Board evaluation and Self Assessment of financial companies in Sweden

Stockholm, 20th of March 2014
Board evaluation and Self Assessment of financial companies in Sweden

Summary

• New legal framework for the Board: GL 44, CRD IV, FFFS 2014:1, EBA guidelines on the assessment of the suitability of members of the management body etc.

• Stricter requirements on the Board: Board Self Assessment, maximum number of board assignments, individual education programmes for board members etc.

• Enhanced control of the Board: Individual sanctions, FI-focus etc.

• Board evaluation and Self Assessment – zeb five phase approach

1) Footnote
Source:

Swedish

• Nytt legalt ramverk för styrelser: GL 44, CRD IV, FFFS 2014:1, EBAs riktlinjer för lämplighetsbedömningar av ledamöter i ledningsorgan och ledande befattningshavare etc.

• Strängare krav på styrelser: Självutvärdering av styrelsen, maximalt antal styrelseuppdrag, individuella utbildningsprogram för styrelsemedlemmar etc.

• Ökad kontroll av styrelser: Individuella sanktioner, FI-fokus etc.

• Board evaluation and self assessment – zeb femstegsprocess
Board evaluation and Self Assessment of financial companies in Sweden

Introduction and background

In retrospective

- The FSA general advice on governance and control of financial companies (FFFS 2005:1)
- Law of bank and finance operations (LBF)
- EBA Guidelines on internal governance and control (GL 44)

Why this change?

- The financial crisis, CEBS (Committee of European Banking Supervisors) survey etc.
- Insufficient involvement of and competence within the Board of directors of the companies
- Non-binding rules
- Need of increased stability

Now and forward

- Increased number of binding rules
- Internal rules, routines and processes to ensure governance and control
- Requirements on the Boards competence both individually and as a collective
- Requirements on the involvement of the Board, individual responsibility and sufficient with time

1) Footnote
Source:
All requirements are not applicable on all types of institutes. The applicability therefore needs to be considered before planning an implementation.

### Applicability

<table>
<thead>
<tr>
<th>Institutes</th>
<th>Bank</th>
<th>Credit Market Company</th>
<th>Fund</th>
<th>Security</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulation</strong></td>
<td><strong>GL 44 (EBA)</strong></td>
<td><strong>FFFS 2014:1</strong></td>
<td><strong>EBA guidelines suitability of members of Mgmt/Key</strong></td>
<td><strong>CRD IV</strong></td>
<td></td>
</tr>
<tr>
<td><strong>GL 44</strong></td>
<td><strong>FFFS 2014:1</strong></td>
<td><strong>EBA</strong></td>
<td><strong>CRD IV</strong></td>
<td><strong>No</strong></td>
<td></td>
</tr>
<tr>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td></td>
</tr>
<tr>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td></td>
</tr>
</tbody>
</table>

1) Footnote

Source: zeb
GL 44 - EBA Guidelines on Internal Governance

Requirements on the institutes – live since 2011

The Board
- Possess and maintain the right qualification
- Have a clear picture of the governance of the company and their own role
- Have individually designed education programs

The Company
- Allocate time and budget for education of the board
- Keep sound processes ensuring the requirements are fulfilled

The Board & the members of the Board as a collective
- Possess the expertise, experience, competence etc. required to fulfill their tasks

The members of the Board
- Hold updated understanding of the operation of the company
- Allocate enough time and not keep to many directorships

1) Footnote
Source:
In addition to GL 44 there are other requirements that need to be fulfilled by the institutions

Requirements on the institutes

2 FFFS 2014:1
- Regulation on internal Governance and Control
- Live from April 2014
- The members of the Board should have good knowledge on and understanding of the governance of the company and its processes
- The members of the Board should be well informed of the risks that the company is exposed to
- Statement from the FSA: “The new requirement are introduced to ensure that the members of the Board are versed in and understands the organisation and operations of the company and the risks that the company is exposed to. The purpose of this is for the members of the Board to be able to govern and control the operations of the company”.

