


# Corporate governance survey 2023

PwC Ireland Asset and Wealth Management





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# Introduction

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## About the 2023 survey

Corporate governance continues to be a topic attracting attention from regulators, media and the general public all around the world. The importance of corporate governance cannot be overstated, as it plays a crucial role in shaping the behaviour, performance, and sustainability of companies. Corporate governance within the Asset and Wealth Management (“AWM”) industry in Ireland has been an area of focus for the Central Bank of Ireland (“CBI”) particularly over the last decade.

Since the last edition of this survey in 2018<sup>(1)</sup>, the CBI has concluded their thematic review of Consultation Paper 86 on Fund Management Company Effectiveness (“CP86”)<sup>(2)</sup>, issued guidance on the Individual Accountability Framework (“IAF”)<sup>(3)</sup> and issued numerous other publications with references to corporate governance for market participants within the AWM industry.

More globally, significant events such as COVID-19, the invasion of Ukraine and society’s endeavour to reduce our impact on the planet through more sustainable lifestyles have forced previously accepted corporate governance approaches to adapt and remain robust in our ever changing world.

Throughout the report we will refer to findings from our previous corporate governance survey carried out in 2018<sup>(1)</sup> and from the PwC Luxembourg Fund Governance Survey 2022 (“PwC Luxembourg Survey”).<sup>(4)</sup> This has allowed us to compare the most recent results against our previous survey to highlight trends and developments, as well as highlight the differences and similarities between Europe’s two largest fund jurisdictions.

## Structure of the survey

The survey we conducted was structured into different sections, aiming to collect data in a specific manner that would allow us to present the results clearly and concisely. This approach also facilitated comparison with previous surveys conducted in Ireland and Luxembourg. On reviewing our responses from the survey, there are some topics which stood out and needed further attention to explain why these trends are occurring. The survey highlights the below areas of particular interest:

- Board composition;
- Board organisation;
- Board committees;
- Roles and responsibilities of the board;
- Designated persons (“DP”) support;
- Conflicts of interest and directors’ legal liabilities;
- Delegate oversight; and
- Latest trends.

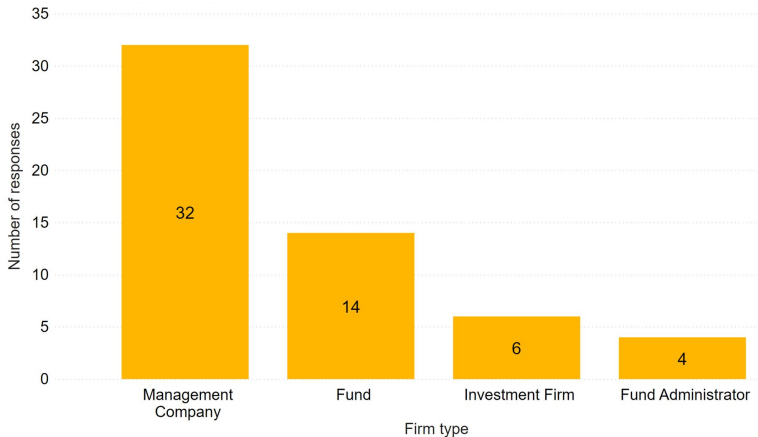
**Please note:** percentages in the charts throughout the presentation may not sum to exactly 100% due to rounding.

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## Our sample

Between February and July of 2023, the survey was completed by 56 participants, a 93% increase from 2018.<sup>(1)</sup> The survey was completed at entities' board level. A breakdown of the entities is provided in the below graph.

### Response by firm type



## Highlights and key trends

This year's survey shows some of the key issues requiring significant attention from the boards of firms such as Environment, Social and Governance ("ESG"). These key issues are having impacts on boards across a wide range of firms. Some boards have been more successful than others in meeting these challenges by implementing strong governance practices.

With the increasing prominence of ESG across the global AWM industry, and the growing number of ESG-related regulations being rolled out or coming into effect in Europe and across the world, it is unsurprising to see that boards are paying close attention to this matter.

The survey identified that boards are increasingly broadening their areas of expertise to include cybersecurity, information technology and ESG. Cybersecurity is now becoming crucial to companies due to the breaches in corporate security becoming almost a weekly event. The scale of these breaches is constantly growing and is without doubt relevant to most organisations and boards.

The survey also notes the most popular topics in which board members receive training on were in the areas of AML, legal / regulatory updates and products/investment strategies. The 2018 survey<sup>(1)</sup> identified cybersecurity as the third highest topic area boards were receiving training on.


\* Please note that the findings and conclusions presented in this report are subject to limitations. The constrained number of responses received from investment firms and fund administrators could diminish the extent to which the survey results can be applied more broadly. The sample size is not sufficiently large to provide a comprehensive representation of the market, and as a result, any inferences drawn from this survey should be considered with caution, as they may not provide a complete or accurate representation of the market.



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## Board composition

## 2 Board composition

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### Board size

The average number of directors serving on boards is consistent with the results from our previous survey in 2018<sup>(1)</sup> and remains at the same level.

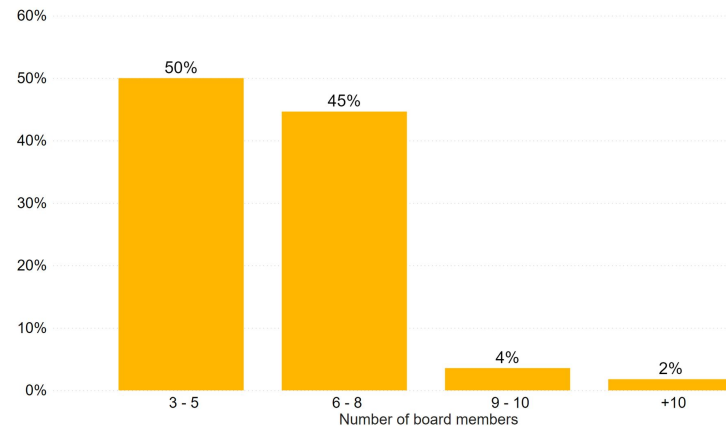
Over the past decade we have seen a modest increase in the average size of boards from 5 persons in 2013<sup>(5)</sup> to 6 persons in both the 2018 survey<sup>(1)</sup> and the 2023 survey. This would indicate that while regulatory substance at firm level has increased during this period, board size has not been impacted by these changes.

The majority of boards (50%) had between 3-5 board members including the chairperson, closely followed by 45% having 6-8 board members.

Investment firms represented the outliers with greater than 8 board members. Fund Management Companies (“FMC”) tended to have either 6 or 7 board members.

The range of board size varied from a minimum of 3 directors to a maximum of 12 directors. In comparison the PwC Luxembourg survey found that management companies and funds had on average 4 directors.<sup>(4)</sup>

### Number of board members, including the chairperson



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## Director residence

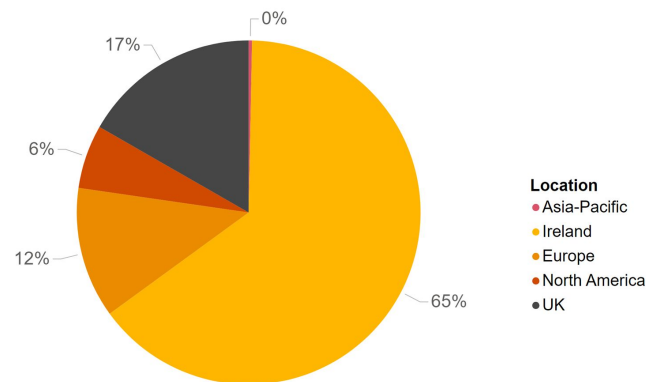
The diversity of the board can be increased by having board representation from outside of Ireland. Directors from areas outside Ireland bring diverse cultural perspectives that can complement any deficiencies stemming from Irish cultural norms. The largest board representation outside of Ireland is from the UK (17%), Europe (12%) and North America (6%).

The increased familiarity and utilisation of virtual board meetings post COVID-19 has allowed board members outside Ireland to enhance participation in meetings and reduce business travel that has been receiving more public scrutiny due to the developing ESG agenda.

The survey results show that directors reside in developed countries where asset managers are traditionally based. It's worth contemplating the addition of directors from regions where the majority of fund distribution occurs, particularly in areas currently lacking board representation. This approach contributes to enhancing the board's cultural diversity and aligning with the expectations of their underlying investors.

Less than 1% of our respondents had directors who were resident in Asia-Pacific, while no boards had Latin-America resident directors.

Director area of residence



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## Board tenure

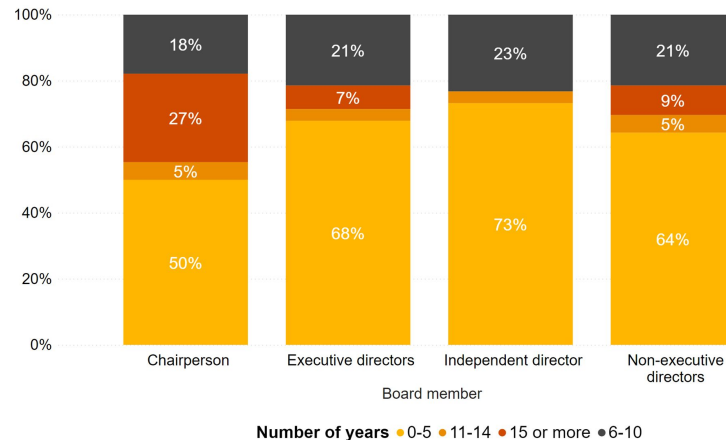
The average tenure for directors across all firm types was 5.3 years. Although this number reflects a variety of firm types with drastically different complexity and size, it is comparable to the PwC Luxembourg survey where typical board members serve “between 5 and 6 years on the board”.<sup>(4)</sup>

Further insights are revealed when we look at the detail regarding the pre-approved control functions (“PCF”) assigned to each director serving on boards. Executive directors (PCF-1) and non-executive directors (PCF-2A) tenures were reflective of the average of all firms at slightly more than 5 years. The average for the chairperson (PCF-3) was just less than 7 years, reflecting the usual preference for the chair to be the most established member of the board. The average tenure of independent non-executive directors (“INED”) (PCF-2B) was the shortest at just less than 4 years. The range of tenure for executive directors (PCF-1), the chairperson (PCF-3) and non-executive directors (PCF-2A) all stood between less than a year and 15 years. The range of tenure for INEDs (PCF-2B) was slightly less ranging from less than a year up to 11 years.

The CBI has stated that “Directors should be mindful that tenure is a factor that can impact their ability to act independently and this should be continually assessed”.<sup>(6)</sup> The CBI expects that Organisational Effectiveness Director’s (“OE Director”) reviews should consider “the continued use of the INED designation where the INED is in place for such a prolonged period of time”.<sup>(7)</sup> The CBI also gave directors and the board of directors the opportunity to review director independence when they segregated the PCF-2 (Non- Executive director) role into PCF-2A (Non- executive director) and PCF-2B (Independent non-executive director) in June 2022.<sup>(8)</sup>

\* The max figure survey respondents could enter was 15 years.

### Board tenure in years



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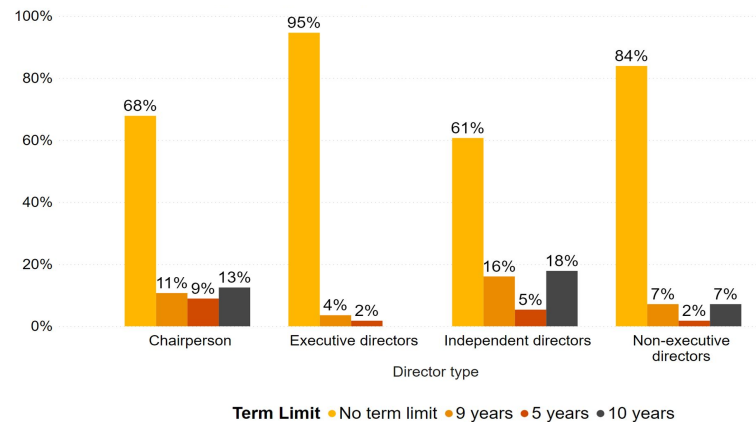
## Board term limits

Our survey highlighted that 39% of INEDs (PCF-2B), 33% of board chairpersons and 16% of non-executive directors (PCF-2A) have term limits attached to their roles. In comparison to our 2018 survey, only 10% of respondents had term limits in place for their directors.<sup>(1)</sup> The PwC Luxembourg survey revealed that only 11% of directorships had term limits in place.<sup>(4)</sup>

The vast majority of firms are still yet to impose term limits on these roles. However the increase noted in term limits for directors, particularly those who need to remain independent, reflects boards' increasing commitment to evaluating the duration of these roles. In order to satisfy the CBI's requirements we would suggest that firms who do not have term limits in place for INEDs (PCF-2B) have their OE Director / Chairperson conduct regular reviews of the INED's (PCF-2B) independence.

The number of firms that do not currently have a term limit might highlight the importance of having open conversations during board meetings and the potential need to change the culture at board level.

