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**Governance delle banche. Vecchie e nuove sfide.**  
Francesco Mauro  
**European Banking Authority**

# **1. Overview of current challenges for banks' governance**

## A. Governing transition: ESG

- ESG risks and factors, via various transmission channels, may act as an increasing driver for prudential risks



- ESG risks-related considerations are expected to be incorporated in strategies and objectives, governance structures.
- As part of the overall internal control framework, in prospective institutions should have a holistic institution-wide risk management framework which should consider how ESG risks and factors may drive their prudential risks (*2021 EBA Report on ESG Risk Management and supervision*)

## A. Governing transition: Digital transformation

- Development of digital strategy to ensure viability of the business model also through a more customer-centric approach.



- Digital strategies have to be aligned with and be an integral part of banks' overall business strategies, with capital and human resources to supply their implementation.
- Potential impact on risks in the form of financial, operational and reputational interdependencies need to be clearly understood and managed.

## B. ICT resilience

- Cyber risk and other external ICT-related threats have become increasingly relevant with the outbreak of the pandemic and the evolution of the geopolitical situation. They can cause disruptions in information systems and render business continuity arrangements ineffective



- Increasing attention to ICT security aspects covering system vulnerabilities, security management, and security awareness (*EBA Guidelines on ICT and security risk management*).
- Continuous testing (and updating) of business continuity plans (BCP)s to verify the ability of staff and contractors, ICT systems and ICT services to respond to the scenarios defined, as well as to effective crisis communication to internal and external stakeholders.

## C. Sanctions and AML compliance

- Breach of AML rules and sanctions are particularly relevant for the implication that they can have and the spill over on **prudential risks**.
- Banks need to be highly accurate in addressing new sanction requirements, as set from different jurisdictions, in which they are present.



- Stepping up the role, tasks and responsibilities of the compliance functions, including AML/CFT compliance (*EBA Guidelines specifying the role and responsibilities of the AML/CFT compliance officer and of the management body of credit or financial institutions*).

## D. Be prepared to crisis

- In an environment with increased uncertainty, preparation to crisis become crucial and banks should not overlook the role they are assigned in this context.



- Banks should ensure accurate and timely provision of the information necessary to prepare the institution's recovery and resolution plans and keep planning integrated into the institution's overall governance processes.
- Strategic decisions should take into account resolution-related interconnections impacting resolvability (such as M&A activities, legal entity restructuring, changes to the IT environment);



## **2. Make the Governance adequate**

## A. Management Board fully suitable also for this new challenges.....



### Assessment of the suitability of members includes:

- Good repute, honesty and integrity
- Independence of mind
- Knowledge
- Skills
- Experience
- Time commitment and limitation of directorships (since CRD IV)

**Individually** – member to meet general minimum standards and the specific requirements for the specific position; all individuals must have or gain (mandatory induction and training since CRD IV) sufficient knowledge with regard to the institutions business activities

**Collectively** – overall the board needs to cover all aspects of the business model, allowing for discussion and challenge of strategies and decisions; collective assessment should ensure that all areas are covered with expert knowledge.

## ..... leveraging on independency and diversity...



### **Independent directors**

- Boards should include independent directors (absence of close family or business relationships)
- Similar to diversity aims at improving discussion/challenge within the board
- Independence of mind also important for all members

### **Diversity (introduced in CRD IV)**

- To be taken into account when recruiting directors – aim is to improve the board composition
- Gender, age, educational and professional background, geographical provenance -> different points of view improve quality of decision making
- Diversity policy – quantitative targets for gender diversity (significant institutions – smaller firms qualitative targets)

## ... and fully deploying competences to the organisation



- Clear allocation of tasks and responsibilities at senior management and Management Board level
- Informed by independent 2<sup>nd</sup> line of defence
- Ensuring Tone from the Top – Implementation of corporate culture which should embed:
  - Protection of financial stability and reduction of operational and reputational risks
  - Diversity, inclusion and respect within the workforce
  - Customer oriented (interest based and fair treatment)
  - Involvement with society (ESG, environment protection, human rights, labour laws)
  - Training, awareness and mindset change
  - Foster diversity: succession planning and recruitment, coaching, sponsorships
  - Remuneration policy – alignment with performance, but also values of the bank, compliance and ESG elements
  - Monitoring, indicators, sanctioning of misconduct

## B. Effective 3 lines of defence....



### A functioning system of three lines of defence





.... addressing the most common weakness

■ **Internal risk management and compliance functions**

- Holistic view on risks
- Effective controls and systems implemented to ensure compliance
- Independent reporting lines to the board for the head of risk management

■ **Audit**

- Internal Audit plan well specified and up to date to follow on the challenges
- Full involvement of the Board in addressing the recommendations of the internal audit



## C. Enhancing testing capabilities

- Institutions` testing capabilities come to the forefront in times of great uncertainties and crucial changes (*EBA Guidelines on institutions` stress testing*).
- Strong governance structure and data aggregation capabilities are to support stress testing.
- The outcome of the stress testing programmes is to be channelled into management actions.

# Questions or comments?



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## EUROPEAN BANKING AUTHORITY

Floor 24-27, Tour Europlaza  
20 Avenue André Prothin  
92400 Courbevoie, France

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Tel: +33 1 86 52 70 00

E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

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<https://eba.europa.eu/>