



INSTITUTE OF DIRECTORS
IN IRELAND

Institute of Directors in Ireland
Europa House, Harcourt Street, Dublin 2

Tel: +353 1 411 0010, Fax: +353 1 411 0090
Email: info@iodireland.ie, Web: www.iodireland.ie

Consultation on Corporate Governance Requirements for Investment Firms (CP94)
Risk, Governance, Accounting and Auditing Policy Division
Central Bank of Ireland
Dublin 2

30th July 2015

Re: Consultation on Corporate Governance Requirements for Investment Firms (CP94)

The Institute of Directors in Ireland (IoD) welcomes the opportunity to submit our views on the Central Bank's consultation on Corporate Governance Requirements for Investment Firms (CP94).

About The Institute of Directors in Ireland:

The Institute of Directors in Ireland is the representative body for 2,300 directors and senior executives within the private and public sectors. As the leading voice in the debate on improving corporate governance standards, the Institute of Directors is dedicated to developing and improving the effectiveness and performance of directors and boards throughout Ireland.

Initial remarks:

The IoD welcomes the development of specific statutory corporate governance requirements for investment firms. Good corporate governance structures can greatly improve board effectiveness and the boards of investment firms will no doubt benefit from a framework of best practice, which will not only encourage greater levels of transparency and oversight for investment firms, but also contribute to increased confidence in Ireland's IFSC sector. Given that the boards of many investment firms are comprised solely of executive directors, the IoD particularly welcomes the requirement that boards are comprised of a majority of non-executive directors. Governance will be enhanced and investment firms will benefit from the independent expert counsel and advice that non-executive directors will bring to the board and to audit and risk committees.

Part of the IoD International Network

Chief Executive: Maura Quinn. Company Secretary: L Daniel
Directors: D Lamont (President), E Coughlan, L Daniel, G D'Arcy, I Gibney,
D Lamont, HA McSharry, J Murphy, K Neary, M Somers

A company limited by guarantee, registered in Ireland number 197643

Response to consultation:

1.2 - *The requirements will not apply to firms designated as Low Impact by the Central Bank. However, such firms are encouraged to adopt these requirements.*

The draft requirements state that while not required, investment firms deemed Low Impact are encouraged to adopt these requirements. The IoD believes that it will be difficult for many Low Impact firms, especially those with smaller boards, to take meaningful guidance from the draft requirements, especially in terms of board composition and the suggested committee structures. While we recognise the reasons for taking such an approach, the strength of any code of governance is the sum of its parts, rather than the requirements in isolation, and the IoD would suggest that the Central Bank should provide greater clarity and more direction for Low Impact firms on corporate governance, as by adopting only certain elements of the requirements, on a discretionary basis, such firms may not have a sufficient or appropriate level of corporate governance.

6.1 – *A firm shall ensure that its board is of sufficient size and expertise to oversee adequately the operations of the firm, and in any event shall ensure that its board is comprised of a minimum of three directors.*

The IoD is concerned that it will be difficult for many firms to achieve the high level of governance outlined in the draft requirements with only three directors. The IoD believes that the requirements as outlined are more suitable for boards with a minimum of five directors, as is the case in Appendix 1 for High and Medium-High Impact firms, and in the existing Corporate Governance Code for Credit Institutions and Insurance Undertakings. Further consideration may need to be given to smaller boards in the draft requirements, especially in terms of board composition and committee requirements. The requirements as drafted may result in unintended consequences in terms of board composition for boards with three directors, given that one of the three directors must be appropriately qualified in the area of auditing. While it is, of course, essential that at least one member of the audit committee be appropriately qualified, for boards with only three directors, such a requirement may serve to narrow the overall profile of membership of smaller boards and may negatively impact upon diversity.

6.2 - *A firm shall ensure that the board is comprised of a majority of independent non-executive directors.*

The IoD welcomes the requirement for boards to be comprised of a majority of independent non-executive directors, but suggests that the requirements should allow for an 18 month transition period for boards, particularly given that boards of many investment firms are currently comprised of a majority of executive directors. It is important that sufficient time is allowed for firms to take a phased approach to meet the requirements in the interest of continuity and reducing the impact of institutional memory loss.

10.4 - *A firm shall ensure that, prior to their appointment and on an ongoing basis, the non-executive and executive directors have the relevant skills, experience and knowledge that is needed to provide an independent challenge to the executive directors of the board. The relevant*

Part of the IoD International Network

Chief Executive: Maura Quinn. Company Secretary: L Daniel
Directors: D Lamont (President), E Coughlan, L Daniel, G D'Arcy, I Gibney,
D Lamont, HA McSharry, J Murphy, K Neary, M Somers

A company limited by guarantee, registered in Ireland number 197643

skills, experience and knowledge referred to above may include, but is not limited to, skills in, and experience and knowledge, the fields of accounting, auditing and risk management.

