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MERCER
MAKE TOMORROW, TODAY

Central Bank of Ireland
Iveagh Court
Harcourt Road
Dublin 2

4 August 2015

Re: Consultation on Corporate Governance Requirements for Investment Firms – Consultation Paper 94 ("CP94")

Dear Sir / Madam,

This submission is made on behalf of Mercer (Ireland) Limited and Mercer Global Investments Europe Limited. While we broadly welcome many of the proposals in CP94 we have some high level observations and comments we wish to provide.

The requirements are very closely linked to the Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013. Investment Firms by their nature are quite different organisations to Credit Institutions and Insurance Undertakings, particularly in relation to their size and complexity. It will be difficult for many Investment Firms to meet the revised requirements without substantially changing the size and nature of their existing boards and committees, particularly for organisations with PRISM ratings of Medium High.

The requirements on committee membership are particularly onerous and are likely to result in Investment Firms creating very small committees comprised of the same individuals.

In relation to Firms rated Medium High or above:

- the minimum board size is increased to 5
- there must be sufficient executive directors to ensure one executive does not dominate the board
- the majority of directors must be independent

It will be a challenge for Investment Firms rated as Medium High to meet the board and committee composition requirements with a board of five directors given the restrictions on the roles the CEO and Chairman can fulfil on certain committees. We also believe the current proposal encourages firms rated lower than Medium High to have a board of three directors only, to avail of the various exemptions on committee composition if the board consists of only three people. If such firms increase their board to four directors, then the exemptions no longer apply and it would be extremely difficult to meet the requirements on committee and board composition with a board size of four.

Given the smaller scale of Investment Firms compared to Credit Institutions and Insurance Undertakings we believe proportionality should be applied to these provisions to allow Medium High firms to meet the requirements with a board of five directors. This could include:

- Requiring one INED on all committees, increased to two INEDs for firms rated Medium High.
- Removing the requirements for committees to comprise of a majority of INEDs. The requirement for a majority of INEDs could result in;
    - small committee sizes of three directors, to avoid the costs of employing more INEDs
    - lack of relevant senior management representation on committees such as the Risk Committee which benefit significantly from the participation of executive directors and senior management

We believe this would result in a more workable Corporate Governance Code appropriate to the size and complexity of Investment Firms.

In relation to the requirements on Control Functions, we are particularly concerned with the proposal under 13.5 of CP94, which appears to require Investment Firms to ensure the Control Functions of Internal Audit, Risk and Compliance are separate. This appears to be setting a higher bar for Investment Firms than has been set in the Code for Credit Institutions and Insurance Undertakings which only require Control Functions to be separate from business units. The Code for Credit Institutions and Insurance Undertakings also specifically provides that the Chief Risk Officer in firms that are not "High" impact firms may also carry out other pre-approval control function roles. We would welcome a similar approach for Investment Firms that provides for proportionality in relation to the separation of control functions with the agreement of the Central Bank of Ireland.

Yours Sincerely,

Keith Walsh

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Chief Risk and Compliance Officer