

**ICFR forum**  
**Financial Regulation: Impact on Learning and Development**  
**2 February 2010, London**  
**Draft Summary**

**Objectives:**

On Tuesday 2 February 2010 the ICFR held a roundtable discussing how international financial and governance regulation may affect competence requirements for non-executive directors (NEDs) and senior management of financial institutions. The objectives of the meeting were:

- To understand what risk-management competencies are likely to be expected of board directors and senior management at financial institutions in the future
- To discuss what skills and organisational shifts may be needed to fill the expected competencies
- To consider training solutions.

The participants represented compliance and training managers of financial institutions, professional service organisations in advisory and training.

**Issues on which there was consensus:**

1. Boards have increased their focus on whether capital and liquidity are adequate for the level of risk taken by the institutions at both the main board and the boards of subsidiary establishments, with an increased focus on risk transparency.
2. As part of their strategic function, directors are instrumental in determining, implementing and monitoring the risk culture of an organisation.
3. Most boards of financial institutions are restructuring the management and reporting on risk, and working toward a more explicit and quantitative definition of the institution's risk appetite.
4. Boards and senior managers need the information, understanding and authority to understand and challenge risk reporting. A specific sub-committee on risk can help establish the authority to inquire.
5. Board members need to learn what questions they are now expected to be asking, understand the extent of risk management ownership, and what information is essential for arriving at the right judgement of the firm's business risks.
6. Efficient, targeted, clear and concise management reports are crucial for effective risk monitoring by boards and senior management. In many cases this is facilitated by fewer and more concise Board and risk documentation as well as a clear articulation of what the board is being asked to consider or decide.
7. Risk transparency throughout the organisation and across geographies and business divisions should be the objective. Breaking down silos across business lines is essential to understand the total

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risk picture of business. It is critical to look at risk through a variety of different models and lenses, and interrogate the outcomes, recognizing that each is a tool, not an absolute answer. A diversity of views, judgements and questions helps hone the sensitivities to which the institution is exposed under a variety of scenarios. Teaching risk managers, senior management and boards how to think about these tools is a key development aim.

8. Given the constant change and innovation within the financial industry and its regulation, directors need ongoing updates and training, not just at induction.

9. Directors should not be trying to do the job of senior management but striving to ensure the right people are in place carrying out their jobs within the parameters of the strategy and risk appetite set by the board.

10. For companies operating globally, it is crucial to understand local governance/responsibility/accountability rules. Ideally, these would be sufficiently compatible across operating jurisdictions to facilitate both best practice and main board and subsidiary board training and compliance.

#### **Possible areas for cooperation:**

1. Whilst most boards have some kind of induction for new members varying in level, intensity and means of delivery, most participants' firms are working hard to further develop these programmes, as well as ongoing 'top-ups' on business and regulatory developments. It may make sense to work through the ICFR on common aspects of such training.

2. The ICFR will continue to update its website on significant consultations around training and competencies for financial institutions along with their implications.

3. Through the aegis of the ICFR, continuing to look at best practice in board and risk management training and practice may be useful for members and for regulatory dialogue on best practice.

4. There is a need for access to improved training on risk management for directors.

#### **Issues for further consideration:**

1. Should boards be more diverse or more expert? There is uncertainty on the appropriate qualifications to be a director of a financial institution in the UK. Are large boards or small boards more effective? Views differ and there is clearly research warranted looking at the performance of companies with diverse vs. expert boards, and large vs. small boards.

2. Some participants felt that NEDs needed dedicated resource from the staff of the companies where they are directors to help them with board preparation, briefings, research, and analysis.

3. The UK FSA's 'significant influence function' and approved directors and executives approach were discussed with mixed views on how effective this would be at improving the staff competence and quality.

4. Regulatory competence supervision can result in box-ticking and certification with little benefit to the employer. It would be much more effective to translate the competency requirement into business-related training for the senior managers and NEDs.