

THE CORPORATE
GOVERNANCE
REVIEW

ELEVENTH EDITION

Editor
Willem J L Calkoen

THE LAWREVIEWS

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GOVERNANCE
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PREFACE

I am proud to present this new edition of *The Corporate Governance Review* to you.

In this 11th edition, we can see that corporate governance is becoming a more vital and all-encompassing topic, especially this year with covid-19 as well as climate issues, political instability, technological change, environmental, social and corporate governance (a stakeholder model to which many countries are moving), green finance and the demand from both employees and customers for a sound reputation for the best personal health and moral responsibility. We all realise that the modern corporation is one of the most ingenious concepts ever devised. Our lives are dominated by corporations. We eat and breathe through them, we travel with them, we are entertained by them, and most of us work for them. Most corporations aim to add value to society, and they very often do. There is increasing emphasis on this. Some, however, are exploiting, polluting, poisoning and impoverishing us, which can create a depressed reputation for business. A lot depends on the commitment, direction and aims of a corporation's founders, shareholders, boards, management and employees. Do they show commitment to all stakeholders and to long-term shareholders, or mainly to short-term shareholders? There are many variations on the structure of corporations and boards within each country and between countries. All will agree that much depends on the personalities and commitment of the persons of influence in the corporation.

We see that everyone wants to be involved in better corporate governance: parliaments, governments, European Commission, US Securities and Exchange Commission (SEC), Organisation for Economic Co-operation and Development (OECD), the UN's Ruggie reports and 17 social development goals, the media, supervising national banks, more and more shareholder activists, proxy advisory firms, the Business Roundtable and all stakeholders. The business world is getting more complex and overregulated, and there are more black swans, while good strategies can quite quickly become outdated. Most directors are working very diligently. Nevertheless, there have been failures in some sectors and trust must be regained.

How can directors do all their increasingly complex work and communicate with all the parties mentioned above? What should executive directors know? What should non-executive directors know? What systems should be set up for better enterprise risk management? How can chairs create a balance against imperial chief executive officers (CEOs)? Can lead or senior directors create sufficient balance? Should most non-executive directors understand the business? How much time should they spend on their function? How independent must they be? Is diversity and inclusion actively being pursued? Is the remuneration policy fair? What are the stewardship responsibilities of shareholders? What are the pros and cons of shareholder rights plans and takeover defences?

Governments, the European Commission and the SEC are all pressing for more formal, inflexible legislative acts, especially in the area of remuneration. Acts set minimum standards,

while codes of best practice set aspirational standards. We see a large influence on norms by codes and influential investor groups.

More international investors, Business Roundtable, voting advisory associations and shareholder activists want to be involved in dialogue with boards about strategy, succession and income. Indeed, far-sighted boards have 'selected engagements' with stewardship shareholders to create trust: one-on-ones. What more can they do to show all stakeholders that they are improving their enterprises other than through setting a better tone from the top and work at complying with demands and trends for a better society?

Interest in corporate governance has been increasing since 1992, when shareholder activists forced out the CEO at General Motors and the first corporate governance code – the Cadbury Code – was written. The OECD produced a model code, and many countries produced national versions along the lines of the Cadbury comply or explain model. This has generally led to more transparency, accountability, fairness and responsibility. However, there have been instances when CEOs have gradually amassed too much power, or companies have not developed new strategies and have incurred bad results – and sometimes even failure. More are failing since the global financial crisis than before, hence the increased outside interest in legislation, further supervision and new corporate governance codes for boards, stewardship codes for shareholders and shareholder activists, and requirements for reporting on non-financial issues. The European Commission has developed regulation for these areas as well. We see governments wanting to involve themselves in defending national companies against takeovers by foreign enterprises. We also see a strong movement of green investors, which often is well appreciated by directors. There is a move to corporate citizenship. Business Roundtable, with about 180 signatories, has embraced stakeholder corporate governance.