### Board member term limits



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## Board time commitments

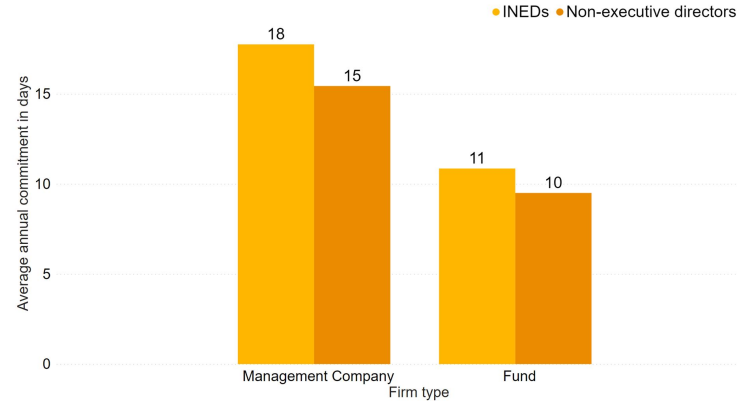
Looking at time commitments for non-executive directors (PCF-2A) and INEDs (PCF-2B), the findings highlight greater day count commitments at FMCs compared to funds across these director types. This is no surprise given the number of funds FMCs are likely to oversee and therefore the greater expected time commitment required by directors sitting on these boards.

Average day count commitments for executive directors (PCF-1) at FMCs have increased substantially from an average of 17 days in 2018<sup>(1)</sup> to 97 days in 2023. Since the implementation of CP86, the CBI has requested more detailed information on time commitments from staff employed in FMC's<sup>(2)</sup> with some respondents confirming that all of their time is committed to the role of an executive director (PCF-1).

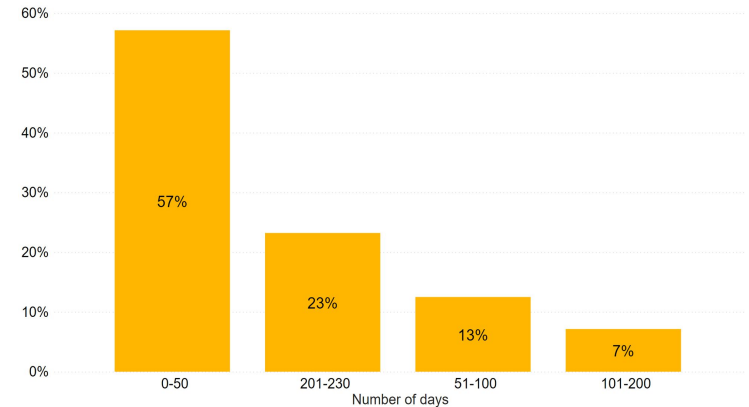
From our survey, 18% of executive directors (PCF-1) committed all their time (230 days) to their respondent firm and this was the most common response in terms of annual time commitment. This shows that while substance from this cohort of directors has increased, their is large variations in the time committed by executive directors (PCF-1).

All directors should remain vigilant that they do not exceed the prescribed reasonable number of working hours, in order for them to carry out their roles effectively. As per CP86, "a reasonable number of working hours available for each individual is approximately 2,000 per year. This is based on a 9 hour day and 230 working days".<sup>(2)</sup> This is something that directors of all types should consider, particularly when taking on new directorships.

## Average annual time commitment in days of the following directors



## Average annual time commitment in days of executive directors



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## Board expertise

Most boards felt confident that they were sufficiently skilled in a wide range of different topic areas. However, **cybersecurity, Information Technology (“IT”) and ESG** were the three areas where boards felt they lacked sufficient skills. Given the highly technical nature of cybersecurity and IT, boards may place reliance on industry experts to present on these topics rather than endeavour to become competently skilled in these areas themselves. However, there is a strong willingness from directors to upskill in cybersecurity.

PwC’s 2023 Global Digital Trust Report<sup>(9)</sup> stated that 47% of directors surveyed are willing to take part in internal training on cybersecurity as well as increase the frequency of meetings focused on cyber. The same report noted that less than 40% of organisations surveyed had fully mitigated emerging cyber risks. These two stats illustrate the critical nature of upskilling board members in this topic.

It is important that boards, specifically the chairperson, conduct regular reviews to address shortfalls in the skill composition of the board, in order to provide targeted board level training.<sup>(10)</sup>

Our survey found that most boards tend to review their skills as part of an annual review of board performance (70%). While 50% are conducting a formal board skills evaluation every three years. With some boards carrying out both. This is in line with the Irish Funds guide on board evaluations for investment funds and FMCs.<sup>(11)</sup> However, it may be advisable for boards to carry out more comprehensive assessments of their skill compositions. There appears to be a disconnect between areas where skill deficiencies exist and the subjects covered by board training or areas where no training is offered. This is particularly evident when looking at the percentage of boards where no training on cybersecurity and ESG topic areas is provided.

## Is the board sufficiently skilled in the following areas?



With the increased regulatory spotlight on ESG and the constant evolving nature of this topic, board level training on this topic is crucial. 77% of boards do not feel that they possess the adequate skills and knowledge in this area. However, this gap is gradually being addressed with training.

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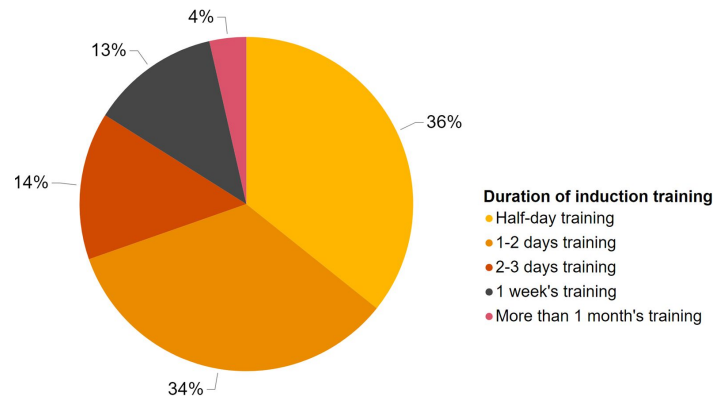
## Training for new board members

Where new directors are recruited it is important that they receive sufficient training to support them in their role. The Institute of Chartered Secretaries and Administrators note that it is the responsibility of the chairperson to ensure that new board members “receive appropriate induction training and regular training, to enable them to fulfil their role”.<sup>(12)</sup> Our respondents highlighted a variety of different levels of training which were offered to new board members. It is also important to involve new directors in tailoring the induction training plan to both their role and experience.<sup>(11)</sup>

A blend of training techniques can often be the most effective learning tool - particularly with real-life experiences and scenarios<sup>(12)</sup> for an additional learning impact. It's important that regardless of the level of training, firms acknowledge that a one and done approach is not sufficient - training must be an ongoing learning process. This approach to training can be of huge benefit to boards as it increases the overall level of expertise. From our previous chart on page 12 we can see how many many boards did not feel skilled in specific areas and how much they would benefit from targeted ongoing training.

Induction training offered to new board members will vary between different boards. The huge variation in length of training from a half day to a month is unusual and indicates that some boards are not allocating enough time to induction training.

**What level of induction training if offered to newly appointed directors?**



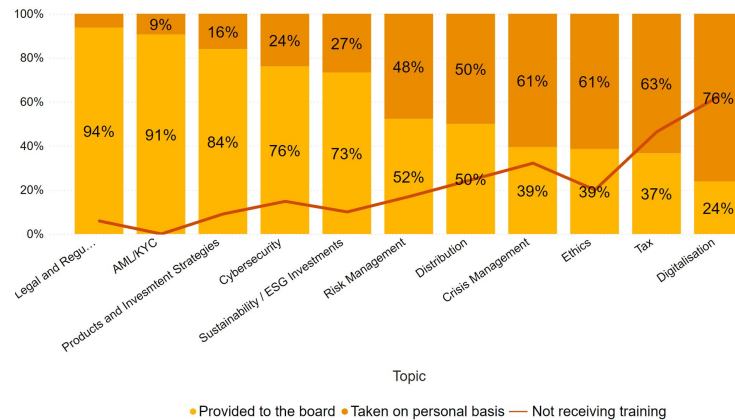
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## Training topics

The most popular topics that board members received training on were legal and regulatory updates, AML / KYC, and products and investment strategies. In 2018, cybersecurity was one of the more prioritised subjects for board training<sup>(1)</sup>, but it has since become a lower priority for boards. This is surprising given the number of boards which said they did not feel sufficiently skilled in cybersecurity. Of the board members who received training in cybersecurity, the majority of it (76%) was provided to the board, which is positive.

The results revealed that there are topics that received no training during the course of the year. It is possible that boards may be experiencing training fatigue or finding an alternative means of education. There are also significant costs involved for firms providing training which has to be considered, and it is unclear at an industry level who should be the bearer of such training costs. Given current market conditions, firms may prioritise other costs over training expenses. Crucially, boards may underestimate the opportunity to strengthen culture via training methods.

### How do board members receive training on the following topics?



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## Board recruitment

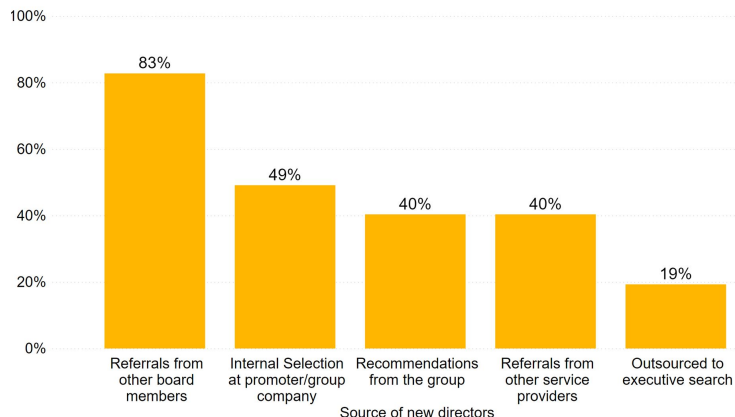
When recruiting new directors to the board, the most popular way to identify candidates was by referrals from other board members, followed by an internal selection process at promoter/group company. This result highlights the importance of familiarity in new board member recruitment.

Board member and service provider referrals accounted for 83% of sourcing, down from 89% in 2018.<sup>(1)</sup> When using this recruitment method, respondents were still likely to carry out a rigorous candidate review process. However, there were some boards using this recruitment method that did not conduct some of the more basic review processes such as a formal interview and reference checks from previous employers. This could be attributed to the other board members' knowledge of the candidates' experience and that they trust their ability to carry out their duties.

Formal interviews (86%) and candidate assessments, including regulatory checks, directorship history, and adverse media searches (91%), were the predominant methods employed to assess candidates' suitability for the role.

Since our 2018 survey<sup>(1)</sup> there has been a significant change in factors that are influencing board member recruitment. From the table on the right we can see that gender diversity and diversity of personality have increased in importance when firms are recruiting new directors. The change in emphasis on gender diversity is evident in the 2022 Demographic report on applications for PCF roles within regulated firms, where the percentage of women applicants for PCF roles saw an "increase to 32%, compared to 22% in 2017".<sup>(13)</sup> The board's diversity policy has emerged as a key factor in candidate evaluation for board appointments, with 79% of boards incorporating it into their recruitment procedures. This represents a shift in how boards are looking to develop a more diverse membership. It may be good practice for firms to have targets set for a female representation at board level showing it is has clearly become front and centre of boards' recruitment agenda.<sup>(14)</sup>

### How does the board sources new members?



### Factors ranked by importance when recruiting new directors

Rank	Factor
1	Knowledge and expertise
2	Prior experience
3	Gender diversity
4	Diversity of personality
5	Time capacity

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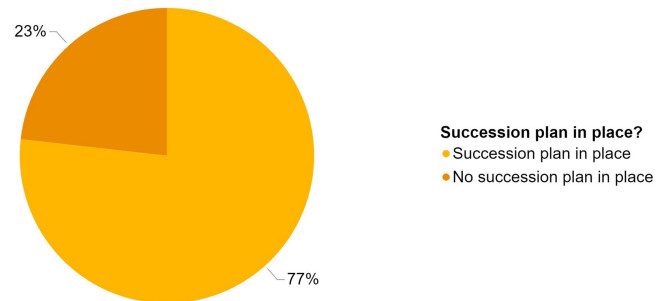
## Board succession

Since 2018 there has been a major shift in the number of boards that have a succession plan in place. 77% of boards now have a succession plan, compared to 24% in 2018. This is a significant increase, which may in part be due to the fact that the CBI highlighted succession plans as an area of weakness in 2020 when their practical implementation was insufficient<sup>(7)</sup>.

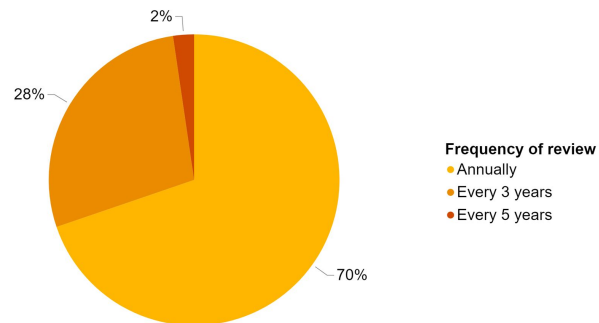
Succession plans enable companies to proactively prepare for the replacement of directors, particularly when certain directors are approaching the conclusion of their terms. However, this may be difficult to implement as the majority of directors do not have term limits in place.

Standard practice among boards with a succession plan is to conduct an annual review (70%). This allows firms to frequently adjust their succession plan for potential events that may affect board composition requirements. These events could be new product launches, heightened cyber security risk or regulatory requirements, which may require boards to onboard individuals with specific knowledge or having to deal with unexpected departures from the board.

### Does the board have a succession plan in place?



### Frequency of board succession plan review



A woman with curly hair and glasses, wearing a vibrant floral shirt, stands and presents to a group of people seated around a white table in a modern office meeting room. The room features large windows, indoor plants, and a whiteboard. The scene is captured from a slightly elevated angle, looking through a glass partition.

