



Investment & Life Assurance Group
The Practitioner Voice

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European Commission
Brussels

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Dear Sirs,

Green Paper - Corporate governance in financial institutions and remuneration policies

On behalf of ILAG, I have pleasure in submitting the following comments to assist with the above consultation on possible ways forward to improve corporate governance mechanisms in financial institutions with the view of preventing future crises.

ILAG is a trade body representing members from the Life Assurance and Wealth Management industries. ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

Our responses to some of the questions raised within the Green Paper are shown below. On others we have no comments to make. We would be happy to discuss these in more detail if required.

Yours faithfully,

Mark Searle
Administration Team

Section 5.1 – Board of Directors

General question 1: Interested parties are invited to express whether they are in favour of the proposed solutions concerning the composition, role and functioning of the board of directors, and to indicate any other measures they believe would be necessary.

Specific questions:

1.1. Should the number of boards on which a director may sit be limited (for example, no more than three at once)?

There should be no hard limit on the number of directorships, these should be limited by the time demands of each role which will depend on firm size, risk complexity etc.

1.2. Should combining the functions of chairman of the board of directors and chief executive officer be prohibited in financial institutions?

Chair & CEO positions should not be combined.

This has been best practice in UK for some time.

1.3. Should recruitment policies specify the duties and profile of directors, including the chairman, ensure that directors have adequate skills, and ensure that the composition of the board of directors is suitably diverse? If so, how?

The role, skills and diversity of board & chairman should be specified.

This has been UK best practice for some time.

1.4. Do you agree that including more women and individuals with different backgrounds in the board of directors could improve the functioning and efficiency of boards of directors?

Board diversity should be encouraged, but not for its own sake, as it would be more important to select the best candidate with the right skill set & experience, the strength of character to express views and to drive forward change if need be.

1.5. Should a compulsory evaluation of the functioning of the board of directors, carried out by an external evaluator, be put in place? Should the result of this evaluation be made available to supervisory authorities and shareholders?

External board evaluation is now recommended in UK at least once every three years. This is still a relatively new development and its value unproven. Cost / value / frequency are important considerations for firms, particularly smaller firms.

1.6. Should it be compulsory to set up a risk committee within the board of directors and establish rules regarding the composition and functioning of this committee?

Please see our response to question 1.8.

1.7. Should it be compulsory for one or more members of the audit committee to be part of the risk committee and vice versa?

Please see our response to question 1.8.

1.8. Should the chairman of the risk committee report to the general meeting?

None of this is thought to be too contentious for larger firms, but needs to be proportionate for smaller firms.

1.9. What should be the role of the board of directors in a financial institution's risk profile and strategy?

Please see our response to question 1.13.

1.10. Should a risk control declaration be put in place and published?

Please see our response to question 1.13.

1.11. Should an approval procedure be established for the board of directors to approve new financial products?

Please see our response to question 1.13.

1.12. Should an obligation be established for the board of directors to inform the supervisory authorities of any material risks they are aware of?

Please see our response to question 1.13.

1.13. Should a specific duty be established for the board of directors to take into account the interests of depositors and other stakeholders during the decision-making procedure ('duty of care')?

Most of what is being questioned here is probably already in place in the UK and compliance with 1.12 & 13 is required under FSA Principles.

Section 5.2 - Risk-related functions

General question 2: Interested parties are invited to express whether they are in favour of the proposed solutions regarding the risk management function, and to indicate any other measures they believe would be necessary.

We agree that all that is suggested in the subsequent specific questions is sensible but there remains a need to recognise that not all firms have CROs and so proportionality is an issue again.

Improving communications between Risk and the Board should be a responsibility of the Risk and or Audit Committee.

Section 5.3 - External auditors

General question 3: Interested parties are invited to express whether they are in favour of the proposed solutions concerning the role of external auditors, and to indicate any other measures they believe would be necessary.

Whilst we would not disagree in principle that the role of external auditors needs to be deepened, both cost and proportionality will be a potential issue. For auditors it would be expected that their extended liability might be of concern.

The external auditor's duty is to report to the shareholders, not the regulators, and any changes to that relationship might involve changes to the law not regulation.

Section 5.4 - Supervisory authorities

General question 4: Interested parties are invited to express whether they are in favour of the proposed solutions concerning the role of supervisory authorities, and to indicate any other measures they believe would be necessary.

In the UK the FSA has already attended to the points raised in this section.

Section 5.5 – Shareholders

General question 5: Interested parties are invited to express their view on whether they consider that shareholder control of financial institutions is still realistic. If so, how in their opinion would it be possible to improve shareholder engagement in practice?

Within the UK the Financial Reporting Council Stewardship Code now requires firms to "comply or explain". We would wish to see the current code preserved as any changes to the cost, time and impact of compliance will be prohibitive for many institutional investors.

Section 5.6 - Effective implementation of corporate governance principles

General question 6: Interested parties are invited to express their opinion on which methods would be effective in strengthening implementation of corporate governance principles?

These have already been strengthened in the UK.

Section 5.7 – Remuneration

General question 7: Interested parties are invited to express their views on how to

enhance the consistency and effectiveness of EU action on remuneration for directors of listed companies.

As stated in the consultation, the Commission has already adopted several recommendations on this subject and we therefore do not feel there is anything further we might add to the existing debate.

Section 5.8 - Conflicts of interest

General question 8: Interested parties are invited to express whether they agree with the Commission's observation that, in spite of current requirements for transparency with regard to conflicts of interest, surveillance of conflicts of interest by the markets alone is not always possible or effective.

The subsequent suggestion that rules on conflicts of interest should be harmonised across different products seems to make sense, though some examples of where and to what extent it needs fixing would be helpful.

End.