This all implies that executive and non-executive directors should work harder and more as a team on long-term policy, strategy, entrepreneurship and investment in research and development. More money is lost through lax or poor directorship than through mistakes. On the other hand, corporate risk management, with new risks entering, such as the increasingly digitalised world and cybercrime, is an essential part of directors' responsibilities, as is the tone from the top.

Each country has its own laws, codes and measures; however, the chapters in this Review also show a convergence. Understanding differences leads to harmony. The concept underlying the book is that of a one-volume text containing a series of reasonably short, but sufficiently detailed, jurisdictional overviews that permit convenient comparisons, when a quick first look at key issues would be helpful to general counsel and their clients.

My aim as editor has been to achieve a high quality of content so that this Review will be seen as an essential reference work in our field. To meet the all-important content quality objective, it was a condition *sine qua non* to attract as contributors colleagues who are among the recognised leaders in the field of corporate governance law from each jurisdiction.

I thank all the contributors who have helped with this project. I hope this book will give you food for thought; you always learn about your own law and best practice by reading about the laws and practices of others. Further editions of this work will obviously benefit from the thoughts and suggestions of its readers. We will be extremely grateful to receive comments and proposals on how we might improve the next edition.

Willem J L Calkoen

NautaDutilh

Rotterdam

March 2021

IRELAND

*Paul White and Julie Murray*¹

I OVERVIEW OF GOVERNANCE REGIME

The corporate governance of business organisations in Ireland is derived from a combination of corporate law,² statutory regulations and codes (for the most part non-binding). In addition, for privately owned corporations, although the governance architecture is explicitly dealt with in the constitutional documents and by-laws (known as the constitution or articles of association), it is also often addressed as a matter of contract between the shareholders in a shareholders' agreement.

For the purposes of this chapter, we focus on corporate governance in public or listed companies.

i Corporate governance requirements for listed companies

Companies listed on the principal Irish securities market, Euronext Dublin, are required to comply with both the UK Corporate Governance Code (the Corporate Governance Code) and the Irish Corporate Governance Annex.

The terms of the Corporate Governance Code³ are dealt with elsewhere in this publication⁴ and so those terms are not restated here. An important basis or feature of the Corporate Governance Code is the comply or explain approach to compliance. Under the Irish Stock Exchange Listing Rules (the Listing Rules), companies listed on Euronext Dublin are expected to comply with the Corporate Governance Code or set out an explanation for any deviation from its provisions in their annual reports to shareholders.

The Irish Corporate Governance Annex asks for meaningful, evidence-based descriptions in annual reports of how the Code is applied rather than 'recycling' descriptions that replicate the wording of the Code.

The Irish Annex identifies the following key recommendations for inclusion in an annual report:

- a* an explanation as to why the number of non-executive directors is regarded as sufficient;
- b* a description of the skills, expertise and experience of each director, including those appointed by the government;
- c* the process followed in selecting and appointing new directors;
- d* the methodology in the annual evaluations of the directors individually and collectively;

1 Paul White is a partner and Julie Murray is a knowledge lawyer at A&L Goodbody.

2 A mixture of primary legislation and common law.

3 The updated Corporate Governance Code applies to accounting periods beginning on or after 1 January 2019.

4 See the United Kingdom chapter.

- e* the factors taken into account when determining a director's independence;
- f* a description of the work carried out by the audit committee generally, and in relation to risk oversight more specifically; and
- g* a description of the remuneration policy, how performance elements are deferred and any clawback arrangements.

Furthermore, companies listed on the smaller Irish securities market, Euronext Growth, are also encouraged to adopt a corporate governance code on admission to that market. They are required to publish details of the corporate governance code they have chosen to apply and how it complies with that code, or a statement that no code has been adopted, if that is the case. In practice, a number of these companies adhere to the Principles of Corporate Governance issued by the UK Quoted Companies Alliance.

ii Banks and other financial institutions

Banks and insurers in Ireland follow, on a statutory and mandatory basis, separate corporate governance requirements issued by the Central Bank of Ireland (CBI) in 2016. Banks are required to follow the Corporate Governance Requirements for Credit Institutions 2015 (the Credit Institutions Requirements) and insurance undertakings follow the Corporate Governance Requirements for Insurance Undertakings 2015 (the Insurance Undertakings Requirements). Captive insurance and reinsurance undertakings are required to follow the Corporate Governance Requirements for Captive Insurance and Captive Reinsurance Undertakings 2015.

