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January 2015

Response to consultation paper: BCBS 294 - Corporate governance principles for banks

Dear Basel Committee on Banking Supervision,

The Institute of Operational Risk, an Institute comprising more than 500 operational risk professionals from over 20 countries world-wide, welcomes the opportunity to respond to the Basel Committee on Banking Supervision's consultative document, **corporate governance principles for banks**.

General Comments

The IOR welcomes this timely revision of the Corporate Governance Principles for Banks. A key lesson of the financial crisis in our view is the importance of strong governance and we believe that the revised principles are a helpful contribution to further strengthening governance within the banking sector. We welcome the document's clear articulation that the Board is responsible for all aspects of the corporate governance of the bank, including all aspects of risk management, with reference made for example to include operational risk and reputational risk.

There are no references to the wider stakeholder responsibilities of banks, to their home and host societies, and the risks that those societies may run on their behalf (witnessed very starkly in the financial crisis and its aftermath). We suggest that the principles should reflect this wider CSR element to governance and Board responsibilities.

One of the many lessons from the financial crisis is the importance of strong governance within branches, and we note that a number of national regulators have sought to strengthen the governance requirements within the branches for which they are host (e.g. UKPRA CP4/14). There is a danger that the international regulatory landscape will become increasingly fragmented due to the lack of consensus internationally on the role of branches and their local governance arrangements. We believe this is a gap in the international policy framework which the BCBS could usefully fill by providing some additional guidance such that national

supervisors can then develop local approaches within a consistent harmonized international framework.

The management of risk by both the board, for example the risk committee, and by senior management, for example the CRO has been strengthened in this updated document. But the management of the risk activities carried out actually at Board level, for example M&A and other strategic activity needs reference, and is still potentially a weak point of corporate governance.

Similarly it is for the Board to be responsible for ensuring the balance between short-term and long term performance of the Bank is successfully maintained, and this should be specifically noted.

We also would wish to say from our own specialism that business continuity and resilience is worthy of note, and would like to see 'access to training' added specifically in encouragement to the sections on the second level of defence, ie for risk and compliance management.

Finally we are pleased to see the specific reference in 149 to the promotion of long-term performance by the compensation structure.

Detailed Comments

Intro no 2 p3

Section 1 refers to financial stability and to the transmission of problems across the banking sector and the economy as a whole.

Comment add last sentence -

The banking sector is also directly and indirectly responsible for a significant part of the well being of society, and governance weaknesses have threatened that well-being.

2.

Comment add end bullet 2 -

...personnel, including strategic impacts of remuneration;

Comment add end bullet point 4 -

... stakeholders, including functions specifically necessary to the well-being of society;

Comment add new last bullet point 7 -

ensure an effective balance between short-term and long-term objectives;

12 Comment - last sentences, make active not passive:

National authorities should apply the provisions in each jurisdiction as far as feasible. In some cases this may involve legal change. In other cases, principles should only be slightly modified in order to be implemented.

17 Comment add to strengthen the section:

It is for the board to maintain the balance between the exercise of shareholder rights and the interests of the bank and of the effective management of the bank.

23 Comment add a new bullet point:

Ensure that there is an acceptable balance between the realisation of short-term and long-term objectives.

26 Add new sentence at end.

For systemically-important banks the board should be aware of the interest of the home and host societies in making decisions and in the management of risk

29 add to list in first bullet point:

..economic crime including fraud, breach of sanctions,...

31. Add new sentence at end.

The board should have in place a structure adequate to handle decisions at the highest levels of strategic risk for the bank.

47 replace word "reasonable"

"sufficient"

67, 70 first bullet point - Comment - the difference between strongly advised and strongly recommended is not clear.

Suggest the replace word "strongly advised"

"very strongly advised"

Suggest the replace word "strongly recommended"

"strongly advised"

105. Add new sentence at end.

Staff should have access to regular training.

118 first bullet point. Add new second sentence:

Reverse stress tests should cover the survival of the bank as a whole or significant parts.

120. Add new sentence at end.

The risk management function should be satisfied that there is adequate business continuity and resilience procedures provided as business-as-usual.

126. Add new sentence at end.

The board should be satisfied that risk concepts as well as risk issues are sufficiently understood throughout the organisation and there is access to training as necessary.

137. Add new sentence at end.

Staff should have access to regular training.

We would be happy to discuss our comments further or answer any questions you may have on our response.

Yours sincerely,



Dr Simon Ashby

Chairman

The Institute of Operational Risk