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# Board organisation

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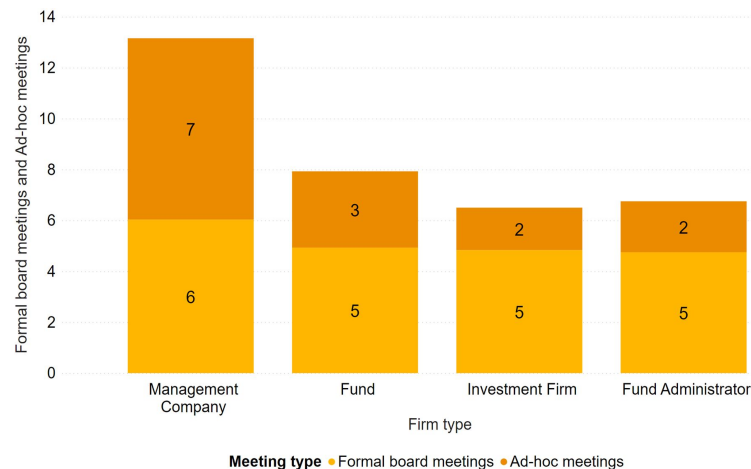
## Board meetings

In general board meetings take place multiple times throughout the year, and the frequency of these meetings varies between companies, primarily influenced by the number of ad-hoc meetings. The boards surveyed in 2018 reported an average of eight board meetings per annum.<sup>(1)</sup> This has increased to an average of approximately 11\* board meetings per annum (between both formal and ad-hoc meetings). This is higher than the seven board meetings per annum reported in the PwC Luxembourg survey.<sup>(3)</sup>

There is significant variance between the number of ad-hoc board meetings being held by firms. FMCs have the most ad-hoc meetings at an average of 7 per year, with fund boards having 3 ad-hoc meetings per year. It is expected that a FMC would have a large number of ad-hoc board meetings due to their wider service offerings, additional regulatory responsibilities and a greater number of sub-fund/product launches which demands boards to constantly discuss these matters. One of the main reasons FMCs tended to have an ad-hoc meeting was to discuss the launch of a new product/sub-fund (77%), followed by discussions on material breaches/errors/compliance issues (27%).

\* Average number has been influenced by the larger proportion of FMCs within our sample population

Annual number of board meetings



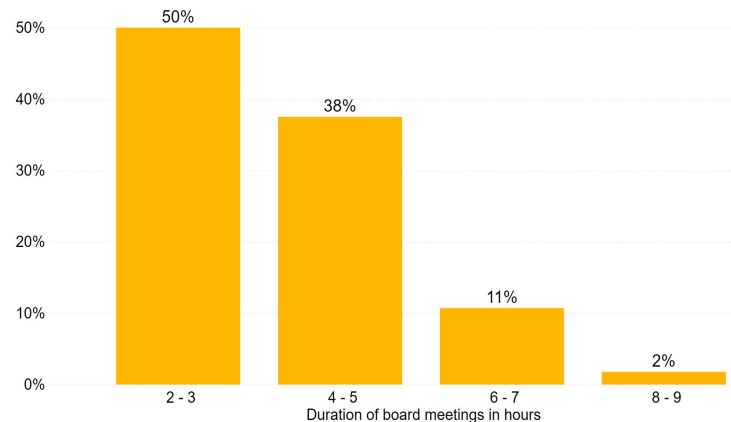
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## Board meeting duration

Boards have to dedicate a significant amount of time to the role, in both preparing for and attending board meetings. Board meeting duration ranges from two to nine hours. The average length of board meetings is 4 hours which has not changed since 2018<sup>(1)</sup> and is also similar to the PwC Luxembourg survey with an average board meeting duration of 3.5 hours.<sup>(4)</sup>



Average duration of board meeting in hours



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## Board meeting attendance

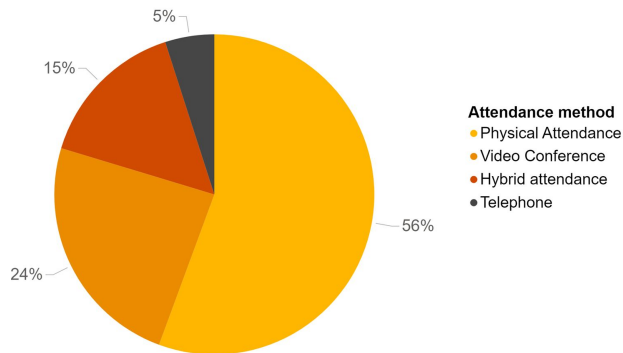
Since the COVID-19 pandemic there has been a significant shift in the way people work. Working from home is now the norm for a large cohort of the working population. While 56% of respondents are physically attending board meetings, having some attending virtually can certainly change the dynamic of the meeting. Other methods for attending board meetings is 5% by telephone, 24% by video, and 15% in hybrid attendance.

On average physical attendance of directors at board meetings has dropped significantly from 84% in 2018<sup>(1)</sup> to 56%. There can be pros and cons to this shift towards online meeting attendance, and there are many mixed opinions that are for and against it.

The attendance method at board meetings varies across different firms, depending on what senior management believe is most beneficial for the firm. While the majority of firms give the option to join meetings virtually or physically since the global pandemic, there are also many firms which have fully returned to full physical attendance.

While virtual attendance has naturally increased since 2020, there is still a majority of directors attending in person. There are certain directors that advocate physical attendance over virtual attendance as it can be easier to participate in discussions, and enables a face to face challenge of key issues with other physical attendees, e.g. designated persons. This is a fundamental requirement of a board director, and it is crucial that board directors adequately challenges non-board member presenters at board meetings.

**Board meeting attendance method**



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## Board packs

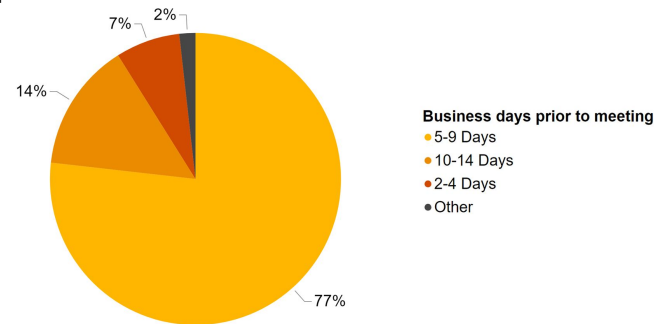
Board packs play a key role in preparing board members for board meetings. Therefore, careful consideration should be given to when board members receive these packs. It is important that are allowed adequate time to analyse them in detail, so they can engage in a comprehensive discussion on the contents of the pack.

Our results indicate that 91% of boards receive their packs between 5 and 14 days prior to the board meeting. This would be considered a reasonable amount of time to allow to board members to review the contents of the packs. However, in considering when the packs are to be distributed the size of the pack should also be considered. Board pack size does play a role in relation to the provision of board papers. The survey results showed that when a pack had more than 900 pages, 88% of these respondents received the pack between 5 and 14 days before the board meeting. Thus giving respondents sufficient time to review these large board packs prior to the board meeting. Many firms come across problems where their board packs are too long with individual papers not having an executive summary.<sup>(16)</sup>

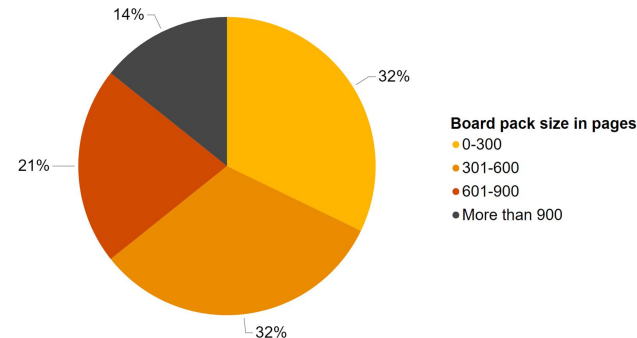
Board packs have increased in volume since 2018. While <300 page size board packs are the most popular (32%), 14% of board packs have more than 900 pages. This is a significant increase from the 2018 survey which did not account for any board packs greater than 900 pages and the most common average size board packs were between 301-600 pages.<sup>(1)</sup>

In order to ensure the concept of quality over quantity is not overlooked, boards should look to review the efficiency and effectiveness of the board pack. Most respondents review the board packs either annually (70%) or quarterly (16%), however it was interesting to note that 11% of respondents only review the efficiency and effectiveness of the board agenda and board pack once every three years. The remaining 3% of boards have not reviewed their board packs.

### How long prior to the board meetings are the board papers provided?



### Average board pack size



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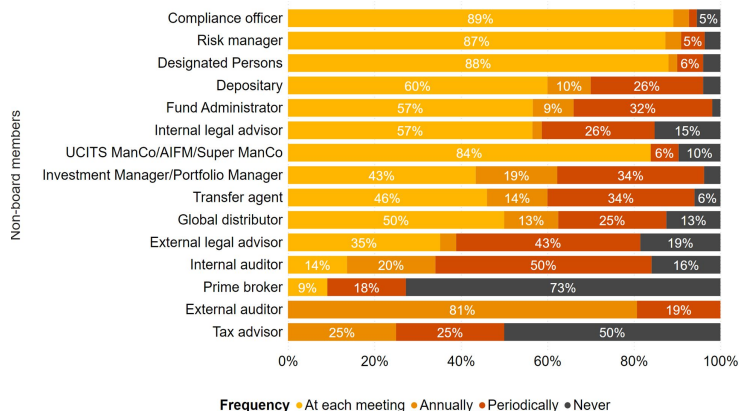
## Attendance by non-board members


Often, non-board members may be invited to board meetings when their expertise is required for specific matters. Boards can benefit hugely from this as it adds diverse perspectives at these meetings. Attendance of non-board members at board meetings contributes valuable insights that might otherwise go unaddressed.

Our survey shows that the compliance officer has the highest attendance record at board meetings attending each meeting for most firms. This is consistent with our survey findings from 2018 where 89% of firms said the compliance officer is at every board meeting<sup>(1)</sup> and with the PwC Luxembourg survey where compliance officers were at every meeting for the large majority of firms<sup>(3)</sup>. Risk managers and designated persons also attend at a notably high rate (87% and 88% respectively). The frequency of attendance by these roles highlights how crucial these functions are to effective corporate governance, and the importance of experienced professionals in these positions.

Attendance of fund administrators has decreased by a significant amount since 2018 from 81%<sup>(1)</sup> to 58%. Similarly, the attendance of tax advisors has also dropped significantly. The large majority of external auditors (81%), attend annually, whereas in 2018 only 29% attended annually.<sup>(1)</sup>

### How often are non-board members invited to board meetings?



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## Board meeting topics

When looking at the frequency for which topics are discussed at board meetings it is important to remember that the importance of certain topics requires a greater level of active oversight. It is no surprise that the most commonly discussed reports (compliance and risk management) correspond with the most frequent non-board members attendees on the previous page (compliance officer and risk manager).

For the majority of topics, boards are generally discussing them on a quarterly basis. Topics such as the compliance, risk management, liquidity management and regulatory & legal updates, are all integral to the efficient functioning of a firm operating in the funds industry. It is clear from the findings that boards should regularly discuss updates on these matters at meetings.

Some topics may not demand the same level of attention, or maybe due to their nature it would not be feasible to discuss the topic on a regular basis. These topics may include the external audit findings, board effectiveness or Business Continuity Plans ("BCP") which are more likely to be examined on an annual or ad-hoc basis, as there may not be enough material for boards to discuss on such a frequent basis.

## How often the following topics are discussed at board meetings

Topic	Never	Ad-hoc	Quarterly	Annually
Compliance report	0%	0%	100%	0%
Risk management report	0%	0%	98%	2%
Liquidity management	0%	4%	96%	0%
Regulatory & legal updates	0%	2%	96%	2%
Reports from Designated Persons	0%	4%	96%	0%
MLRO	0%	2%	95%	3%
Distribution report	0%	8%	90%	2%
Admin Reports	4%	4%	87%	6%
Investment manager report	0%	6%	87%	7%
Investment restriction breaches report	0%	12%	87%	1%
Depository/custodian report	2%	6%	86%	6%
Conflicts of interest	0%	9%	84%	7%
Regulatory correspondence	0%	16%	82%	2%
Investor compliant report	0%	19%	80%	1%
Cyber security	0%	7%	77%	16%
Budget and other fund cost (TER)	0%	7%	58%	35%
Internal audit report	2%	27%	51%	20%
Emerging trends	0%	46%	44%	10%
Shareholder relations	9%	40%	37%	14%
Company strategy	4%	26%	32%	38%
Accounting Updates	0%	33%	29%	38%
New product approval	0%	71%	27%	2%
Tax updates	2%	65%	26%	7%
Business Continuity Policy	0%	18%	22%	60%
Prospectus update	0%	74%	18%	8%
Board Effectiveness	2%	9%	14%	75%
External audit findings	0%	11%	11%	78%
Board Compensation	16%	31%	2%	51%



4

## Board committees

# 4 Board committees

## Board committees

The most popular formal board committees formed across all firms are the risk committee and the audit committee.