The significance of the Credit Institutions Requirements and the Insurance Undertakings Requirements (together, the CBI Requirements) is that they are mandatory; in other words, the comply or explain approach to compliance does not apply.

The CBI Requirements include the following:

- a* boards must have a minimum of seven directors in major institutions and a minimum of five in all others;
- b* requirements on the role and number of independent non-executive directors (including internal and external evaluation, training and professional support);
- c* criteria for director independence and consideration of conflicts of interest;
- d* limits on the number of directorships that directors may hold in financial and non-financial companies to ensure they can comply with the expected demands of board membership of a credit institution or insurance company;
- e* clear separation of the roles of chair and chief executive officer;
- f* a prohibition on an individual who has been a chief executive officer, director or senior manager of an institution during the previous five years from becoming chair of that institution;
- g* a requirement that board membership is reviewed at a minimum every three years;
- h* a requirement that boards set the risk appetite for the institution and monitor adherence to this on a continuing basis;
- i* minimum requirements for board committees, including audit and risk committees;
- j* prescriptive measures around how and when board meetings must be held, and attendance at board meetings by directors;
- k* a requirement for an annual confirmation of compliance to be submitted to the CBI;

- l* the use of videoconferencing when a director cannot attend a meeting; and
- m* the audit committee as a whole must have relevant financial experience, and one member must have an appropriate qualification.

Corporate governance themes such as diversity and risk are also reflected in the CBI Requirements. For example, the Credit Institutions Requirements provide that a chief risk officer must be appointed to oversee the institution's risk management function, and that a risk committee must be established. The chair of this committee must be a non-executive director and the committee must be composed of a majority of non-executive directors. The audit and risk committees must have a minimum of three members.

The board or nomination committee is also required to establish a written diversity policy for consideration in future board appointments.

II CORPORATE LEADERSHIP

The principal leadership role for any company is performed by the board of directors. The role of the director is governed principally by the Companies Act 2014 (the 2014 Act), the primary source of corporate law in Ireland, and by principles established by case law (in this regard, English case law is generally regarded as having persuasive authority in Ireland). This body of law is further supplemented by a growing suite of statutory regulations, codes and guidelines, many of which are mentioned elsewhere in this chapter. Below is a brief (and non-exhaustive) discourse on some of the more significant aspects of the law surrounding directors and the structures and practices of boards in Ireland.

i Board structure and practices

One-tier structure

Generally, the board of directors of an Irish company is structured as a one-tier body (usually comprising both executive directors and non-executive directors), unlike in other jurisdictions where two-tier structures are more common. Irish law does not prohibit the two-tier board, but it does not arise in practice: were it to do so, directors would be likely to face the same liability regardless of their position within a two-tier board system.

Composition of the board

Every Irish public company must currently have at least two directors, but the articles of association of the company (i.e., its constitution) may provide for a greater minimum number (as may any applicable corporate governance code that applies to the company). Since the enactment of the Companies Act, private companies limited by shares are permitted to have a sole director, but they must also have a separate company secretary. A body corporate is prohibited from becoming a director of an Irish company. As in other jurisdictions, a public company or a large private company will generally have a combination of executive and non-executive directors on its board, whereas a small private company will generally have all executive directors.

Authority of directors to represent the company

A director can only enter into a proposed contract on behalf of a company when it is within his or her permitted delegated authority to do so, unless that contract or commitment has been approved by the board. The authority of the director may be actual or ostensible. Actual authority is usually rooted in the service contract between a company and the director. It can also be implied, for example, by the ordinary course of the business of the office that the director holds, such as managing director or chief executive officer. However, even when no actual authority exists, the company may still be bound by the director's actions when he or she acts within his or her ostensible or apparent authority (i.e., if he or she is held out by the company as having the authority, for example, of a particular office holder, such as managing director or chief executive officer). In grappling with the principles surrounding actual and ostensible authority, it is also necessary to bear in mind the internal management principles, which means that, if a third party is dealing with a company, he or she is not obliged to enquire into the regularity of its internal proceedings. However, this rule is not absolute and there are limits to its scope and operation. The board of directors and individuals authorised by the company are entitled to bind it. Persons authorised may be registered on a register maintained in the public Companies Registration Office as being entitled to bind the company, although this is not a mandatory requirement.

