



# REGULATOR: GUIDELINES REVEALED

## Financial sector set for tighter governance

by Brian O'Mahony

NEW corporate governance guidelines propose sweeping reforms in the governance of banks and insurance companies.

Companies in the financial sector will have to have no fewer than five board members and there should also be a "clear separation" between the roles of chairman and chief executive, the proposals published yesterday by the Financial Regulator, Matthew Elderfield, outlined.

Under the guidelines the number of directorships one person can hold would also be limited as the consultation paper paves the way for tougher corporate governance measures.

They follow in the wake of the biggest banking crisis to hit this country that has left Irish banks requiring billions of state funding.

Anglo Irish Bank will require at least €22 billion to keep it afloat, it emerged recently, while AIB and Bank of Ireland have had to rely on a total of €7bn in state funding.

As part of the rescue Irish banks and building societies will also transfer €80bn of bad loans to the bad bank NAMA, with a view to allowing them to get back to normal lending.

Outlining his reforms, Mr Elderfield blamed lack of proper oversight of financial institutions as one of the main causes of the

global financial crisis.

Improvements in this area will make the Irish financial sector more resilient, he said.

His document, which is open to discussion, says the roles of chief executive and chairman be clearly separated. An individual who has been a chief executive, director or senior manager of a company should not be eligible for the chairman's role until five years after holding a previous senior position.

The proposals add that any chairman of a financial company must seek the approval of the regulator before taking on any other directorships.

Membership of boards should also be reviewed at least every three years and an individual should not be a director of more than three companies in the financial sector at any time, the new proposals said.

The regulator has asked for comments on the proposals to be submitted by 30 June.

Another proposal seeking to tighten up the governance of banks and insurers Mr Elderfield said the regulator must approve cases where a person holds more than five directorships outside the financial area.

In the case of pay those responsible should be made up of independent directors.

The criteria for their

roles and their independence need to be outlined, in order to avoid conflicts of interest.

The Institute of Directors in Ireland last night welcomed the consultation paper, "as a positive step".

These proposals "are in keeping with the combined code and will be essential to improving corporate governance standards in our financial and insurance institutions," said chief executive Maura Quinn.

It is essential to ensure that those who sit on all boards are appropriately selected, fully qualified and trained for the tasks they are required to carry out, she added.