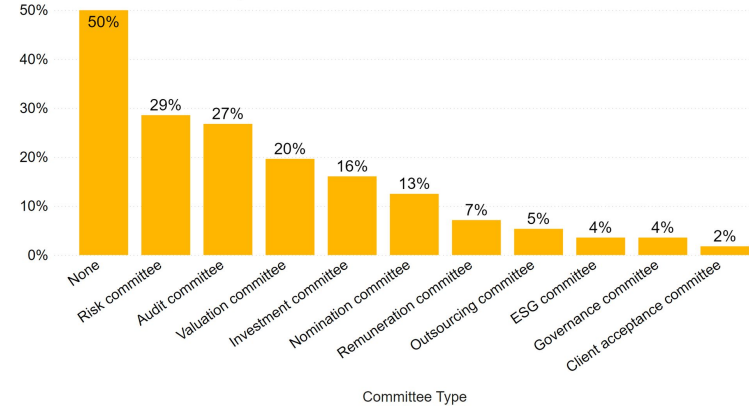
From our subset of boards that employed executive-level committees, we discovered that the valuation committee was most commonly established, with investment committees and ESG committees being the next in line in terms of popularity.

The establishment of committees can make a significant difference to firms expertise in certain areas. For instance, if boards recognise a knowledge deficit in technical areas like Artificial Intelligence (“AI”), ESG, or cyber/digital, establishing new committees can address these gaps by allowing the board access to individuals with these particular skills. When experts from within the business join committees this gives the board a more insightful understanding of the culture within the firm and the risk appetite and tolerances.

It is interesting to note that 50% of respondents stated that they have not established any committees in 2023 compared to 35% in 2018.<sup>(1)</sup> The majority of these respondents were funds and fund administrators. The PwC Luxembourg survey coincides with our results where 25% of AIFM boards and 32% of Super ManCo boards had no formal committees in place.<sup>(4)</sup> It is surprising to see that 34% of FMCs have no committees in place in this year’s survey.

The establishment of ESG committees has been relatively low in both Ireland and Luxembourg. From our graph one can see that only 4% of firms have established a formal ESG committee. This however will likely change due to the increasing amount of ESG related regulation in the EU and its complexity. To oversee compliance with these EU requirements it is possible that firms will begin to create ESG committees. This is discussed in more detail in section 9 of this report.

## Formal committees respondents have established



## Executive level committees

Committee type	Percentage of respondents who have the committee
Valuation committee	62%
Investment committee	53%
ESG committee	38%
Client acceptance committee	21%

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## Committee members

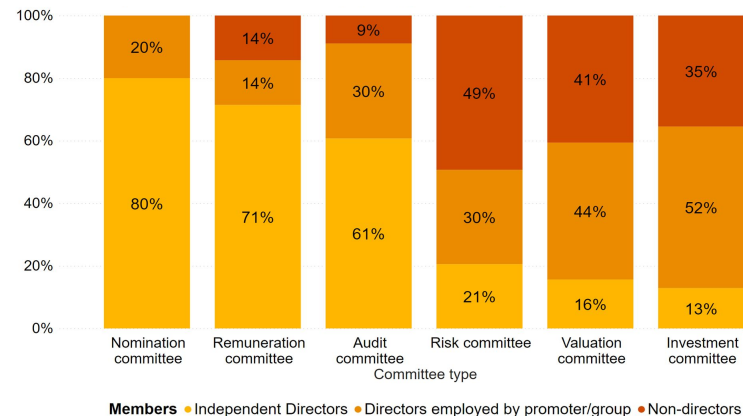
Different committees are made up of various members including INEDs (PCF-2B), executive directors (PCF-1) employed by promoter/parent company, and non-directors. The audit committee is mainly composed of INEDs (PCF-2B). This type of committee is crucial to the effective functioning of the firm and an independent oversight of their respective areas will help protect investor interests. The risk committee is mainly composed of non-directors. The composition of these committees are meeting the requirements of the Corporate Code of Governance (“CCG”) which looks for these director to play a leading role in these committee types.<sup>(17)</sup> Frequent reviews of these committees’ composition should also take place, which the survey found is occurring through either annual or ad-hoc reviews.

Since 2018, there have been few changes to the composition of board committees in general with the exception of investment and valuation committees. Investment committees on average tend to have fewer INEDs in 2023 compared to 2018 (32%). Valuation committees now have 16% INEDs (PCF-2B) as opposed to 4% in 2018, there is also a greater number of directors employed by the promoter/group (44%) in comparison to 2018 (35%).<sup>(1)</sup>

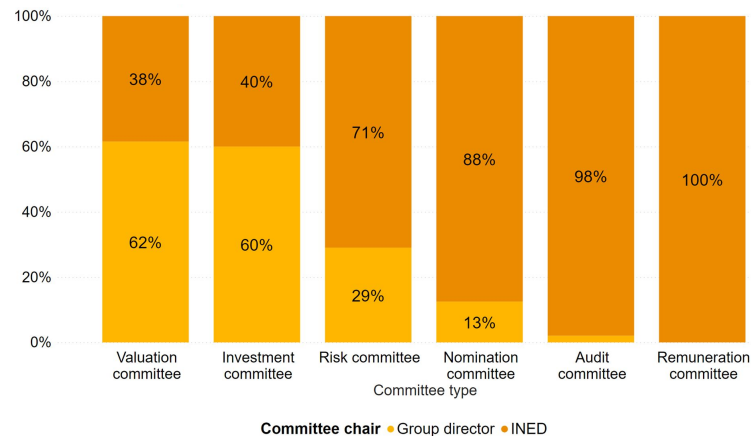
## Committee chair

The individual occupying the role of chair of a committee varies based on the committee type. This is mainly due to the fact that having a more independent chair may increase the effectiveness of the committee depending on what it oversees. For example, 60% of investment committees are chaired by group directors as opposed to 98% of audit committees having an INED (PCF-2B) as their chair.

## Committee members



## Who is the committee chair?



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## Committee membership reviewal

All committees have different needs and demand a certain level of commitment. However, what is crucial for the effective functioning of a committee are the members involved. The board must ensure that they review membership in order to satisfy themselves with the expertise and experience of the committee.

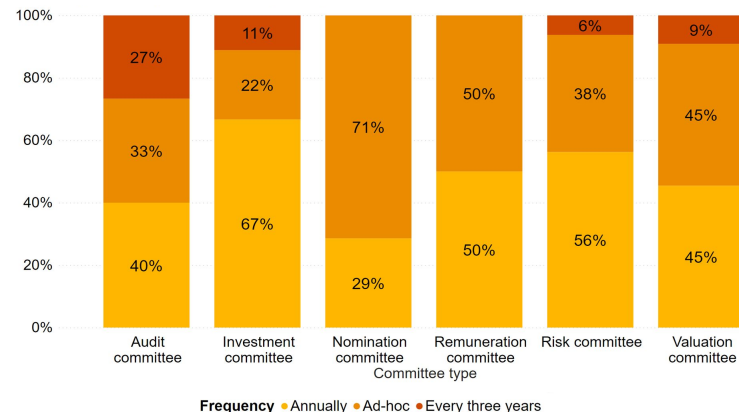
In general, committees will review their membership either annually or on an ad-hoc basis. While membership reviewal is advised by the CBI, there is no frequency requirement set out by them. "A Firm shall ensure that committee membership is reviewed by the Firm and subject to renewal by the Firm with an appropriate frequency. The renewal frequency shall consider the balance of experience and independence required".<sup>(17)</sup>

## Committee meeting frequency

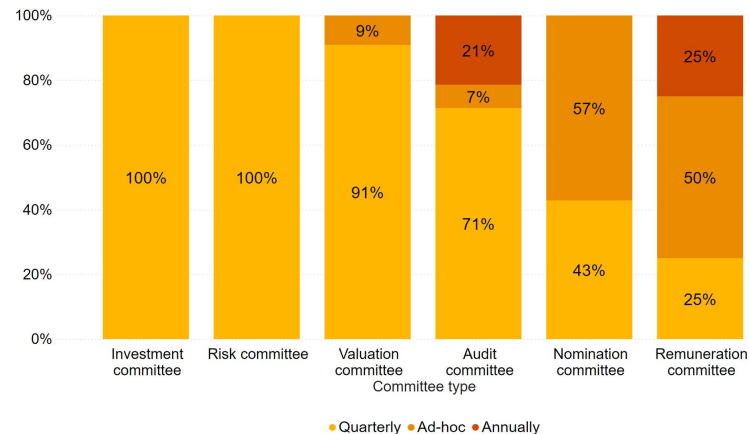
Certain committees demand more day-to-day operations such as investment and valuation committees which we can see are meeting most often as opposed to other committees. The majority of committee types tend to meet on a quarterly basis. This adds structure to committees schedules while also allowing sufficient time for new updates at each quarter of the financial year.

Committees that are meeting on a quarterly basis include the investment committee and the risk committee. Roughly half of nomination and remuneration committees meet on an ad-hoc basis which can be at any point throughout the year. 21% of those that had audit committees stated that they would meet annually. The responses stating annually, are likely meeting on an annual basis to discuss the auditor's report for the year.

## How often is committee membership reviewed?



## Committee meeting frequency





# 5

## Roles and responsibilities of the board

# 5 Roles and responsibilities of the board

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## Board effectiveness

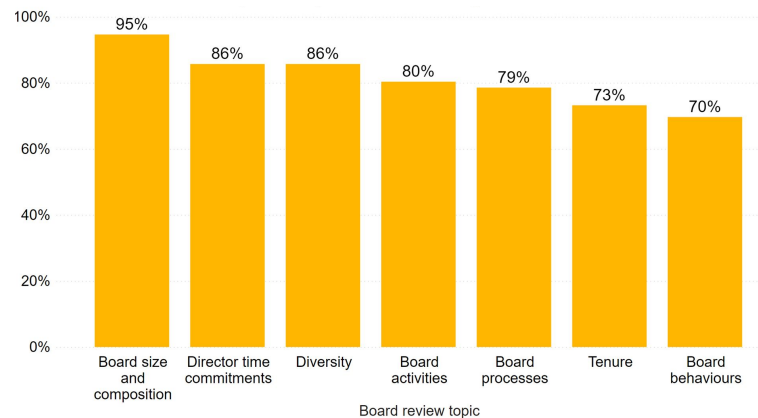
Irish Funds published “A Guide for Investment Fund and ManCo Boards”<sup>(11)</sup> board evaluation paper earlier this year where they outline current practices and a proposed board evaluation framework with the aim of creating a standardised approach in the Irish funds industry to board evaluations.

Boards following the Corporate Governance Code (“CGC”) have informal board reviews on an annual basis with formal reviews occurring every 3 years.<sup>(18)</sup> Our survey found that 14% of boards are not satisfying the requirements of the CGC by conducting informal board reviews annually. Only 41% of firms are holding both an annual informal review and a formal review at least every three years.

93% of boards conduct their annual informal review by utilising an informal self-assessment discussion at the board meeting and/or using a written self assessment of its performance. For the formal reviews every three years, 83% of respondents used a formal/written self assessment to review their performance. Between the respondents who conducted an annual and/or a three year review, only 9% utilised an independent review. The board reviews conducted mostly focus on board size and composition, board activities, director time commitments and diversity.

Following a board review, 44% of respondents stated that it was followed up on with an action plan. The action plans tend to cover board size and composition and board processes.

## Does the review encompass any of the following?



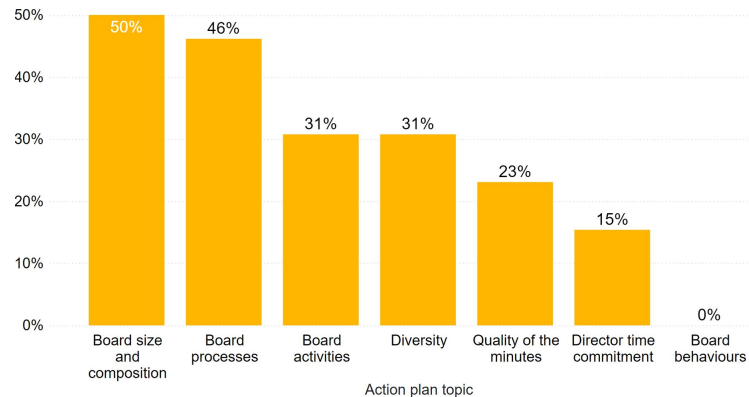
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## Board charter / Terms of reference

16% of respondents noted that their firm did not have a board charter / terms of reference. There has been an increased interest from firms in board charters since our last survey. The most common response for the review of the board charter was annually by 64% of respondents, compared to 2018 with a response rate of 31%.<sup>(1)</sup>



### As a result of the board evaluation what areas have an action plan been formulated for?



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## Organisational effectiveness role

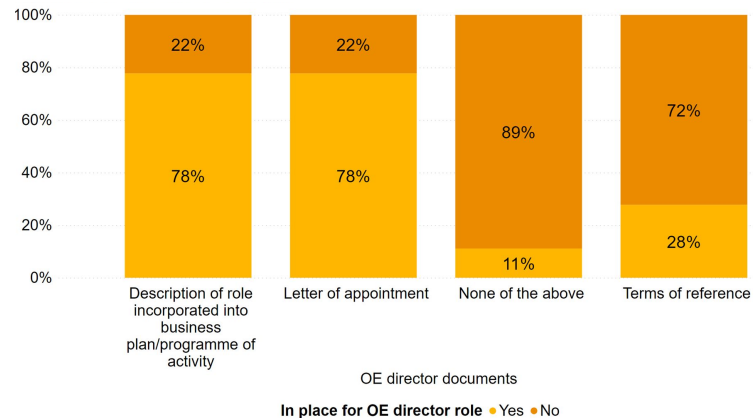
CP86 introduced the organisational effectiveness (OE) director role. “The purpose of this role is to oversee the adequacy of the internal resources within the authorised entity, the effectiveness of the board, the impact, if any of conflicts of interest on effectiveness and the effectiveness of the designation of the retained tasks as a mechanism of ensuring day-to-day control”.<sup>(19)</sup> Due to CP86 we have already seen changes being made in the organisational effectiveness role in firms.