Legal responsibilities of the board

The root source of all corporate authority lies with the shareholders. However, as in other jurisdictions, shareholders generally delegate the management of the company to the board of directors and allow them to exercise all the powers of the company except a specific number of matters that must, under statute, be exercised by the shareholders.

Chair

Although the chair of a company has specific roles (and, to an extent, responsibilities), including chairing the board of directors and shareholder meetings, he or she does so as a director. As a director, he or she is subject to the same duties and has the same authority as that of any other board member. If a company adopts a standard constitution or articles of association, the chair will enjoy an additional vote in the event of an equal number of votes being cast in respect of any matter at board level.

Significantly, for companies listed on Euronext Dublin, the Corporate Governance Code contains a number of provisions relating to the role of chair, which include responsibility:

- a* to ensure that a culture of openness and debate prevails;
- b* to ensure that directors receive accurate, timely and clear information;
- c* to ensure that all directors are made aware of shareholders' views: in particular, the chair must seek regular engagement with major shareholders on matters such as governance and performance against strategy;
- d* to consider a regular externally facilitated board evaluation; and
- e* subject to limited exceptions, not to remain in the post for a term of more than nine years.

Delegation of board responsibilities

In general, the board of directors may delegate its authority to an individual director, to employees or to committees established by the board. Having delegated powers, the directors are not absolved from all responsibility in relation to the delegated actions, as the directors will continue to be under a duty to investigate the operations of the company diligently and with skill.

It is also open to a director, subject to the constitution or articles of association of the company, to appoint an alternative director to fulfil his or her duties on his or her behalf, generally in relation to a specific action or period. Whereas the alternative director is personally liable for his or her own actions, the appointing director again is not absolved and can be held responsible with the alternative director.

Chief executive officer

Irish law is not particularly prescriptive in relation to the role of managing director or chief executive officer. In general, the powers of the chief executive officer are not fixed by law, but depend instead on the terms of the service agreement agreed from time to time between the board and the chief executive.

To ensure that there is a clear division of responsibilities between the running of the board and the running of the company's business, the Corporate Governance Code and CBI Requirements (among others) recommend that the role of chair and chief executive officer should not be fulfilled by the same individual. The Corporate Governance Code also suggests that no former chief executive officer should become chair of the same company, and that the division of responsibilities between the chair and the chief executive officer be clearly established, set out in writing and agreed by the board.

Committees of the board

As previously mentioned, Irish companies commonly delegate certain matters to committees established by the board. Under Irish company law, public limited companies are required to establish an audit committee. The Listing Rules require that certain listed companies are further required to constitute certain other governance committees.⁵ Credit institutions, insurance or reinsurance undertakings and other regulated entities are subject to separate requirements under applicable authorisation regimes.

Board and company practice in takeovers

The two principal sources of responsibility imposed on directors of a company in the course of a takeover offer are common law and the Rules of the Irish Takeover Panel (the Takeover Rules), which have the force of law in Ireland. Two other important sources of duties and obligations are the Listing Rules and the Companies Act.

The Takeover Rules, in particular, cover a wide range of matters concerning takeovers, and it is the responsibility of each company director, whether executive or non-executive, to ensure, so far as he or she is reasonably able, that the Takeover Rules are complied with during offer periods. In essence, the Takeover Rules prohibit a company from taking any action that might frustrate the making or implementation of an offer for the company, or depriving the

5 See Section III.ii for further information.

shareholders of the opportunity of considering the merits of such an offer at any time during the course of the offer or at any earlier time at which the board has reason to believe that the making of such an offer may be imminent.

ii Directors

Non-executive or outside directors

Under Irish law, no distinction is drawn between the non-executive director and any other director, so non-executive directors owe the same duties as other directors to the company, its creditors and employees.

