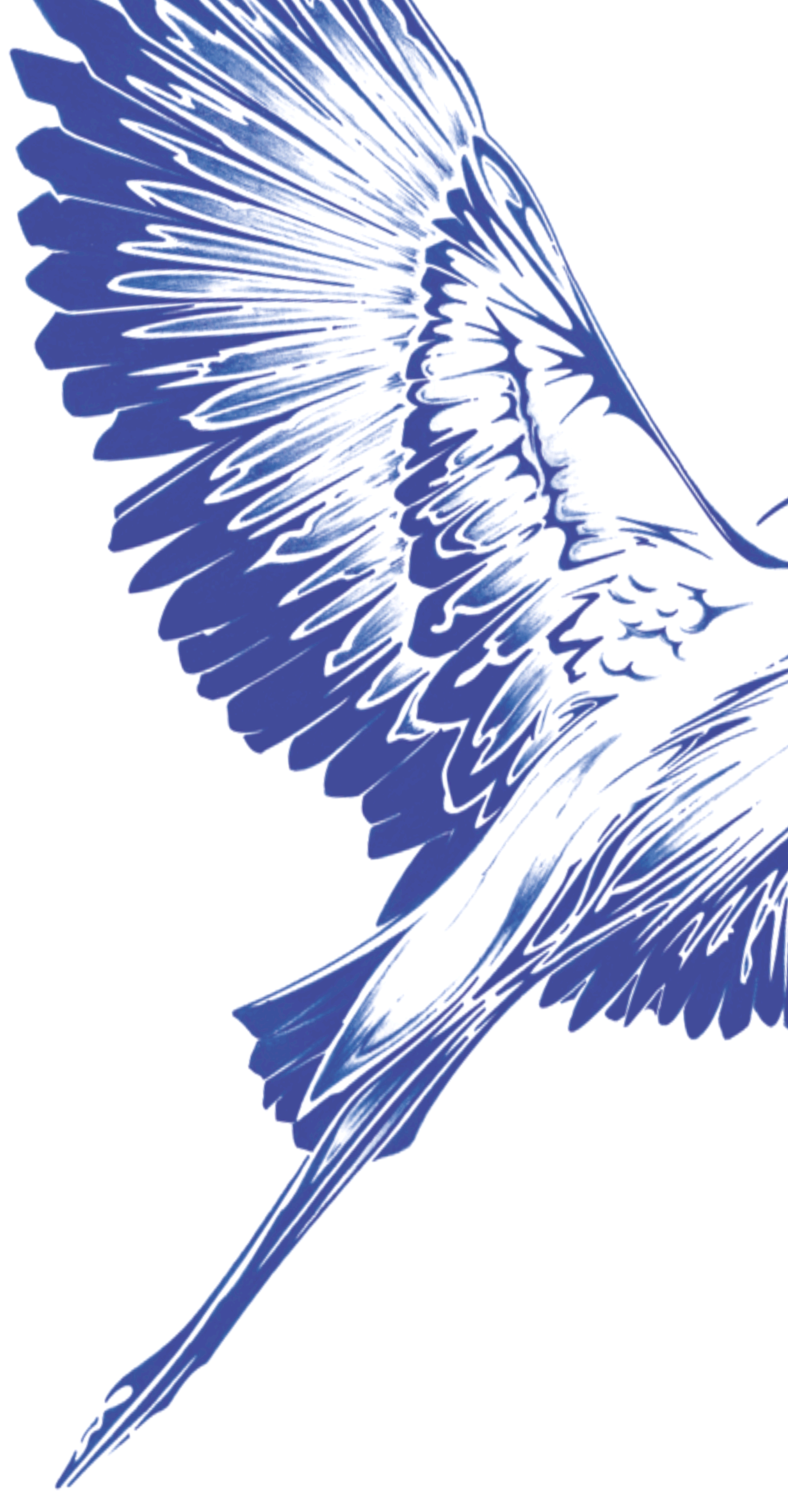
CLEVELAND & CO

External in-house counsel

THE PRUDENTIAL REGULATORY AUTHORITY'S CONSULTATION PAPER (CP18/15) - CORPORATE GOVERNANCE: BOARD RESPONSIBILITIES

May 2015

We set out below the PRA's twelve expectations for PRA-regulated firms to achieve good board governance, plus some summarised explanatory information.



Expectation	Commentary
1. SETTING STRATEGY	**The PRA expects boards to take decisions relating to strategy that are consistent with a sustainable business model and enable a firm to meet and maintain its regulatory obligations. The PRA believes that the Chairman and the Chief Executive are ultimately responsible for the firm achieving a sustainable business model.**
2. CULTURE	**Boards should ensure they consider their firm's ethical behaviour and responsibilities in light of their business aims. The PRA believes that non-executives have a key rule to play in ensuring management uphold their ethical responsibilities and that these responsibilities become embedded in the firm's culture.**
3. RISK APPETITE AND RISK MANAGEMENT	**An important part of the firm's business strategy is risk appetite. Every board should have a statement of risk which all board members are familiar with and which they should use to monitor and inform key business decisions. The board must review the statement on a regular basis to ensure it is relevant and aligned with the firm's strategy.**

Expectation	Commentary
4. BOARD COMPOSITION	Boards should have a good number of non-executives who understand how the business works and who can effectively challenge the board's executive members. It is best practice that listed firms should have at least 50% non-executives on its board and small firms should have at least two.
5. THE RESPECTIVE ROLES OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS	Non-executive directors should support and oversee executive management and hold executive management to account for their decisions. Executive management are responsible for making decisions on behalf of the board for the firm as a whole. Both of them have a shared duty to act together to promote the success of the firm.
6. KNOWLEDGE AND EXPERIENCE OF NON-EXECUTIVE DIRECTORS	Non-executives need to have a good knowledge and experience of the sector in which their firm operates in order that they can effectively challenge any inappropriate or off-target decisions made by the executive directors. If it is necessary, non-executives should feel able to seek advice from professionals external to the business to inform their opinions and decision-making.

Expectation	Commentary
7. BOARD TIME AND RESOURCES	**Non-executives should ensure they have enough time to fulfil their board duties and meetings should allow for sufficient time to thoroughly discuss firm matters. In addition, non-executives should be given the correct training and support to fulfil their duties and it is the Chairman's responsibility to ensure this is carried out.**
8. MANAGEMENT INFORMATION AND TRANSPARENCY	**Information provided to the board needs to be: accurate; relevant to the matter in hand; and succinct in order that all members of the board can perform their duties correctly and make informed decisions. Non-executives should have access to all, including confidential, information in order to carry out their duties effectively.**
9. SUCCESSION PLANNING	**Boards should ensure they have adequate succession plans that deal with both short term and long term situations.**
10. REMUNERATION	**The board should oversee the firm's remuneration system and ensure it is aligned with the firm's risk measures.**

Expectation	Commentary
11. SUBSIDIARY BOARDS	**Subsidiary boards should be aware of any potential conflicts of interest and be free to make their own decisions based on the best interests of its own firm. The PRA does not recommend that key positions in the parent board ie. Chairman or Chief Executive sit on the subsidiary board.**
12. BOARD COMMITTEES	**If a firm has a sub-committee board, they have a duty to support the board, but not take on any of the board’s responsibilities.**

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