78% of respondents have a letter of appointment for the OE director which is a significant change to 2018 where only 30%<sup>(1)</sup> had a letter of appointment in place. 78% of respondents incorporated a description of the OE director role into the business plan / programme of activity, which was an increase from 2018 where 44%<sup>(1)</sup> of respondents indicated that they have or will incorporate a description of this role into the business plan or programme of activity.

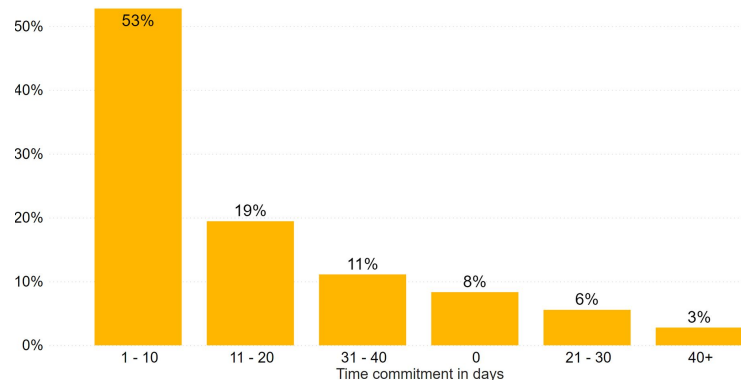
We surveyed the audience at our survey launch event on 5 October 2023<sup>(20)</sup> and asked if there was a value add to the board from having an OE director in place. The results showed that 53% of the room felt that the OE director role added value. A perception exists among certain industry participants that the roles and responsibilities of the OE director may intersect with those of the chair, leading to potential ambiguity regarding the division of responsibilities when the OE director is not the chairperson.

OE directors tend to verbally update the board, quarterly or at each board meeting (97%). In 2018, 85% provide a verbal update at each quarterly board meeting.<sup>(1)</sup>

## Have any of the following been put in place for the Organisational Effectiveness director?



## The average annual time commitment of the Organisational Effectiveness director in days



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## Board minutes

Providing directors with draft board minutes prior to the next board meeting is a valuable practice, as it enables them to get ready for board meetings and assess the accuracy of the minutes concerning each board member's input during the prior meeting. 55% of board minutes are circulated to directors within 4-8 weeks prior to the following board meeting whereas 21% circulate the minutes within 2-4 weeks.

14% of respondents circulate the draft board minutes back to the board members at their next meeting. In cases where boards convene more frequently, it might be challenging to send minutes in advance, but it remains important to ensure that each board member has ample time to review and provide feedback on the board minutes.

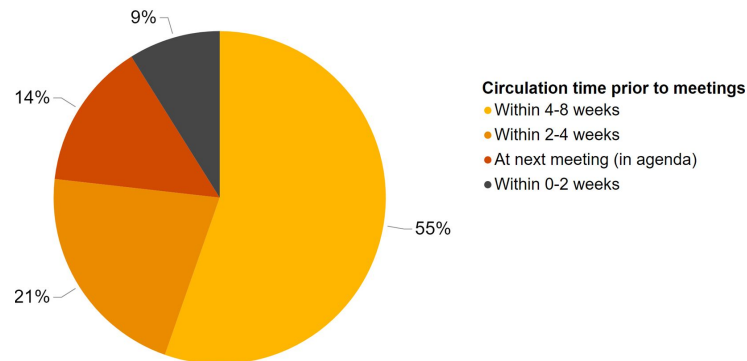
High-quality board minutes play a pivotal role in facilitating the effective and efficient operation of board meetings for several reasons. Our survey found that 89% of respondents stated that the quality of their board minutes are either very good or good.

In order to support board members in meeting their requirements under the IAF, board members need documentation of their decisions, and minutes will also hold board members accountable for their commitments and responsibilities.

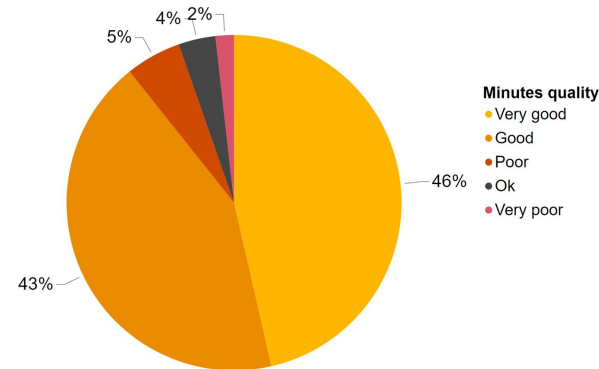
88% of boards do not anonymise their board minutes. High quality board minutes and the fact they are not anonymised may assist board members who are in scope of the IAF with information to demonstrate that they have taken reasonable measures when overseeing their respective firms.

Good quality board minutes will also assist firms in scope of Senior Executive Accountability Regime ("SEAR") to develop their Statement of Responsibilities and their Responsibility Maps. This is particularly important since responsibilities under the IAF are "a matter of substance, not form, and is not determined only by reference to the documents required under SEAR".<sup>(21)</sup>

### Circulation of draft board minutes to directors prior to the next board meeting



### Board meeting minutes quality



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## Board documents

Various forms of documentation are essential for board meetings to efficiently address the operations of the firm.

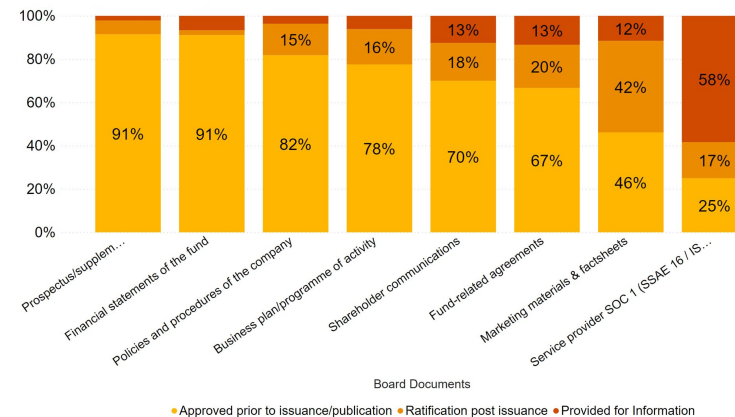
The majority of respondents confirmed that boards approve most documents prior to their issuance / publication. However, the situation differs when it pertains to marketing materials. In this context, 42% of respondents have affirmed the practice of post-issuance document ratification, and 58% have received service provider SOC 1 documents for informational purposes. PwC Luxembourg's survey results came to a similar conclusion.<sup>(4)</sup>

It is important that key documents such as the prospectus, financial statements, policies and procedures are reviewed by the board prior to issuance, due to the importance of these documents. Furthermore, the board are required to approve prior to issuance, the prospectus/supplements and financial statements.

Policies and procedures, shareholder documents and the approval approach will depend on the subject matter and the evolving nature of the document.

One outlier we are seeing is that fund-related agreements and marketing materials/fund factsheets are not being reviewed and approved by boards prior to issuance to a higher extent. The importance of these documents can be crucial to the operation of a fund therefore effective due diligence should be conducted.

### When does the board review and approve the following documents?



# 6

## Conflicts of interest and directors' legal liabilities

# 6 Conflicts of interest and directors' legal liabilities

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## Conflicts of interest

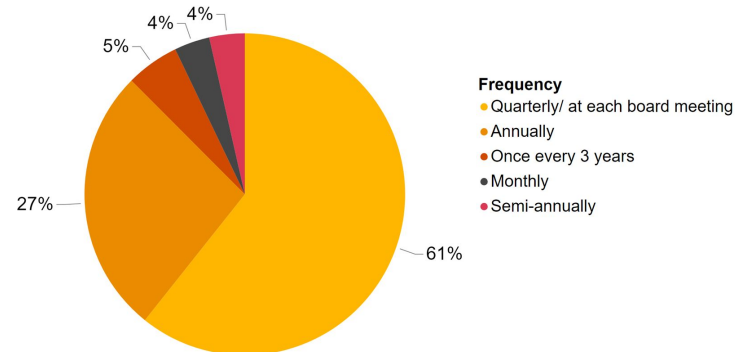
A key conduct risk highlighted for securities markets participants in the CBI's 2022 Securities Markets Risk Outlook Report<sup>(22)</sup> was conflicts of interest. More specifically, the importance for firms to establish, implement and maintain effective conflicts of interest policies and processes was set out.

Culture plays a significant role in how conflicts of interest are perceived, managed, and addressed within firms. The firm's culture sets the tone for what is considered acceptable behaviour, values, and norms. A strong ethical culture promotes transparency, accountability and trust, creating an environment where conflicts of interest are identified and addressed in a manner consistent with the firm's values and objectives.

92% of boards (down from 100% from our 2018 survey)<sup>(1)</sup> have a procedure in place to ensure all identified conflicts are recorded and monitored on an ongoing basis (i.e. conflicts of interest register). The conflicts of interest policy was reviewed in the last year by 88% of our respondents, in the last 2 years by 7%, in the last five years by 5%. The Corporate Governance Code for Collective Investment Schemes and Management Companies states "In considering director appointments, the Board shall assess and document its consideration of possible conflicts of interest. The Board shall also document its procedures for dealing with such conflicts and shall review compliance with those procedures at least annually".<sup>(23)</sup>

61% of our respondents confirmed that the board conducts a review to identify all potential conflicts of interest on a quarterly basis or at each board meeting. 27% conduct the review annually and 5% of respondents conduct a review once every 3 years.

How often does the board conduct a review to identify all potential conflicts of interest?



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From the results of our survey, 78% of directors of fund management companies also serve as directors of the funds managed by the management company. It's important to note the guidance from CP86 which states, "Individuals with multiple directorships should consider the conflicts which may arise when sitting on a number of boards and the corporate interconnectivity that is created. Conflicts which may occur between individuals with full-time positions in a service provider to the board should also be considered and the most appropriate action taken".<sup>(2)</sup>

Most recently, as part of its ongoing supervision of fund management companies, the CBI launched a thematic review of conflicts of interest policies and procedures and issued a questionnaire as the first phase of this review. The review focuses on:

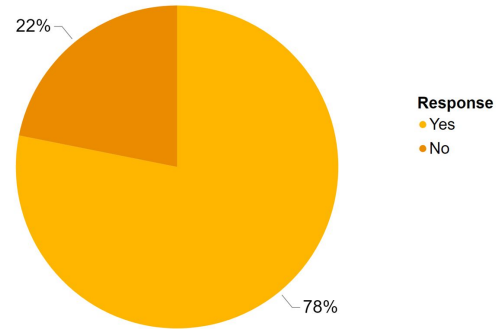
- whether the firm has a written conflicts of interest policy in place and, if so, how often it is reviewed and by whom;
- whether the firm maintains a conflicts of interest register;
- whether conflicts are discussed at board meetings; and
- whether / how often the board and employees receive conflicts of interest training.

To support the responses, the CBI also asked to receive copies of the following:

- the conflicts of interest policy;
- the conflicts register;
- board minutes for the last year;
- recent conflicts training materials and attendance records; and
- any internal audit or external audit reports referencing conflicts of interest matters.

In order to avoid any breaches of conflicts of interest, firms should be proactive in reviewing their conflicts of interests policies and procedures.

### Do directors of the ManCo also serve as directors of a fund managed by the ManCo?



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## Legal liability

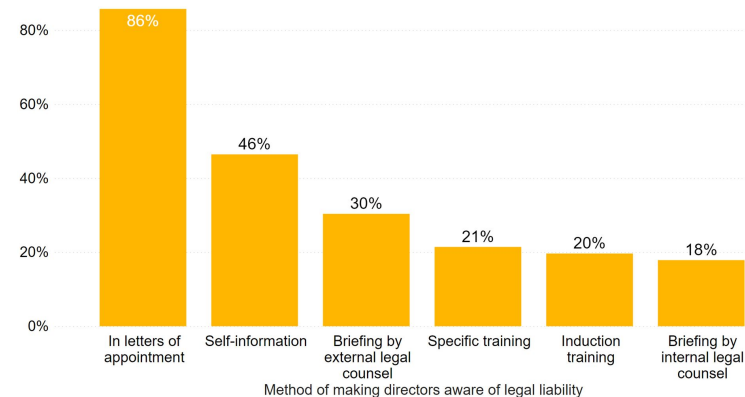
The Corporate Governance Code for Collective Investment Schemes and Management Companies states that a “Director should be aware of the obligations and the duties of a director of a company under the Companies Acts and be aware of his/her responsibilities arising from legislation, regulations, codes of practice, guidance notes, guidelines and any other rules or directives, which are of relevance to the proposed position”.<sup>(23)</sup>

Our results found that many firms are opting to use a combination of approaches to make directors aware of their legal liabilities. The majority of boards (86%) are made aware of their legal liabilities through letters of appointment. Self information was the second most popular approach at 46% of respondents.

There has been a significant decrease in the use of both internal and external legal counsel to make directors aware of their legal liabilities since our 2018 survey. Briefings from internal legal counsel stood at 48% in 2018<sup>(1)</sup>, now 18%. Briefings from external legal counsel was 72% in 2018<sup>(1)</sup> and is now 30%. It appears that there has been a shift in reliance on internal and external legal advisors. As discussed earlier in the report, both are being invited to board meetings on a less frequent basis since 2018.

