

Policy Statement | PS13/16

Corporate governance: Board responsibilities

March 2016



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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This policy statement responds to feedback on Consultation Paper 18/15 'Corporate governance: Board responsibilities' and includes the final supervisory statement on board responsibilities (SS5/16).

1 Introduction

1.1 This Prudential Regulation Authority policy statement sets out responses to feedback on Consultation Paper 18/15¹ and includes a final supervisory statement on board responsibilities (Supervisory Statement (SS) 5/16 – see Appendix 1). It is relevant to all PRA-regulated firms.

1.2 Good governance is critical to delivering a sound and well-run business: and at the centre of good governance is an effective board. The first responsibility for maintaining the safety and soundness of a bank, insurance company or any other regulated firm lies with the board. Failures of governance or the management of risk by boards have been a key factor in many of the major financial sector failures of recent years. It is axiomatic therefore that the PRA has a major interest in promoting good governance across the financial sector and supporting the work of boards in delivering it.

1.3 SS5/16 draws on the PRA's regulatory experience to identify some key issues for boards to consider, and to which the PRA pays close attention when exercising forward-looking judgement in the conduct of its supervision. However, it is not intended to be a comprehensive guide to good corporate governance; there are other sources for that, including the Financial Reporting Council's Corporate Governance Code². Nor does it replace the exercise of supervisory judgement in respect of the size, nature and circumstances of the firm concerned.

1.4 SS5/16 underscores the collective responsibilities shared by board members. As such it complements the individual accountabilities which the PRA has introduced through the Senior Managers and Senior Insurance Managers Regimes.³

2 Consultation response

2.1 The PRA has had regard to the representations made to the proposals in CP18/15. Responses were generally supportive and welcomed the PRA's proposed approach, although there were a number of requests for additional clarity on some points. In developing the final text the PRA has drawn on the responses to the consultation.

2.2 To provide greater clarity of scope in section 12 on subsidiary boards the PRA has changed the terminology used to describe subsidiaries to *significant* as opposed to *material*, a term used elsewhere, including in the PRA's approach documents.⁴

2.3 The PRA has considered suggestions from some respondents that it provides more guidance on how directors might seek to reconcile their individual and collective responsibilities. One of the purposes of SS5/16 is to underscore the collective as well as individual responsibilities of directors, but the PRA does not consider that it would be appropriate to prescribe how such responsibilities should be reconciled or weighed against each other.

2.4 The consultation received a range of comments concerning the appropriate degree of independence expected of boards, and particularly of subsidiary boards. SS5/16 recognises that there is a balance to be struck here and the PRA has reviewed the factors set out in

¹ PRA Consultation Paper CP18/15, 'Corporate governance: Board responsibilities', May 2015; <http://www.bankofengland.co.uk/pradocuments/publications/cp/2015/cp1815.aspx>.

² See <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>.

³ See the PRA's dedicated Strengthening Accountability webpages at www.bankofengland.co.uk/pradocuments/supervision/strengtheningacc/default.aspx.

⁴ See www.bankofengland.co.uk/publications/Pages/other/pradocuments/supervisoryapproach.aspx.

section 12. The PRA is satisfied that SS5/16 identifies the most important factors to be considered and that it allows sufficient scope for supervisory judgement to be applied in weighing those factors. The PRA does not think that a more prescriptive approach would be appropriate.

2.5 Prior to consultation the PRA considered the way in which the supervisory statement advances its statutory obligations and objectives, impacts mutuals, is consistent with the Regulatory Principles, and impacts on equality and diversity. The PRA's findings on these issues are unchanged following consultation and consideration of the feedback received.

2.6 Appendix 1 contains a link to the final supervisory statement on board responsibilities (SS5/16).

Appendices

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- 1** **Supervisory statement 5/16 'Corporate governance: Board responsibilities' available at www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss516.aspx.**
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