When non-executive directors are appointed on the nomination of a third party, most commonly a shareholder, the nominee is entitled to have regard to the appointer's interests, but only to the extent that they are not incompatible with his or her duty to act in the interests of the company.

The non-executive director role has attracted much attention in terms of the importance of the role as an independent watchdog. The Corporate Governance Code, for example, requires the non-executive directors of listed companies to constructively challenge board strategy. In addition, it recommends that the board should appoint one independent non-executive director to be the senior independent director to provide a sounding board for the chair, and that the board should not agree to a full-time executive director taking on more than one non-executive directorship or the chair in a FTSE 100 company or equivalent Irish company (FTSE 350 equivalent). There are some recent sources of guidance for non-executive directors on care, skill and due diligence, which are available to Irish non-executive directors.

Duties of directors

The duties of directors in Ireland are grounded in case law, legislation and related rules and codes. These duties, predictably, echo those in other jurisdictions.

Since 1 June 2015, a codified set of principal directors' duties has been in force under the Companies Act. The list of eight codified duties has its origins in the common law historically developed by the courts in Ireland and the United Kingdom.

The principal fiduciary duties of directors that have been enumerated in the Act are:

- a* to act in good faith in what the director considers to be in the interests of the company;
- b* to act honestly and responsibly in relation to the conduct of the company's affairs;
- c* to act in accordance with the company's constitution and exercise his or her powers only for the purposes allowed by law;
- d* to not use the company's property, information or opportunities for his or her own or anyone else's benefit unless this is expressly permitted by the constitution or approved by resolution of the members in a general meeting;
- e* to not agree to restrict the director's power to exercise an independent judgement, unless this is expressly permitted by the company's constitution, or the director believes in good faith that it is in the interests of the company for a transaction or arrangement to be entered into for him or her to fetter his or her discretion in the future by agreeing to act in a particular way to achieve this, or the directors agreeing to this has been approved by resolution of the members in general meeting;
- f* to avoid any conflict between the director's duties to the company and his or her other (including personal) interests unless the director is released from this duty in accordance with the constitution, or by a resolution of the members in general meeting;

- g* to exercise the care, skill and diligence that would be exercised in the same circumstances by a reasonable person having both the knowledge and experience that may reasonably be expected of a person in the same position as the director, and the knowledge and experience that the director has; and
- b* to have regard to the interests of the company's employees in general and of its members.

These duties are owed to the company and are enforceable by the company in the same way as any other statutory duties owed by the director to the company. The Act provides that these principles are based in common law and equitable principles, and that the new statutory duties must be interpreted and applied as such.

Directors' compliance statement

As a result of an obligation introduced by the Companies Act, public limited companies are required to include a compliance statement in the directors' annual report accompanying their company's financial statements. This requirement applies in respect of financial years commencing on or after 1 June 2015.

Directors must acknowledge that they are responsible for securing their company's compliance with its relevant obligations (which includes obligations under tax law, and some of the more serious capital maintenance and financial disclosure and reporting obligations).

Directors must also, on a comply or explain basis, confirm that:

- a* they have drawn up a compliance policy statement appropriate to their company setting out the company's policies regarding compliance;
- b* appropriate arrangements or structures are in place that are, in the director's opinion, designed to secure material compliance with its relevant obligations; and
- c* they have reviewed, during the financial year, the arrangements or structures that have been put in place to secure this material compliance.

If these statements, confirmations and reviews have not been made or carried out, the directors must specify in their directors' report the reasons why not.

Statutory audit confirmation

The Companies Act introduced a new statutory obligation on the directors of all companies to include a statement in their directors' report that so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information, and to establish that the company's auditors are aware of that information. This is similar to the obligation that has existed in the United Kingdom since 2006.

Liability of directors

Directors are not liable for the commitments and obligations of the companies they serve.