The provision of board training on this topic, both specific and as part of induction training, has also decreased since 2018. Board training plays a significant role in ensuring board members are aware of their legal liabilities. Under the IAF there is “a statutory obligation to provide training to individuals in CF roles on the Common Conduct Standards and to Individuals in PCF/CF1 roles on the Additional Conduct Standards to ensure that they have appropriate knowledge of them and how they apply to an individual performing that function”.<sup>(21)</sup>

**Methods by which directors are made aware of their legal liabilities**



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## Mitigating legal liabilities

The majority of directors legal liabilities are mitigated by either insurance or indemnity provided by either the fund/FMC or promoter/parent group. There was a small portion of respondents that had not taken any action at all to mitigate their legal liabilities. Failure to mitigate these liabilities could have a significant negative impact on such board members.

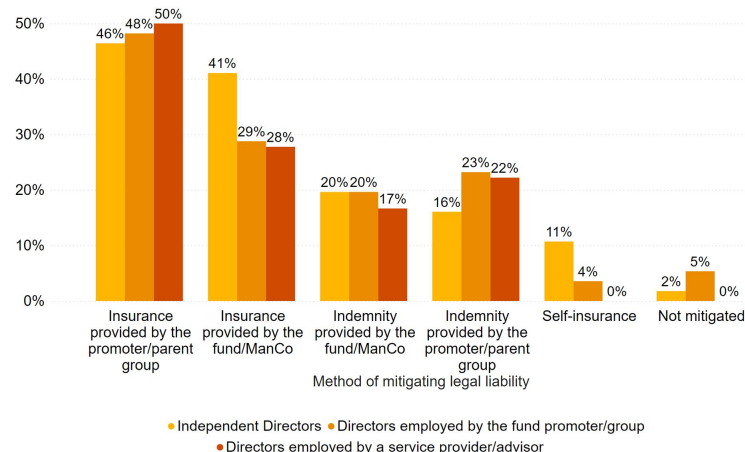
Our survey found that many board members opted to adopt a combination of different techniques to mitigate their liabilities, thus providing a more comprehensive level of protection to any liabilities they may face. Similar to 2018, insurance provided by the promoter/parent group is the most popular way of mitigating legal liabilities by all director types.

Additionally more INEDs (PCF-2B) are opting to use self-insurance in 2023 (11%) in comparison to 2018 (2%).

In order to ensure that INEDs have an adequate level of Directors and Officers (“D&O”) insurance coverage in place we recommend that INEDs (PCF-2B) should:

- Check D&O policies to understand coverage and definitions;
- Review indemnities, financial thresholds, and limits in D&O policies;
- Understand policy exclusions for better decision-making in case of claims;
- Update employment contracts to include personal indemnities for conduct breaches, aligning them with D&O coverage;
- Address any coverage gaps between Professional Indemnity (“PI”) and D&O policies, especially for investigations involving professional services.

### How are directors’ legal liabilities mitigated?



7

# Delegate oversight

# 7 Delegate oversight

## Delegate oversight Investment management

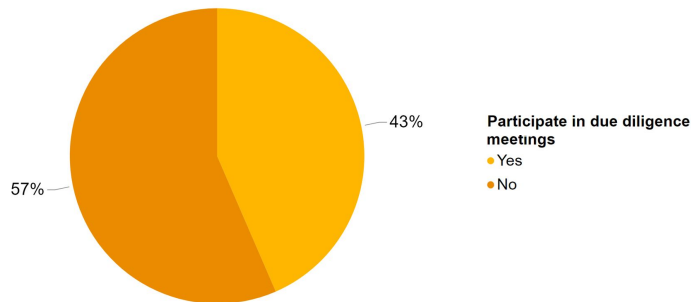
According to CP 86, "The board should receive and be satisfied with comprehensive annual presentations from the investment manager detailing developments affecting the manager itself, the investment process and strategy, the investment team, progress and performance (including strategy for responding to any underperformance) and any proposed development of the investment approach. Changes to the investment approach at any time should be subject to approval by the board".<sup>(2)</sup>

The investment manager plays an important role in ensuring that investors can receive the greatest return on their investment in consideration of their risk preferences. It is therefore important that an appropriate due diligence process is carried out on the investment manager of the fund. This ensures that the investment manager is both competent and capable of carrying out its responsibilities in relation to the operation of the fund. Our survey results found that 43% of respondent directors participate in due diligence meetings with the investment manager. However, 81% of respondents are receiving regular reporting from the investment manager. This is less than in 2018 where 97% said they received regular reporting from the investment manager<sup>(1)</sup>, but slightly higher than 77% of the PwC Luxembourg survey respondents.<sup>(4)</sup>

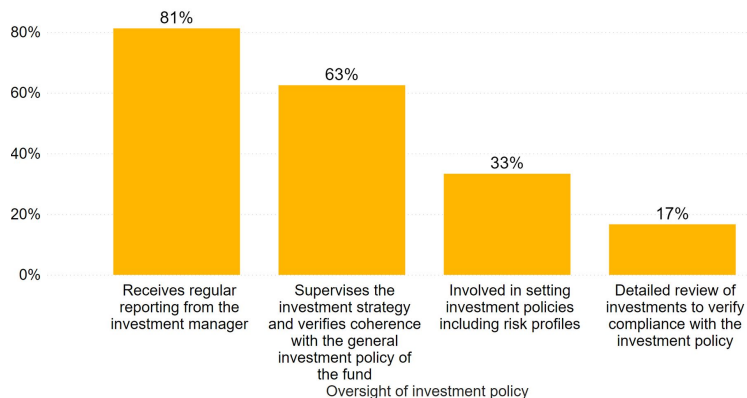
93% of boards are holding board meetings prior to the issue of the prospectus and launch of a fund/sub-fund.

Supervising the investment strategy and verifying coherence with the investment policy has declined in responses since 2018 from 72%<sup>(1)</sup> to 63%. It is interesting to note that only 17% of respondents receive a detailed review of investments to verify compliance with the investment policy.

## Do directors participate in due diligence meetings with the investment manager?



## How does the board exercise its responsibilities when it comes to the investment policy of each fund?



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## Delegate oversight

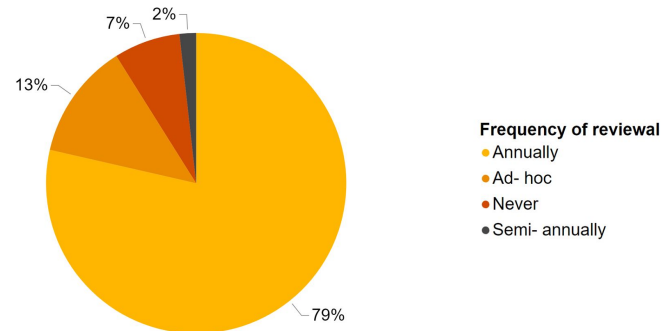
### Risk management

Risk management continues to be a key focus area of the CBI. Risk management is essential for firms to protect client investments, ensure compliance with regulations, and maintain trust, ultimately contributing to long-term success and sustainability especially in the current uncertain macroeconomic environment.

It is positive to see that 96% of boards are receiving risk reports as frequently as quarterly or at each meeting. This is consistent with our 2018 results. The timely receipt of these reports will assist boards to take the appropriate action to mitigate any risk identified before it can become a serious issue. However, the report can only be as effective as the underlying risk management policies and procedures.

From our survey, the effectiveness of the risk management policies and procedures are assessed on an annual basis by 79% of our respondents. This is broadly in line with the PwC Luxembourg survey with 87% reviewing the effectiveness of risk management processes.<sup>(4)</sup> We note there are a number of respondents who have indicated that they have never conducted a board review of the effectiveness of its risk assessment and risk management policies / procedures.

**How often does the board review the effectiveness of its risk assessment and risk management policies / procedures?**



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As a reminder, CP 86 states that:

“The board should adopt a risk management framework which:

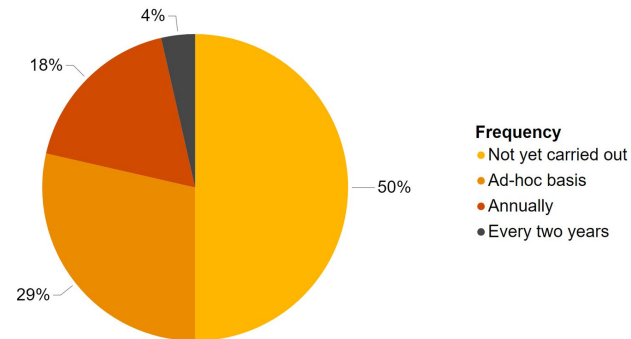
- identifies the applicable risks;
- confirms the risk appetite;
- identifies any appropriate risk mitigants; and
- incorporates appropriate policies for the measurement, management and monitoring of risk, including the implementation as appropriate of any risk mitigants”.

and

“The board should keep the risk management framework, and its constituent elements, under periodic review”.<sup>(2)</sup>

Independent reviews of risk management functions play a vital role in providing an objective assessment of a firm's risk management practices, helping to identify areas for improvement, validate effectiveness, and enhance overall confidence in a firm's ability to manage risks effectively. We note from our survey that 50% of firms have carried out an independent review of their risk management functions.

### How often does the organisation obtain an independent review of the effectiveness of the risk management function?



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## Risk management policies and procedures

88% of our survey sample have a risk management framework in place and 91% have implemented a risk management policy. Both statistics are broadly in line with our 2018 survey. 86% have a risk appetite statement which is up from 69% from 2018.<sup>(1)</sup> 77% have a risk incident log.

As part of the thematic review of fund management companies' governance, management and effectiveness (2020) the CBI noted that "Deficiencies were identified in the risk management framework and components thereof for a significant number of FMCs. Many firms did not have in place an entity specific framework, an entity specific risk register and/or defined risk appetite. In many cases, this was a result of over reliance on group frameworks".<sup>(7)</sup>

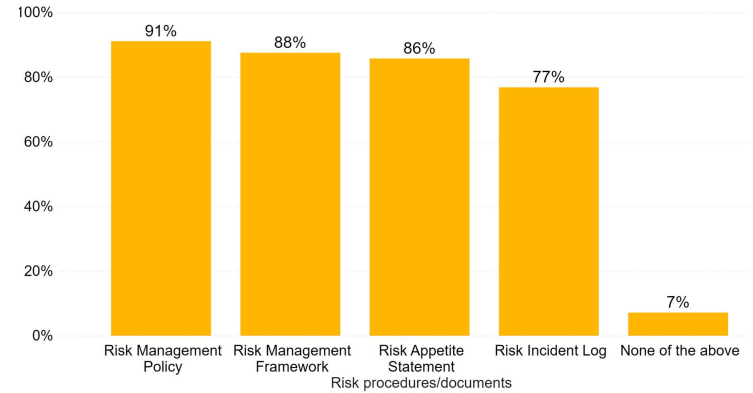
All fund management companies are required to have a robust entity specific risk management framework which should include a risk register and risk appetite statement. This should be approved and reviewed regularly but not less than annually.

## Risk reporting

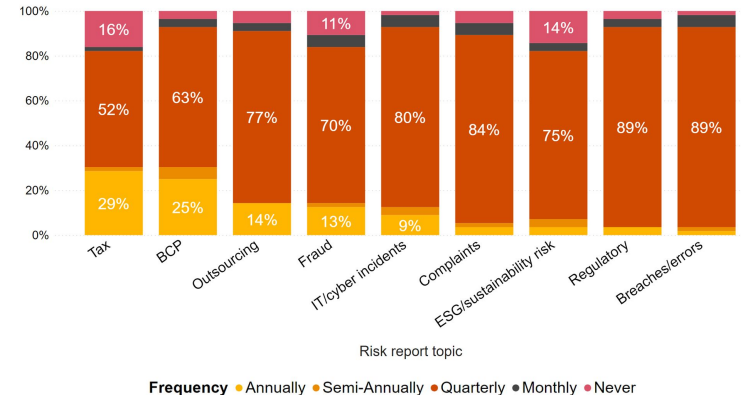
The frequency of reporting is key for certain topics due to the consistent change the AWM environment faces. Our survey results have shown that for the most part firms will report on most topics on a quarterly basis, however exceptions do exist.


A firm's culture significantly influences the effectiveness of its risk management framework. A culture that emphasises transparency, accountability, ethical behavior, and a proactive approach to risk can enhance the overall resilience of the firm to potential threats and uncertainties.

## Does the board have the following procedures / documents in place with regard to risk management?



## How does the board exercise its responsibilities when it comes to the investment policy of each fund?



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## Business continuity plan

Business continuity planning and operational resilience share the goal of ensuring a firm can function effectively, even in adverse conditions. BCP focuses on preparing for and responding to disruptions, while operational resilience extends to long-term adaptability and thriving in the face of ongoing challenges.

As part of the risk management process the BCP plan should also be considered. The CBI (as part of the CP140 guidance on Operational Resilience) expects that the BCP “should be tested through severe but plausible scenarios and include any third party interdependencies or interconnections. To respond effectively to a disruption an integrated BCP should incorporate invocation processes, impact analyses, recovery strategies, training programmes and crisis management programmes to guide the management of a disruption and limit the impact”.<sup>(24)</sup> Our results show that 75% of firms test the BCP annually, while 14% test quarterly.

It does seem to be the case however, that some firms are not meeting the expectations of the CBI as some respondents (2%) have never tested their BCP plans, while 5% did not have one in place.

The Digital Operational Resilience Act (“DORA”) complements the efforts of BCP and operational resilience by specifically addressing cybersecurity within the financial sector. It mandates strict measures and reporting requirements to enhance the sector’s ability to withstand and recover from cyber threats, aligning with the broader goals of BCP and operational resilience. Together, these elements form a comprehensive strategy for safeguarding critical operations. Cybersecurity was identified as a top priority area for 39% of respondents over the next 12-24 months in our survey.





