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Bank bosses face tough new rules

20 March 2011 By Jon Ihle, Markets Correspondent

The Central Bank is beginning a comprehensive review of the suitability of bank executives to hold senior positions in the country's largest financial institutions, The Sunday Business Post has learned.

Financial regulator Matthew Elderfield is publishing a consultation document and inviting responses on a new "fitness and probity" regime for people who hold key positions of responsibility in the banks.

The consultation is a major step towards imposing tough, new standards on executive directors and other senior figures in the wake of Ireland's financial crisis.

The measures, which are due to be implemented by the end of the year, will require top executives and so-called "senior controlling officers" to demonstrate expert understanding of the regulatory regime and the key risks facing their businesses.

The move follows the promise in the Programme for Government to clear bank boards of directors who presided over failed Celtic tiger lending practices. The outline of the changes was first sketched in a major banking supervision paper the Central Bank published last June.

That document spelled out how regulators would exercise new powers granted to them in the Central Bank Reform Act 2010, including pre-approval of senior executives and the authority to suspend them and compel evidence during investigations.

The introduction of tighter fitness and probity guidelines is part of a wider reform of corporate governance in the financial sector.

Regulators have been conducting assessment interviews for new senior executives and independent directors since last year. It is expected that this practice will be expanded to sitting executives and directors.

"The regulator has quite rightly taken the perspective that the board is ultimately responsible for the bank and put them front and centre," said Kevin O'Doherty, director of regulatory consultancy Compliance Ireland. The higher up you get the more important it is to demonstrate capability. There should be a higher hurdle to leap."

Professor Niamh Brennan, director of the Centre for Corporate Governance at the UCD Quinn School of Business said Irish regulation was only just catching up to higher standards elsewhere, such as in Britain.

"They're notably raising the bar rather than changing the context," she said. "Ireland has lost a lot reputationally. There has to be a swing of the pendulum to recover credibility."

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