Directors can be held personally liable or subject to fines and, in very serious circumstances, imprisonment for breaches of various statutory provisions such as those relating to company law, environmental law and health and safety law. Examples under the Companies Act include when the director engages in insider dealing, or makes false or misleading statements in certain circumstances.

Under the Companies Act, a new streamlined summary approval procedure (SAP) has been created to enable companies to carry out certain activities that would otherwise be prohibited (such as financial assistance, capital reductions and repayments, mergers). The SAP is only available to public limited companies for a members' voluntary winding up, the prohibition on pre-acquisition profits or losses being treated in a holding company's financial statements as profits available for distribution, and the prohibition on entering into loans or quasi-loans to directors or other connected persons.

Under the SAP rules, a directors' declaration of solvency and shareholder approval is required, and in some cases a confirmatory auditors' report is also required. The SAP rules provide that a court may declare a director personally responsible, without any limitation of liability, for all or any liabilities of the company if a declaration is made without having reasonable grounds for the opinion on the solvency of the company as set out in the declaration.

In the context of entering into a contract on behalf of a company, a director can be made personally liable if he or she commits a tort or fraud on behalf of the company (or induces the company to do so), gives a personal guarantee, or fails to make the other party aware that he or she is acting as an agent for the company.

In the context of insolvency, directors may also face personal liability in a limited number of circumstances: for example, if they engage in fraudulent or reckless trading, misapply company assets or make an incorrect declaration of solvency in the context of a voluntary liquidation. On insolvency, a director may also face restriction for five years or disqualification for up to five years or such other period as the courts think fit.

Appointment, term of office, removal

The appointment and removal of directors is generally governed by the company's constitution or articles of association. The right to elect directors is generally reserved to shareholders, save where a casual vacancy arises. The directors usually have the right to fill a casual vacancy, by a resolution of the directors passed at a board meeting or by unanimous written resolution of the directors, but this appointment might then, particularly with public companies, be subject to shareholders' confirmation at the next annual general meeting (AGM) after such an election. Under the Companies Act, the directors of a public limited company are required to retire by rotation unless the company's constitution provides otherwise. For listed companies to which the Corporate Governance Code applies, all the directors must be reappointed annually.

Apart from the terms of the constitution or articles of association, shareholders also have a statutory right to remove directors by way of resolution passed by simple majority, subject to the directors' right to attend the shareholders' meeting in question and to make representations.

Conflicts of interest of directors

The area of directors' conflicts of interest has been the subject of a number of judicial decisions over a number of years, and an extensive body of case law has developed around it. The key principles are, as mentioned, that a director should not place himself or herself in a position where his or her duty to the company conflicts with his or her own personal interests, and that a director should not gain from his or her fiduciary position. Added to this common law is a host of statutory provisions setting out different checks and balances primarily aimed at the protection of shareholders and creditors.

III DISCLOSURE

i Financial reporting and accountability

Companies are required to disclose details of their accounts at their AGM and in their annual return, which is filed with and publicly available at the Companies Registration Office. Since May 2017, a long-standing non-filing exemption enjoyed by unlimited companies with a particular non-EU or non-European Economic Area (EEA) shareholding structure has been removed, by virtue of the Companies (Accounting) Act 2017. Under the Companies Act, related party transactions that are material and have not been concluded under normal market conditions are required to be disclosed in the notes to the company's accounts.

Company accounts must be audited by a qualified auditor, and the auditor's report is distributed to shareholders and included in the annual return.

Companies with securities admitted to trading on a regulated market (in Ireland, this is Euronext Dublin) must disclose financial and other information to shareholders regularly. The Transparency Regulations 2007 (as amended, including twice in 2015 and once in 2017) (the Transparency Regulations) and related rules issued by the CBI (which implement the EU Transparency Directive⁶) require the publication of annual and half-yearly financial reports. They also require companies to publish information that is disclosed to them by persons who have acquired or disposed of voting rights in the company.

The Companies Act provides a definition of a traded company for the first time in Irish law. A traded company includes a public limited company that has shares or debentures admitted to trading on a regulated market in an EEA Member State.