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# Designated person support

# 8 Designated person support

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## Employment status of designated persons

When looking at the survey results on employment status of the designated persons, a full-time employee of the AIFM/ManCo was the most popular employment status across all DP roles reaching up to 92% in investment management. This would be expected as the DP roles were developed to oversee the functions of FMCs.<sup>(2)</sup> Therefore, full time employees of management companies are more likely to have greater oversight of the day-to-day operations which leads to them carrying out their role in a more effective manner.

Part-time secondee from third party service providers was the second most popular option. Legacy self-managed investment companies (“SMICs”) still prefer to utilise the secondee model as this can be a cost effective approach when compared to establishing a proprietary FMC.



Employment status of designated persons	Investment Management	Fund Risk Management	Operational Risk Management	Regulatory Compliance	Capital & Financial Management	Distribution
Full time employee of the AIFM/ManCo	92%	83%	86%	86%	86%	75%
Part time employee of the AIFM/ManCo	0%	3%	0%	3%	3%	6%
Part time secondee from the promoter/group company	3%	3%	3%	0%	0%	13%
Part time secondee from a third party service provider	6%	11%	11%	11%	11%	19%

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## Annual time commitment

The annual time commitment for individuals in DP roles should be clearly defined in their appointment letter, ensuring they have an adequate allocation of time to effectively and proficiently fulfill their responsibilities. An annual time commitment of 201-260 days is the most common choice for DP roles, with on average 62% of all DPs giving this option. This aligns with the fact that the majority of DPs are also full-time employees of the AIFM/UCITS management company.

6% of distribution DPs dedicated fewer than 20 days. In contrast, back in 2018, 64% of DPs in Ireland allocated up to 20 days<sup>(1)</sup>, indicating a notable rise in the overall time commitment of DPs. This recent increase in time commitment is a positive trend as it shows DP's are allocation more time to their roles. 57% of respondents acknowledged that time there was a vast improvement in board reporting and support from management companies.<sup>(20)</sup> Time commitment from DPs was highlighted in the 2020 "Dear Chair Letter" from the CBI indicating that "Designated Persons did not commit sufficient time to their role and/or have sufficient support available to enable them to discharge their responsibilities appropriately".<sup>(7)</sup>

Annual time commitment of designated persons	Investment Management	Fund Risk Management	Operational Risk Management	Regulatory Compliance	Capital & Financial Management	Distribution
<20 days	0%	0%	0%	0%	0%	6%
21-50 days	6%	6%	6%	6%	8%	6%
51-100 days	19%	8%	14%	14%	22%	28%
101-200 days	14%	19%	19%	17%	6%	11%
201-260 days	61%	67%	61%	64%	64%	50%

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## DP delegate reporting

The findings from our survey suggests that open dialogue is occurring amongst staff in DP functions through the increased frequency of delegate reporting.

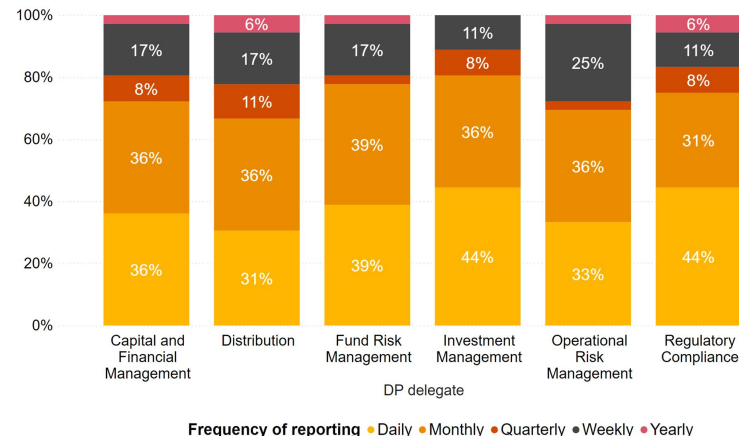
As the FMC market matures and adapts to evolving regulatory requirements, along with the implementation of automated solutions for daily reporting, there has been an increase in reporting from delegates on a daily basis. Most DP functions had similar trends with daily or monthly being the most popular responses as oppose to yearly being the least popular at 4%.


Our 2018 survey results found that DPs were mostly interacting on a monthly basis (43%), we have found that DPs are interacting with their delegates on a more frequent basis. However, monthly was the second most popular response in the 2023 survey (38%).

Weekly reporting accounted for 29% of respondents in 2018<sup>(1)</sup> and this has decreased to 16% in 2023. The frequency of daily reporting has seen a substantial rise, with 44% of our survey participants indicating that both the investment management and regulatory compliance functions now receive daily reports.

“There is a growing consensus amongst the industry that there is a danger of the delegate report becoming a light version of the DP report”.<sup>(25)</sup> There is a clear benefit to having DPs at board meetings which enables face to face challenge and discussion of key issues particularly in situations where boards may feel DPs have not asked the correct questions of the delegates.

### How often do the designated persons meet / correspond with the delegates?



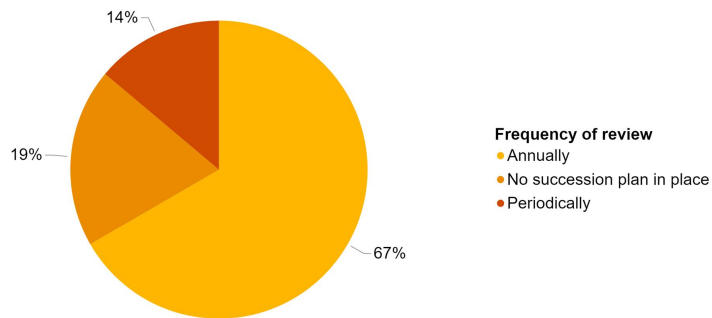
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## Succession plan

The quality of succession plans is crucial to firms as they need to set out the skills, experience, and competence that are required to fulfil a certain role, and in this case the designated person role. The majority of firms, constituting 67% of all survey respondents, conduct an annual review of their succession plans for designated persons.

It is interesting to note that there are still 19% of respondents with no succession plan in place should they need to replace a DP. The Thematic Inspections of Compliance by Regulated Financial Service Providers with their Obligations under the Fitness and Probity Regime from November 2020 states "It was also notable that in a number of cases there was no evidence of Board approval, discussion or challenge of proposed PCF appointments".<sup>(15)</sup> Clear policies on PCF appointment are an integral part of any DP succession plan.

How often is the succession plan for designated persons reviewed?



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## Support staff

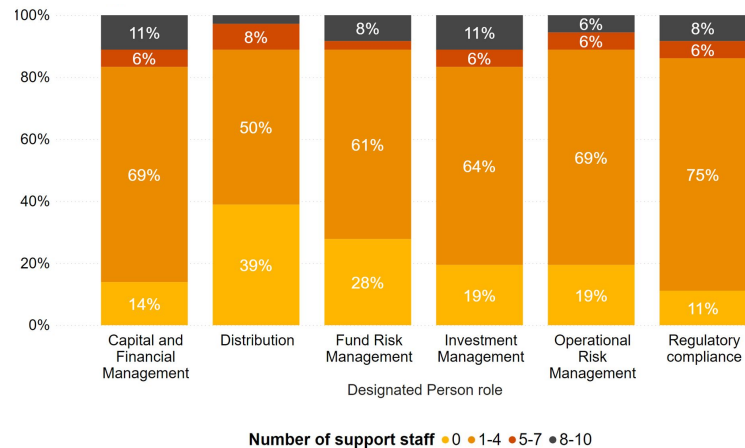
Support staff play a vital role in assisting DPs in managing their functions. Across all DP managerial functions, an average of 64% had between 1-4 support staff. 6% of DPs have between 5-7 support staff, while the amount of DPs with between 8-10 support staff is higher at 8%.

Our findings highlight that the larger and more complex Super ManCos have built out teams with significant resources.

The CBI base its substance requirements from the PRISM rating and the nature, scale and complexity of the organisation. “The Central Bank’s expectation is that the smallest FMCs should have a minimum of 3 FTE resources, each of whom should be suitably qualified and of appropriate seniority to fulfil the role”.<sup>(6)</sup> Firms should also take into consideration “How resources and operational capacity will need to increase to take account of any increase in the nature, scale and complexity of the funds under management and/or to deal with a market and/or operational crisis”.<sup>(6)</sup>

Two factors that will have influenced the scale, nature and complexity of FMCs were the setup of large proprietary FMCs post Brexit and M&A activity to create economies of scale at larger third party FMCs.

Number of support staff per Designated Person role



9

Latest trends




## 9 Latest trends

We inquired with participants whether they have assessed the ramifications of several recent and highly significant regulatory shifts that could potentially affect their business, both in terms of strategy and operations. The table provides insights into how boards have reviewed the implications of various trends across different dimensions: strategically, operationally, both strategically and operationally, and whether they have not considered them at all.

### How boards have reviewed the implications of the following trends

	Cross border fund distribution	Taxonomy regulation	SFDR	CBI operational resilience guidelines	Macroprudential policy	CBI outsourcing guidelines	SEAR
Strategically	29%	38%	38%	40%	23%	36%	43%
Operationally	23%	21%	23%	34%	18%	36%	21%
Strategically and operationally	21%	21%	32%	24%	4%	23%	9%
Have not considered	27%	20%	7%	2%	55%	5%	27%

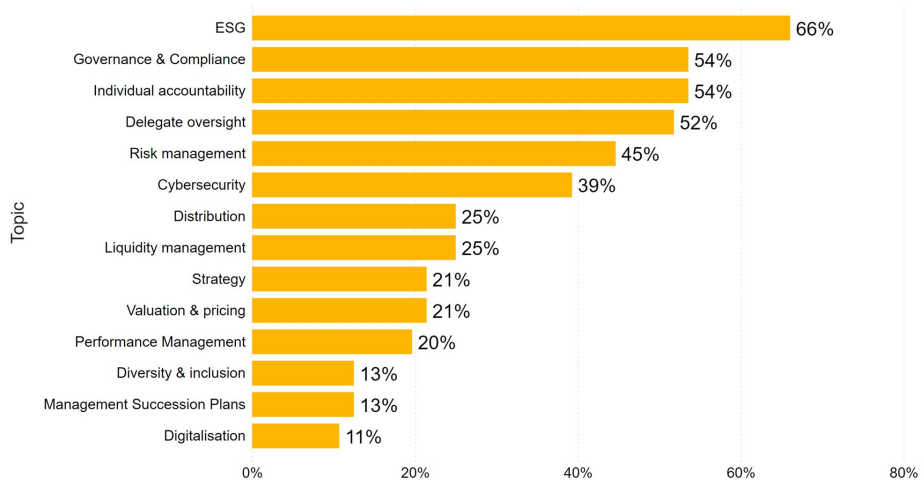
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Continuing along the same line of inquiry, participants were requested to prioritise the influence of various regulations on their firms.

Not surprisingly, ESG (66%), governance & compliance (54%) and individual accountability (54%) were identified as the top three priority areas.

### What are the top priority areas for firms in the coming 12-24 months



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## ESG

Boards believe that ESG is the predominant trend set to influence the Irish AWM industry in the coming 12-24 months. The growing regulatory requirements surrounding ESG such as the Sustainable Finance Disclosure Regulation (“SFDR”), the EU Taxonomy, the European Sustainability Reporting Standards (“ESRS”) and the Corporate Sustainability Reporting Directive (“CSRD”), will all have an impact, either directly or indirectly, on the AWM industry. Research is also showing that the increase in ESG becoming politicised has led to boards struggling to cope with it.<sup>(26)</sup> Additionally, investors must now be given the option of incorporating ESG / sustainability factors into their investment decisions, under the updated MiFID II suitability guidelines.<sup>(27)</sup>

Therefore, firms should be prepared and sufficiently skilled to navigate this new approach to investing. Firms are placing a greater level of focus on the ESG, as 91% of boards are taking actions to upskill themselves in this area.

Only 65% of executives believe that they understand ESG strategy at least somewhat well and only 47% believe that they understand ESG risks.<sup>(28)</sup> This shows the importance of increasing board level knowledge on the topic of ESG. ESG must be embedded throughout the firm using a top-down approach and ensuring that the board is well versed on ESG strategy and risk management.

Training for boards is key to implementing good governance structures to ensure that they are complying with this new sustainability requirements. These governance structures should include establishing: if the underlying fund will consider Principal Adverse Impacts (“PAI”), what its minimum level of taxonomy and sustainable investments are and how it will classify funds under SFDR.



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## ESG

Strong governance policies and procedures in relation to ESG are clearly still needed amongst firms. 34% of our respondents stated that they were yet to put an ESG policy in place. This may be due to many respondents' boards (38%) not having an agreed definition of ESG and its importance to the board. 71% of executives don't think that ESG receives sufficient attention.<sup>(28)</sup> This shows that boards see ESG as a priority area but increased focus is still required.

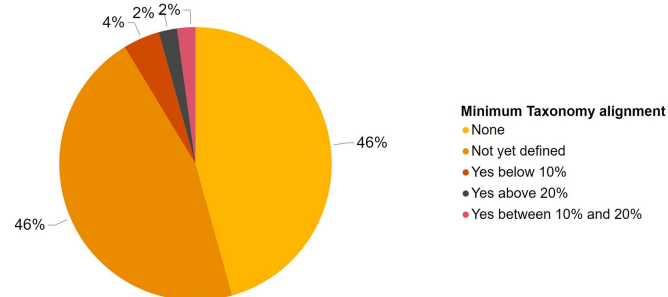
51% of boards do feel that they are in a better position in comparison to 2022 (25%) to satisfy the mandatory ESG reporting requirements<sup>(29)</sup> their firms face, which is positive. But uncertainty is still evident.

