



# Regulator's directives will shake up our boardrooms

## New broom Elderfield to sweep away poor business practices

### Thomas Molloy

MANY board members will have to resign from the boards of financial institutions because they hold too many directorships or are not independent enough, under new rules floated by Financial Regulator Matthew Elderfield yesterday.

The proposals, which are due to come into effect in the autumn following public consultation, aim to prevent directors from sitting on the boards of more than three financial organisations or five organisations, without a special dispensation from the regulator.

The chairmen of financial institutions should not be allowed to sit on any other boards, he suggests. "Many boards of directors still need to raise their game," Mr Elderfield told a conference in Dublin Castle yesterday.

The rules were revealed yesterday after the regulator began a public consultation on corporate-governance rules for banks, insurance and foreign financial-services companies.

They will come as a shock to the small coterie of well-connected business people who sit on dozens of boards, as well as the boards of charities and other voluntary organisations.

The regulator also wants to ban chief executives from becoming chairman of their bank for five years after they retire as chief executive - a rule that would have prevented Sean FitzPatrick from becoming chairman of Anglo Irish Bank.

The five-year rule would mean that Bank of Ireland governor Pat Molloy could continue to serve, despite being

chief executive back in the 1980s.

The regulator demands that no individual should have "unfettered" powers of decision-making and that the governance structure be "sufficiently sophisticated" to ensure effective oversight.

### Reform

"Today's publication is a positive step in reform of the finance sector and we look forward to taking part in the consultation process," said Maura Quinn, chief executive of the Institute of Directors in Ireland.

"The recommendation that the role of the chief executive and chairman be separated is also a crucial element of good corporate governance, as is the presence of non-executive directors on each board to provide an independent and objective perspective."

The regulator has also drawn up guidelines on what constitutes an independent director.

Independent directors will have to be the majority on any board and no board decision will be valid unless the majority of people attending a meeting are independent directors.

Board appointments will have to be reviewed every three years.

Another idea is to force banks to publish the risk appetite for their institution and monitor whether it is adhering to that right level of risk.

The proposals were welcomed by Insurance Institute of Ireland president Denis Kelleher, who said: "I very much welcome the renewed focus on more robust regulation and professional standards."

The Financial Regulator also plans to issue guidelines on pay and new guidelines on who is fit to serve as a board member, he said yesterday.

Corporate-governance frameworks for other industry sectors such as credit unions, the funds industry and investment firms are also planned, although the funds industry regulation will be on a voluntary footing - rather than a statutory footing - for a trial period.

The new legislation and other changes to the rules governing the insurance and funds industry offered opportunities to the International Financial Services Centre, Mr Elderfield said yesterday.

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**Financial Regulator Matthew Elderfield addressing the Third Global Financial Services Centres Conference in Dublin yesterday.** JOHNNY BAMBURY