% of their capacity will dissuade them from working in the sector, with the resultant implications for the depth and breadth of the skills pool. While the rebuttable presumption allows a mechanism for dealing with exceptions the additional burden placed on the INED together with the uncertainty and timelines involved seriously risk the relevant INED being sidelined in any selection process.
- **Pose challenges to the principle of Independence.** A professional INED operating at the limit for non high impact firms, of 5 and 8, who has capacity to take on additional non financial appointments and wishes to do so would be in the invidious position of having to ask a client for a favour (making a case to the CBI on their behalf), possibly on a frequent basis. Similarly the regulated client would be put in the position of having to second guess the INED in respect to his/her own business arrangements.
- **Presents difficulties for small or incubator companies.** The construct of the current limits encourages churn as INED's seek to move up the value chain, within their restricted numbers. In such situations small or incubator companies, with their limited

fee budgets (and indeed limited time requirements from their INED's) may find it difficult to retain INED's with the skills and competencies they require.

The difficulties, outlined above, can be resolved by moving to a situation whereby INED's are managed on the basis of available time /capacity, together with a margin for contingency. Time utilization is updated on the CBI system when an INED is being proposed for a position in a regulated entity and could be updated more regularly if required.

Alternatively if there is a strong desire, within the CBI, to maintain numerical limits for financial institutions a system whereby professional INED's are managed in relation to available capacity for non financial institutions and a matrix based approach(along the lines of the template below) in respect to financial institutions, is a workable solution. While such a system would address many of the problems with the current numerical limits, it still builds in structural impediments which amplify as one extends the template. Perhaps a more straightforward approach is to give INED's a budget (maximum limit) of 100 days within credit institutions and insurance undertakings which can be made up of a combination of PRISM rankings / institutions.

	PRISM	Ranking	
	High	Medium High	Medium Low/Low
	3	0	0
Number	2	1	1
of	1	2	2
Directorships	0	5	0
	0	4	2