The lack of appropriate governance structures amongst firms in terms of ESG can be seen through the level of firms still yet to establish their minimum Taxonomy alignment and sustainable investments percentages, with this being 46% and 43% of respondents, respectively. Some of the respondents that have a documented ESG policy and have agreed upon definition of ESG, are still just as unlikely to have decided on their minimum level of Taxonomy alignment (48%) and sustainable investments (37%). This indicates that even where funds have established an ESG governance structure, that they are not comprehensive enough just yet or that there is high levels of uncertainty around the EU's sustainable finance regulations.

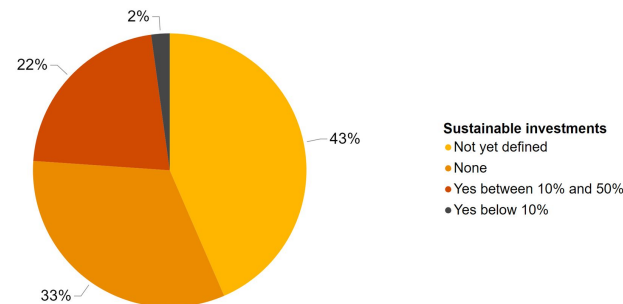
Many firms are still reluctant to establish a clear policy regarding PAI consideration. Among the respondents, 34% have not yet made a decision on whether to take PAIs into account, while 40% have affirmed their commitment to considering PAIs, having already finalized their policy. Additionally, 14% of firms have indicated that they are in the process of finalizing their PAI policy and have decided not to consider PAIs. The final 12% will not consider PAIs.

Firms are still failing to see the links between ESG and firm strategy, as only 54% of directors recognise this link.<sup>(29)</sup> This is likely to be one of the reasons impacting firms' decision making on this topics.

### Has the board established what will be the minimum percentage of Taxonomy alignment?



### Has the board resolved what will be the minimum percentage of sustainable investments?



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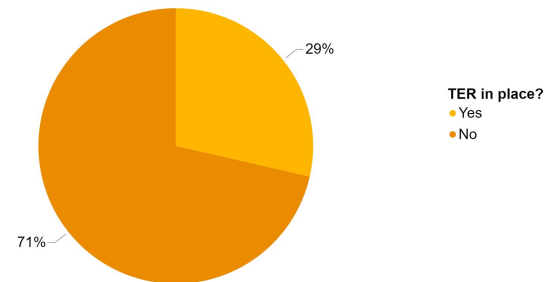
## Fund costs and fees

Funds' costs and fees have been a topical issue in recent times with significant focus coming from both the national and european regulatory bodies. Our results indicate that the majority of respondents (71%) stated that the fund is not covered by a fixed Total Expense Ratio (TER).

Fixed TERs provide shareholders with a certain level of assurance regarding the annual charges they can anticipate. Conversely, in a variable cost model, the actual expenses are passed on to shareholders, potentially diminishing the manager's motivation to minimise costs.

Costs and fees are particularly topical at the moment. European Securities and Markets Authority ("ESMA") and National Competent Authorities have been engaging with the industry to seek changes in how expenses are charged to the underlying investors. The CBI highlighted its concern with fixed operating expense models in their Industry letter on the Common Supervisory Action ("CSA") on the supervision of Costs and Fees of UCITS.<sup>(30)</sup> Concern arises when the actual TER is significantly lower than the fixed TER. Investment Managers who can negotiate lower fees may retain this cost saving as profits and not pass any savings onto the fund's investors.

### Is the fund covered by a fixed Total Expense Ratio?



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## Fund costs and fees

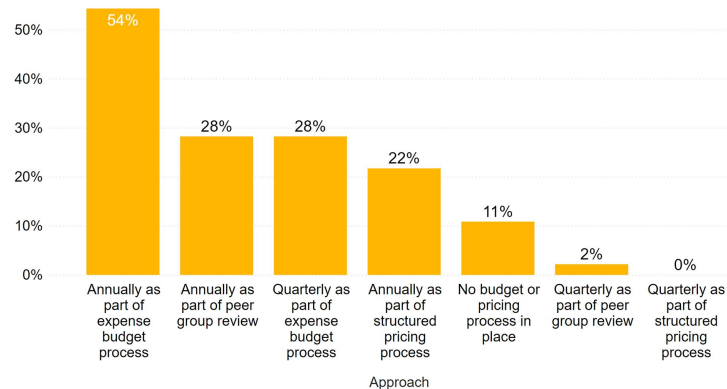
Our survey results have highlighted that some respondents have opted to use a combination of approaches at different frequencies to review fund costs and fees. However 11% of respondents have no procedure in place to review their costs and fees structures, which would be seen as a poor practice. Boards should take active ownership of the fund's costs and fees, which is something we are seeing a downward trend in since our 2018 results.

28% of respondents have implemented a structure pricing process in line with ESMA's supervisory briefing on supervision of costs. This is something all boards should look to satisfy. Furthermore, the percentage of boards that are actively involved in setting fees has dropped since 2018 from 28%<sup>(1)</sup> to just 4%.

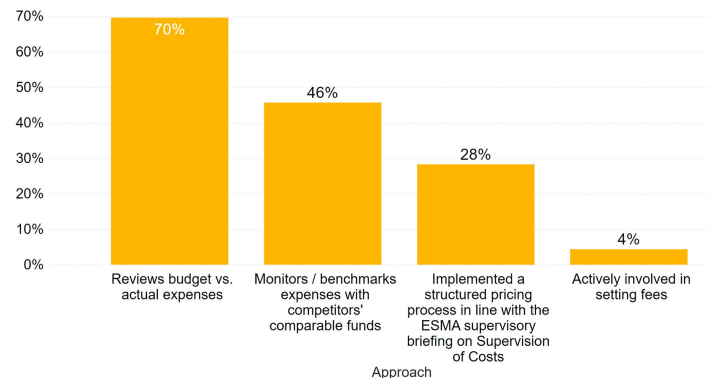
There are some positives to note in relation to the board oversight of fund expenses. There has been close to no change at all with 69% of respondents in 2018 reviewing the budgeted expenses versus actual expenses.<sup>(1)</sup> This is the most popular approach for boards to exercise their responsibilities over funds' costs and fees. Additionally, the number of boards utilising benchmarking against comparable funds has increased since 2018 (28%).


In order to ensure that shareholders/unitholders of funds are not burdened with undue costs, it is important that reviews are conducted to assess the costs and fees structure of the fund. Firms need to perform an independent review of fund fees and a gap analysis against the expectations highlighted in the CBI's March 2023 "Dear Chair" letter.<sup>(30)</sup> The CBI expected firms to have a plan in place to address any identified gaps by Q3 2023.

### How often are fund costs and fees reviewed, in order to minimise the risk of undue costs being charged?



### How does the board exercise its responsibilities when it comes to fund expenses?



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## Artificial Intelligence and Generative AI

In the ever-evolving landscape of business, the integration of AI and Generative AI is becoming increasingly vital for companies seeking to remain competitive and innovative. The role of corporate boards in this digital era is to exercise vigilant oversight while fostering an environment of adaptability and responsible growth.

First and foremost, boards need to educate themselves about AI and Generative AI. This entails expanding directors' knowledge through management and external resources, allowing them to understand the technology's capabilities, emerging use cases, changing business models, and the associated risks. Directors should approach AI from a business perspective, posing critical questions and challenging management when necessary.

One crucial aspect is evaluating the costs and benefits. AI adoption necessitates reimagining workflows, employee training, and the customisation of AI solutions, all of which entail costs. Therefore, discussions between boards and management must encompass these aspects, with a focus on fostering a culture of learning and innovation.

For effective governance, a clear accountability model is paramount. Boards should understand who owns the responsibility for AI governance within the company and consider the formation of an enterprise-wide AI committee to brainstorm, discuss opportunities, risks, and ethics, as well as set policies. Inclusion of the CEO and C-suite executives is instrumental in shaping strategy and overseeing risk, compliance, and responsible practices.


Measuring success is another board responsibility, especially as companies embark on significant digital transformations driven by AI. Boards should align with management's goals, milestones, and talent strategy to ensure a holistic approach to AI that reaps the advantages of technology at scale.

Finally, boards should consider communication with stakeholders. This entails not only internal communication about strategic changes but also external communication to stakeholders, emphasising the company's commitment to remaining competitive in a dynamic business environment while safeguarding the interests of staff, customers, and the organisation.

In essence, boards must navigate the AI landscape by balancing innovation with risk management, staying informed, and promoting responsible growth. They play a pivotal role in steering companies toward a future where AI and generative AI drive success and competitiveness.

### Questions for directors to consider for AI and Generative AI<sup>(31)</sup>

- How is the board continuing to get educated on AI and Generative AI to better understand the technology?
- How have the costs and benefits of AI use been evaluated?
- Who at the management level is accountable for AI? Is there a management level committee focused on AI to address opportunities, risks, controls and establish policies?
- For major investments in AI and Generative AI, what is management's strategic plan, and does the board have an oversight process in place to monitor the investment's success?
- Have we considered communications to stakeholders about our AI use? What are we communicating to investors?
- Given the pace of change, how do we enable agility to continue to innovate while addressing risks?

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## Outsourcing policy

With CP 138 coming into effect in December 2021, firms would have been expected to implement a number of changes to their approach to outsourcing. One of these requirements was to establish a comprehensive outsourcing policy.<sup>(32)</sup> Our results indicated that 96% of respondents do in fact have an outsourcing policy in place.

The extent to which the outsourcing policy is reviewed and updated is also critical to ensure it remains fit for purpose. When it comes to reviewing the outsourcing policy of the firm 77% do so on an annual basis, while 20% of firms conduct a review on an ad-hoc basis. As per CP 138, firms should have an outsourcing policy “which is reviewed and approved at least annually”.<sup>(32)</sup> Failing to frequently review and update this policy can have a detrimental effect as it may lead to a lack of harmonisation between internal policies and procedures and the outsourcing policy. Outsourcing arrangements can often be complex so frequent reviewal of the underlying policy can ensure the efficient operating relationship between the firms.





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# Conclusion

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Irish firms within the AWM industry display an overall strong level of governance. They demonstrate that there is certainly an awareness around the increasing level of regulation for firms including topical areas such as ESG, operational resilience and outsourcing. While there is always room for improvement from boards on the level of awareness regarding new trends and regulations, there is not a clear concern from the survey responses.

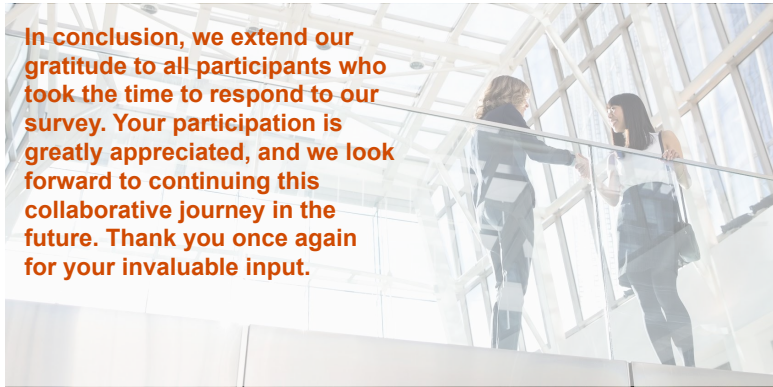
The ability of boards to continue to operate successfully with limited disruption while the world was brought to a standstill by an unprecedented global pandemic, demonstrates the resilience and agility of firms to uphold their duty to investors. Market participants were forced to adapt to the changing circumstances and implement the digital tools available to allow senior management teams and boards of directors fulfill the duties of their roles.

In recent years, there have been examples of boards not being in control and being poorly prepared for unpredictable events. However, from comparing our survey responses to the 2018 survey, one can see that there is a strong emphasis being put on corporate governance in recent years. Due to this, we can say that there is a level of optimism when looking at corporate governance in the future for Ireland. With the impending rollout of the IAF at the end of 2023 and the SEAR for some investment firms from July 2024, senior executives must reassess their procedures regarding the level of scrutiny and documentation to ensure they are diligently taking reasonable actions to demonstrate compliance with the relevant accountability standards.

Board conduct was a central theme that arose at our event on 5 October when we presented the results of our 2023 survey. When we polled the audience on the day 77% confirmed they discussed board culture and implications of conduct for the IAF regime. Ensuring accountability for decisions and actions, as well as the alignment of board actions with the best interests of the firm or, in the case of funds, the underlying investors, will require the practice of appropriate board conduct.

Our survey contains 56 respondents which is a substantial increase from our last corporate governance survey in 2018 and includes a variety of firms including FMCs, funds, fund administrators, and investment firms. From our survey we can see that Irish firms are well positioned to deal with the continuous flow of regulatory guidance issued from regulators both at national and international level.

We have seen the number of ad-hoc board meetings and the frequency of reporting to the board increase significantly since our last survey. Boards that exhibit a strong sense of control and those that are well-informed about critical matters are typically those who receive very effective and targeted reporting from their delegates. Digital tools allowed boards to operate effectively during the COVID-19 pandemic but similar tools can enhance the quality of reporting to boards through infographics and more innovative approaches to display information in a more concise and targeted manner.



**In conclusion, we extend our gratitude to all participants who took the time to respond to our survey. Your participation is greatly appreciated, and we look forward to continuing this collaborative journey in the future. Thank you once again for your invaluable input.**



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