

Organisational Effectiveness for Fund Management Companies – Everything you need to know but were afraid to ask... – 26th January 2021

Funds by IOB in association with **Certified Investment Fund Director Institute** are happy to provide a recording of this event, which addressed various questions related to the role of the Director for Organisational Effectiveness within Fund Management Companies. Due to time constraints we were unable to address all questions received on the day, but our excellent panellists – Mark Fitzgerald and Eoin Motherway – were happy to provide some additional thoughts on these and on some questions received post the event.

Mark and Eoin have also drawn up “**The Bakers Dozen of tips for Directors of Organisational Effectiveness**”. These are included in the Appendix.

The responses to the questions and the various tips for OEDs are Mark and Eoin’s individual perspectives based on their own particular experience of the OED role.

Questions:

- **What time commitment might be expected of an OED (days per quarter, for example) for third party funds. It seems like a full-time job?**

(This was a common theme and Eoin has provided some additional thoughts as follows:)

OE role time commitment seems to hover between 8 and 16 days, although there is a view by some OED, usually those doing a good execution of the role, that it can take more than that. Scale of platform, number of funds, instruments traded, sources of distribution all play roles in determining the number of days required.

- **Question for Mark: Do you think it is necessary to speak with all DPs between board meetings or more on a periodic basis unless specific concerns?**

(While this question was addressed by Mark, some additional observations from Eoin are:)

It is necessary for OEDs to speak to DP between board meetings but the frequency will depend on which DP role is involved e.g. Investment Management v Capital and Finance. I would add that a monthly call with the PCF 8 would be recommended but may depend on scale and complexity.

- **Does the role of the OE Director not compromise the role of the OED?**

Eoin: I think there is a balance to be struck between the two roles and both need to be robust enough to challenge each other's involvement so that a natural tension across the responsibilities is executed. This may bob and weave a little, but there must be a cohesive partnership between the OE and the CEO as the CEO has day to day interaction and the OE needs line of sight on the Management Team dynamics, as much as reporting. The OE must be empathetic enough to elucidate the information they need and yet have the independent authority to challenge without hampering future candour.

- **I note you reference DPs? there is no mention of a chief risk officer? Is that not also now needed under CP86? and should the OED need to work closely with them or have I misread that somewhere?**

Eoin: The DP for Operational Risk is PCF 39B. In many instances the colleague that occupies that role also performs the PCF 14 role of Chief Risk Officer. So the OE can cover that agenda and perhaps need a longer or more frequent meeting with than other DPs.

Equally in the engagement with the CEO, PCF8, the OE can assess how current the PCF 8 is with the workload and schedule of the PCF39/PCF14.

- **Should the OED receive a separate fee for that role? How much time does an OED spend on an OED role versus their main board role?**

Eoin: Generally speaking the role of the OE does require extra day-count. Approximately two thirds of Chairs also execute the role of the OE so it may transpire that it is composited into the fee for a Chair, which would be more than that of the stand-alone INED.

- **Can any examples be provided of any initiatives taken by the DOE in the discharge of their role to ensure reports are being backed up by evidence?**

Eoin: In a non-pandemic scenario, it would be my experience that the OED conducts a separate site visit to the FMC as part of their OED role. This should include oversight of materials, individual conversations with DPs, a site tour and a systems walk through. Some components of these will be more or less frequent than others e.g. DP meetings versus systems walkthrough.

But any DP executing challenge in their roles should be able to provide easy access to their stored evidence on the execution of their roles.

Lastly, I think one good practice I have seen is for the OED to request a number of documents to be delivered within 24 hours. These reports can be across the DP functions or on rotation.

- **Is the OED expected to attend due diligence (DD) visits/reviews of delegates?**

Mark: *The question of whether the OED accompanies the DPs on DD visits of the delegates is a very good question. I consider it is the responsibility of the DPs, as the line of management between the Fund ManCo Board and the delegates, to carry out periodic DD visits and reviews of the delegates. The OED should enquire into and understand the DD process that the DPs are using to review the delegates. It may be useful for the OED to spend some time with the DPs prior to a DD review of a delegate to understand the scope of the review / visit. The OED could ask the DPs to explain the results of their review of / visits to the DPs .*

It is a judgment call for the OED as to whether he/ she should accompany the DPs on reviews of / visits to the delegates.