3 EBA Guidelines suitability of members
- Guidelines on the assessment of suitability of the management body and key functions holders
- Live since 2013
- The company has the main responsibility to perform a fit and proper assessment of the members of the Board
- The assessment should be performed both when nominating and candidate and over time, when appropriate
- The assessment should be documented
- The company should draft a policy for fit and proper in accordance with the requirements of the guideline

4 CRD IV
- The board should as a collective have a mix of experience and knowledge
- Live during 2014
- Limitation of the number of directorships in a systemically important bank
- The Board members should allocate enough time
- The Board should possess sufficient knowledge, expertise and experience to be able to understand the operations of the company including the main risks of the company

1) Footnote
Source:
High-level conclusion shows four main consequences. However, in-depth review is required to be fully compliant based on type of institution

Adapt an individual and collective perspective on the knowledge, insights and awareness to the operation of the company and its risks

Make sure and control the Board has sound processes for maintaining the required skills

Individually designed education programmes for the members of the board to be designed

Enough time for assignment to be allocated and not to keep too many directorships

Source: 7 Board Evaluation and Self Assessment
To be compliant with board evaluation and self assessment requirements zeb recommends a five phase approach with related actions to be taken in each phase.

zeb five phase approach

1. Phase 1 // Pre study
2. Phase 2 // Strategy
3. Phase 3 // Board Evaluation and self assessment
4. Phase 4 // Education and competence development
5. Phase 5 // Documentation and follow up
zeb five phase approach consist of a number of actions related to the phases that needs to be taken in order to fulfil the requirements

Part I: Checklist

<table>
<thead>
<tr>
<th>Phase</th>
<th>Action</th>
<th>Done</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mapping and evaluation of relevant existing internal routines, processes and policy documents</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Mapping of the required competence</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What kind of business is conducted?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What authorizations does the company keep?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Which regulations are applicable?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What questions does the Board deal with?</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Workshops with the Board</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The direction of the company</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Relevant competence areas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Individual and collective need of competence</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Analysis of the Pre-Study and documentation of the competence needs of the Board</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Drafting of relevant policy docs and processes for fit and proper and competence development</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Drafting of competence survey based on the needs and character of the company</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Analysis of the internal perception of the competence based survey, company character, Board minutes</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Workshop with the Board</td>
<td></td>
</tr>
<tr>
<td></td>
<td>How is the right competence ensured?</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Analysis and mapping of the result of the Board competence and education needs</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Drafting of individually designed education plans</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Drafting of documentation report regarding performed Board evaluation and self assessment</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Feedback regarding the process</td>
<td></td>
</tr>
</tbody>
</table>
zeb/ is the leading management consulting firm for the financial services sector

Who we are

zeb/ at a glance

/ Only European management consulting firm working purely with the financial services sector

/ Staff: more than 950 employees
57 equity partners
~ 450 management consultants (~40 in Nordics)
~ 60 trainers and freelancers
~ 260 IT developers and IT consultants
~ 25 research and knowledge management experts

/ Turnover: 167 MEUR, ~20% p.a growth

/ Clients: banks, insurers and financial advisors

/ Locations: 17 offices in 12 countries

1) Number includes freelance workers as well as employees on parental leave

Further projects in:
/ US
/ Japan
/ China
/ Brazil
/ Mexico
/ Australia
/ ...
/ Indonesia
/ Saudi Arabia
/ Kenya
/ Burundi
/ Libya
/ Tunisia
/ ...

Cooperation with Equinox Consulting

Countries with zeb/ locations
zeb/ consulting experience
zeb Nordics have been supporting clients in the financial sector for over ten years with various types of assignments

zeb Nordics offering

**General offer**
- zeb Nordics was founded under the name of Crescore in 2002 and since 2012 it has been a part of the zeb Group.
- Zeb Nordics focus has been on consulting services in the fields of treasury and asset management, compliance, risk management and legal
- The competence fields covered have been widening through the acquisition to also include areas such as Finance, IT Management & System integration, Organization & Transformation. In addition to the group-wide offers, we also deliver outsourcing services related to financial law and risk and compliance.

**Business consulting**
- Innovative and scientifically-founded business consulting services and implementation of developed solutions in the areas of banking, finance, treasury, strategy, sales management, organization & transformation, risk and compliance

**IT**
- Development and introduction of business management software, advisory services regarding IT management, IT system integration or IT strategy and transformation

**Compliance and Risk**
- zeb Risk & Compliance offers additional services to financial institutions (examples):
  - Full outsourcing/ of the risk management or compliance function
  - Partial outsourcing/specific controls
  - Advisory services on specific questions
  - Methods for different risk calculation

**Financial Law**
- Text zeb Financial Law assists financial companies with qualified advice and services in the regulatory area
Your point of contact

Mathilda Berglin
Executive Manager, zeb Risk & Compliance

E-Mail  mathilda.berlin@zeb.se
Phone  +46 8 670 57 31

Office Stockholm
Biblioteksgatan 11
111 46 Stockholm