The IoD would welcome clarification on point 10.4, specifically on whether it should read that ‘non-executive directors’, rather than ‘non-executive and executive directors’, ‘should have the relevant skills, experience and knowledge that is needed to provide an independent challenge to the executive directors of the board’.

It is of course vitally important that non-executive directors be sufficiently equipped to provide an independent challenge to executive management. It is the role of the non-executive director to bring a degree of objectivity, new perspectives and wider judgment to bear on board discussions. Non-executive directors are best placed to constructively challenge the executive and their separation from the day-to-day running of firms also encourages greater impartiality and better recognition of potential conflicts of interest.

7.8 - A firm shall ensure that the role of Chairman shall be proposed for election or reappointment on an annual basis.

As the Chairman has a significant role in the development and monitoring of the implementation of strategy, the IoD believes that the requirement for the role to be proposed for re-election on an annual basis could arguably be extended to three years, as would be the standard for many organisations. However, the requirement for annual re-election of the Chairman should be maintained for investment firms deemed High Impact or Medium-High Impact under the Central Bank’s PRISM system and so should be included in Appendix 1 of the draft requirements.

14.3 – Minutes of meetings

The IoD believes that section 14.3 detailing requirements for the recording of minutes of board meetings could be enhanced with the addition of a further point outlining that minutes should “document clearly and unequivocally the decisions made at board meetings.”

17.1 - Where the board comprises only 3 members, the full board, including the Chairman and CEO, may act as the audit committee and/or the risk committee.

The IoD believes that section 17.1 should be extended to specifically preclude the Chairman of the board from chairing both the audit and risk committees, where a board is comprised of only three members, to ensure that one individual does not hold undue influence within the firm. Best practice regarding audit committee composition would also encourage a CEO to be available to attend and contribute to audit committee meetings as required, rather than be a member of the audit committee.

Section 17.1 should also allow for greater flexibility for the establishment of risk and audit committees, where an investment firm has a smaller board. While it is important that audit matters and risk matters are discussed separately from board meetings, it may be more practical for smaller

Part of the IoD International Network

Chief Executive: Maura Quinn. Company Secretary: L Daniel
Directors: D Lamont (President), E Coughlan, L Daniel, G D’Arcy, I Gibney,
D Lamont, HA McSharry, J Murphy, K Neary, M Somers

A company limited by guarantee, registered in Ireland number 197643

firms with three directors to combine the audit and risk committees, given that membership will comprise the same directors.

22 – Remuneration Committee

The IoD would recommend that where a remuneration committee has been established, its policies and procedures be designed to promote the long-term success of the firm and that an appropriate balance between fixed and performance-related, immediate and deferred remuneration, is put in place. High and Medium-High Impact firms should also be encouraged to consider engaging an independent external remuneration consultant to provide remuneration recommendations when considering key positions such as the Chairman and Chief Executive. Where remuneration consultants are appointed, this should be identified in the Compliance Statement.

Appendix 1. 12.6 - The firm shall ensure that an evaluation by an external evaluator is undertaken every three years and that the evaluation is provided to the Central Bank.

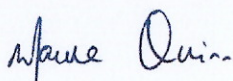
The IoD welcomes the inclusion of the requirement for High Impact and Medium-High Impact investment firms to undergo external board evaluation every three years. External evaluation is vital in determining how a board is performing in relation to best practice standards and to ensure that there are appropriate systems of direction and control in place.

Appendix 1. 12.9 - A firm shall ensure that the board puts in place a formal skills matrix to ensure that there is an appropriate skills mix across members of the board, and that potential new board members are assessed by the nomination committee against the skills matrix during the appointment process.

The IoD welcomes the inclusion of the requirement for establishing a skills matrix in Appendix 1 of the draft requirements but believes that all investment firms, regardless of size, would benefit from establishing a formal skills matrix and as such, that this provision should be included in section 12.9 of the main draft requirements. A skills matrix, which should be specifically tailored for each board, assists in identifying skills gaps and promotes diversity. All boards should be encouraged to review board composition against this skills matrix, paying due regard to skills outside of core areas such as risk management, audit and compliance.

We appreciate the opportunity to present this submission and would be delighted to discuss the issues raised in greater detail or to make any further contributions as necessary.

Yours sincerely



Maura Quinn
Chief Executive
Institute of Directors in Ireland

Part of the IoD International Network

Chief Executive: Maura Quinn. Company Secretary: L Daniel
Directors: D Lamont (President), E Coughlan, L Daniel, G D'Arcy, I Gibney,
D Lamont, HA McSharry, J Murphy, K Neary, M Somers

A company limited by guarantee, registered in Ireland number 197643