

Consultation on Fund Management Effectiveness

Consultation Paper 86

Response

- My comments and suggestions on the Central Bank's Paper on this topic take into account both CP86 and the series of discussion questions posed by the Central Bank at the meeting organised by the IOB on November 13th last. These reflect my own personal views rather than that of the Boards on which I serve.
- I have approached the matter from the perspective as Pension Trustee, responsible for the safe and prudent management of assets of over €5 billion on behalf of over 25,000 Irish members, who are a large customer of such Funds.
- Current Framework. The current governance framework regarding the composition of Funds' Boards is in need of serious overhaul. The current situation has emerged and evolved from the successful growth of the Funds' business over time rather than reflecting a blue print of best in class guidelines and principles. In this context, the current review is to be welcomed. To illustrate its timeliness, under the current system one could invest in an Irish domiciled Fund where the NED(s) may have no actual investment experience, serve on a Board for an indefinite period and with no restriction to the number Boards positions one may hold. In the event of a problem ensuing with a Fund any customer or unit holder could reasonable argue that their interests were not adequately regulated or safeguarded under such a system.
- Board Composition. The Central Bank could issue a recommended structure in terms of Board composition and a set of criteria with respect to experience and competence.
- Number. There should be at least 2 independent NEDs on any Fund Board. As the 'eyes and ears' of unit holders and investors in the Fund these need to be of a sufficient calibre and experience to fully discharge their roles. The Central Bank could issue a formal set of guidelines setting out experience and capabilities required for such positions.
- Independence. NEDs should be 'truly' independent in terms of length of time they serve on the Board and in terms of work background. I believe the maximum term which a NED can serve should be five years. If Directors serve for more than, for example, five years they run the risk of not been viewed as truly independent. I also

believe that the direct appointment of former executives of an Investment firm which acts as sponsor to such Funds company should not be classed as truly independent NEDs.

- **Investment Management Experience.** At least one of the NEDs should have direct investment management experience at a senior level. This is required to challenge, probe and question the asset manager in a fair and reasonable manner on behalf of all unit holders. Failing to have this capacity at Board level leaves unit holders bereft of a champion to raise and seek answers over the investment management of the Fund in which they are invested.
- **Commitment.** Sufficient time and commitment needs to be devoted by Directors to the Fund in question. Based on a four quarterly meeting cycle I believe that at least 8 working days is a minimum requirement plus annual site visits and preparation for meetings with service providers such as the Investment manager. Overall this would equate to a commitment of circa 12 working days per Fund. This would approximate to a practical limit of circa 15-20 Funds for any one Director.
- **Residency.** For Irish domiciled Funds I would think that at least two Directors should be Irish residents. This provides greater comfort in the eyes of Trustees in that at least two Directors are on the ground and immediately accessible.
- **Supply.** My direct experience of the asset management industry is that there does not appear to be a shortage of suitably qualified potential NEDs with investment experience across all asset classes. This issue could be resolved by the compilation of a list of available NEDs who possess the requisite skills and experience as outlined above.

Summary

- The interests of the customer/unit holders should be at the heart of CP86.
- Overall I believe these recommendations would strengthen the governance of Funds' Boards. They are practical, specific, measurable from the Regulator's point of view, attainable and, above all, reasonable from a unit holders point of view. Failure to do so carries the risk of leaving Trustees and clients' generally exposed to a system which lacks an up to date clear set of observable guidelines relating to the governance, representation and effectiveness.

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