Eoin added: *No. I would expect the OED to have an onsite DD for their own agenda to the main delegates of the Fund ManCo/Fund – notably the Fund Administrator and Depositary.*

- **As an OED what are the main challenges faced in receiving or collating information from Designated Persons and or the service providers to the ManCo? i.e. Are there any standout difficulties or areas the OED could share / discuss?**

Mark: *DP reporting to the Board in terms of quality and usefulness of the information should be assessed by the OED in terms of the duties that the DP's are required to discharge. The DP's in turn should ensure that the information/ reporting they receive from Delegates is sufficient to allow the DPs to do their job well and to meet their regulatory obligations. When the OED and DPs meet on a quarterly basis the OED should question the DPs in terms of how they have discharged their obligations. The OED should look for evidence to back up assertions made by DPs. Both the OED and the DPs should maintain reasonable documented records or notes of their respective reviews.*

Eoin added: *The main challenge is detailed intelligence on any issues or matters of concern. Without a clear expectation set by the OE, it can occur that the update is too summary and requires follow-up.*

- **Is there a standard report or suite of information that the CBI requires from the OED on an annual or quarterly basis?**

Mark: *The type of reporting that the OED designs to discharge his/her obligations should at a minimum meet the requirements of the CP 86 guidance from the CBI and be fully cognisant of the recent letter thematic letter from the CBI. The OED should agree with the Board of the Fund ManCo the activities that he / she will carry out to discharge his / her responsibilities as OED. I would recommend that written reports are provided by the OED to the Board on a quarterly basis. An annual report on OE should be furnished to the Board. The quarterly board reports and the annual report are opportunities to formally make recommendations to improve OE and to provide evidence to the Board that the OED has kept OE under review throughout the year. Meetings and interactions by the OED with DPs on a quarterly basis should be documented by the OED.*

Eoin added: *There is no standard or format prescribed but there is an implied expectation that the OED and DPs fulsomely describe their roles, their finding and escalation of any issues with a program of action to conclusion with timelines.*

Appendix

The Bakers Dozen of top tips for the Director of Organisational Effectiveness

1. Get to Grips with the Role: Review, research and understand the role of the OED as per CP86 and recent CBI letter. Understand and learn the organisational structure of the Fund ManCo. Read the Program of Activity Document for the FMC and critically assess if the managerial team has set out its structure and execution of roles in line with it.

2. Lay out your stall to the Board: Explain to the Board how you will discharge the role of OED and get Board approval of the modus operandi to be used.

3. Continuous, consistent and clear dialogue: Keep having the critical conversations on Organisational Effectiveness with the CEO, the DPs and the Board throughout the year.

4. Document and evidence work completed: Monthly meetings with CEO, quarterly meetings with the DPs, quarterly reporting to the Board.

5. Track recommendations on Organisational Effectiveness to resolution: Follow up on written recommendations to the Board to correct deficiencies in Organisational Effectiveness or to improve or enhance existing Organisational Effectiveness.

6. Evolve your approach to Organisational Effectiveness as the Fund ManCo evolves: As the Fund ManCo grows AUM, or increases fund product complexity, or the market changes, be alert to flex your framework for reviewing Organisational Effectiveness.

7. Are the Organisational Effectiveness arrangements for the Fund ManCo fit for purpose? Continually ask this question as you review Organisational Effectiveness for the Fund ManCo throughout the year.

8. Resources, Resources and Resources: When thinking about resources ask yourself these questions: Is the heart and mind of the Fund ManCo in Ireland? Are the resources sufficient to safely run the business in accordance with regulatory requirements and in the interests of investors? What is the relationship and dynamic between the local Fund ManCo and the parent/ Group?

9. Conduct and Culture: A good open and constructively challenging relationship between the Director for Organisational Effectiveness and the CEO, the DP's and the Board is evidence of a Fund ManCo with good conduct and culture.

10. Use additional resources as required: The OED may require additional help to discharge the role in certain circumstances. I would ask Internal Audit to present to the Board of the Fund ManCo on an annual basis.

Three top tips in terms of Do Not's:

1. Do not take the role of OED if you are not willing to give it the time, energy and commitment it deserves.

2. Do not perform or redo the work of the DPs: Do make enquiries and satisfy yourself on a reasonable basis that the DPs are discharging their roles and continue to have the skills and expertise to do so.

3. Do not rely exclusively on reports from the DPs: Do make your own enquiries, form your own judgements and ask the hard questions as required of DPs.