

Global governance: What's around the corner for financial institutions?

Governance is at the heart of all business undertaken by a firm and underpins the conduct of its staff. Regulators know that good governance within firms is fundamental to ensuring resilience and protecting customers. Key elements of governance which may be the focus of regulatory attention include:

Board and Committee Structures | Roles and responsibilities | Management information | Issue escalation | Debate and challenge | Record keeping | Culture | Whistleblowing

Our financial services team look at the key governance trends for financial institutions in 2023:



Environmental, Social & Governance

ESG, managing the financial risks arising from climate change and transitioning towards a “net zero” economy are key global priorities across all sectors and will remain so over the coming years.

Within the financial services sector, global regulators are increasing their focus on how businesses are embedding their approach to the management of climate-related financial risks, the physical risks arising from climate change and transition plans towards “net zero” as well as related disclosures to investors and customers. Diversity and inclusion is also in the spotlight as regulators expect governance arrangements to reflect progress in this area.



Resilience

Regulators are increasingly focusing on the resilience of financial institutions in terms of their operations, outsourcing arrangements and cyber security.

Across all three of these interconnected areas, firms are expected to:

- consider and mitigate risks to the business, customers and financial markets more generally
- implement effective risk and control frameworks
- understand their resilience capabilities
- have a strategy in place to prevent, adapt to, respond to, recover and learn from any disruptions



Financial Crime

Financial crime remains a top regulatory priority across the globe particularly in light of recent world events. Regulators will continue to take action against firms and senior managers in connection with sanctions and other financial crime issues such as money laundering, market abuse and bribery imposing significant penalties and requiring the implementation of far-reaching and costly remediation schemes.

Governance is often at the heart of these cases. In particular, misconduct may arise and go undetected despite warning signs that, within a more robust governance framework, could have alerted those responsible to relevant issues.



Consumer Protection

Across the world, regulators are taking action to strengthen their frameworks surrounding the provision of financial services to consumers. The impact of this extends beyond the traditional financial services sector, for example, Buy Now Pay Later reform is taking shape in several jurisdictions in ways which will reshape consumer markets.

In some cases, compliance with upcoming regulatory change will require significant structural adjustments to governance arrangements, to ensure products and services are designed to meet consumer needs and deliver intended benefits. Oversight of distribution is also becoming a key governance challenge.

Global governance

Conducting a review: A checklist

One clear action that firms and senior managers can take with a view to ensuring good governance is to carry out periodic governance reviews for the purpose of assessing current arrangements, identifying any potential improvements and implementing any recommendations.

Procedural

- ✓ Involve relevant internal stakeholders as appropriate
- ✓ Set up a working group
- ✓ Implement appropriate governance arrangements for the review
- ✓ Consider the protection available under legal privilege
- ✓ Keep records of methodology and decisions made

Scope

- ✓ Select the priority area for review
- ✓ Prepare terms of reference for the review

Plan

- ✓ Identify materials needed to inform the review
- ✓ Identify the individuals whose input will be sought
- ✓ Prepare a review plan with clear milestones and deliverables

Want to hear more?

Our integrated team of experienced financial services lawyers, former regulators and risk consultants provide clients with a breadth of expertise and in-depth industry knowledge to deliver practical and pragmatic support in undertaking governance reviews to meet clients' bespoke needs.

We can provide assistance at various stages and levels during a review process including:

- supporting in setting up and scoping the review;
- undertaking the review (including the gathering and assessment of information and delivery of workshops/interviews with key stakeholders); and
- assisting with presenting findings to senior management.

Get in touch to book an insight session with your financial services team contact on any, or all, of the key trends addressed.

Key contacts



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