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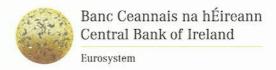
Review of the Number of Directorships held by Individuals within the Investment Funds Industry

Dear Chairman,

In June 2015, the Central Bank of Ireland (the 'Central Bank') completed a thematic review of directors' time commitments and issued industry correspondence and guidance. The review highlighted the need for a further, detailed analysis of the subfunds within a director's portfolio. A key element of this review was determining the additional time commitment associated with managing sub-funds. Therefore, the Central Bank conducted an analysis of directors' time commitments on a sub-fund by sub-fund basis in order to determine the impact of sub-fund complexity on directors' time commitments and if directors were allocating sufficient time in order to fulfill their obligations.

## Background

Extensive engagement with directors following the 2015 Directorships review has delivered significant progress in reducing concentrations of directorships. As a result of these discussions with individuals, the top 13 directors referenced in the 2015 industry correspondence have reduced their overall number of directorships by 28% and these continue to fall.



## **Sub Fund Review Findings**

As part of the most recent thematic review on sub fund commitments, the Central Bank conducted a granular analysis of Board packs and minutes from Board meetings.

The Central Bank found that the amount of time allocated annually to sub-funds across the population of directors varied significantly from 2 hours to 11 hours per sub-fund. Within this range, a number of factors impacted the time allocation required for each sub-fund, including:

- The number of sponsor relationships;
- Multiplicity of fund service providers;
- Diversity of investor base; and
- The complexity of investment strategies.

The Central Bank considers the responsibilities associated with managing high numbers of sub-funds to be significant. Directors are therefore expected, having careful regard to the guidance already issued as to the matters a board should cover in relation to an outsourced service, to consider the following when assessing their capacity to effectively serve in this role:

- Ensure that the documentation received is sufficiently detailed and provides the necessary sub-fund information to perform the role of director;
- Sub-fund numbers must be evaluated when conducting portfolio planning and assessing future directorships; and
- The nature of the sub-fund and level of sub-fund monitoring must be carefully considered and included in overall time capacity.



## Continued Engagement

Where the Central Bank assesses that an individual director has aggregate professional time commitment in excess of 2,000 hours a year, including commitments to at least 20 fund boards, the Central Bank would deem that individual to be at a high risk of not being able to fulfil their Board roles to an appropriate standard and, by implication, that there is a high risk to the quality of performance of those Boards where the individual is a director<sup>1</sup>.

As previously communicated, the Central Bank has prepared guidance to assist Chairs, Boards and individual directors in assessing the time commitment required for individual directors to fulfil their role, a copy of which can be found on the Central Bank website at:

http://www.centralbank.ie/regulation/industry-

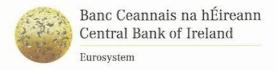
sectors/funds/ucits/Documents/151023\_FUND%20MANCOS%20GUIDANCE%20F INAL\_DL.pdf

The Central Bank will continue to engage, as necessary, with directors identified as having high overall time commitments and directorship numbers. Please be advised that, where non-compliance with relevant regulatory requirements is identified, the Central Bank will have regard to this guidance when exercising its regulatory and enforcement powers.

## Conclusion

Responsibility for compliance with all regulatory obligations and related guidance ultimately rests with the Boards and the individual directors. Therefore, each Board should review their current composition, taking the guidance into account, to ensure that each director appointed has sufficient time allocated to their role. In addition to this the numbers of directorships held should be at an acceptable and manageable level.

<sup>&</sup>lt;sup>1</sup> Letter to Industry dated 16 June 2015.



It is requested that this communication be brought to the attention of your current and potential future directors.

Yours sincerely

Des Ritchie

Deputy Head - Investment Firms and Fund Services Division

**Markets Supervision Directorate**