Traded companies are required to include, in the directors' report, a corporate governance statement in respect of the financial year concerned. This statement must be included as a specific section of the directors' report and must include the following information:

- a* a reference to the corporate governance code to which the company is subject, including all relevant information concerning corporate governance practices applied in respect of the company, which are additional to any statutory requirement, and details of where the text of the relevant corporate governance code is publicly available. If the company departs from the corporate governance code, details of this, and of the reasons for the departure, should be included;
- b* a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process;
- c* information already required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 relating to the company's share and control structures (where the company is subject to this Directive);
- d* the operation of the shareholders' meeting and its key powers, and a description of shareholders' rights and how they can be exercised; and
- e* the composition and operation of the board and its committees.

The company's auditors, when preparing their report to the members to be read at the AGM, must establish that the corporate governance statement addresses the information

⁶ Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

required under the Companies Act, and provide an opinion on certain aspects of the report. Companies that comply with the CBI Requirements are also required to submit an annual compliance statement to the Central Bank of Ireland.

The European Union (Statutory Audits) Regulations 2016 (the 2016 Regulations) came into effect in Ireland in June 2016. These Regulations give effect to the Statutory Audit Directive,⁷ which amended the original Statutory Audit Directive⁸ in various ways. The new regime was designed to enhance the independence of statutory auditors, and the quality and credibility of statutory audits, across the EEA.

Public listed companies are regarded as public interest entities (PIEs) for the purposes of the legislation, and the following provisions apply to them:

- a* PIEs are obliged to rotate their auditor firm after a maximum of 10 years (from date of initial appointment);
- b* there are tighter restrictions on the provision of non-audit services by auditors to PIEs;
- c* the selection and appointment of the statutory auditors must adhere to specified procedures, which must be established by a PIE; and
- d* there are detailed requirements regarding the establishment of audit committees in PIEs; however, new legislation has introduced certain exemptions from this obligation in small and medium-sized PIEs (discussed in further detail below).

ii Audit committees

The requirement for PIEs to establish an audit committee has been in place in Ireland since the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (the 2010 Regulations) were published, giving effect to Directive 2006/43/EC on statutory audits.

Under the Companies Act, PIEs are defined as companies whose transferable securities are admitted to trading on a regulated market of any Member State, credit institutions, and insurance and reinsurance undertakings. The Companies Act provides that the directors of a PIE, with a number of exceptions, must establish an audit committee. The majority of members of the audit committee must be non-executive directors, who must have the requisite level of independence to enable them to contribute effectively to the committee's functions. Irish law provides for an exemption to this obligation for PIEs that are small or medium-sized enterprises and companies listed on an EU-regulated market (such as Euronext Dublin) with an average market capitalisation of less than €100 million for the previous three years.⁹

The responsibilities of the audit committee include:

- a* informing the directors of the entity of the outcome of the statutory audit and explaining how the statutory audit contributed to the integrity of the financial reporting;
- b* monitoring the financial reporting process;
- c* monitoring the effectiveness of the company's systems of internal control, internal audit and risk management; and
- d* monitoring the statutory audit of the annual and consolidated accounts.

7 Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

8 Directive 2006/43/EC.

9 This latter exemption does not apply to any captive insurance or reinsurance undertaking owned by a credit institution or with securities admitted to trading on a regulated market.

The Companies Act contains provisions on many aspects of auditing that were carried over from the 2016 Regulations (and the 2010 Regulations before that), including:

- a* the approval of statutory auditors and audit firms;
- b* the educational standards of auditors;
- c* the establishment of a public register of auditors;
- d* the independence of auditors; and
- e* arrangements regarding third-country auditors.

A notable provision is that statutory auditors or audit firms may be dismissed only if there are proper grounds. Divergences of opinions on accounting treatments or audit procedures are not considered to be proper grounds for dismissal.

Under the Companies Act, large private companies that meet certain financial thresholds are required to have an audit committee on a comply or explain basis.

Listed companies following the Corporate Governance Code must additionally comply with the relevant provisions relating to audit committees, or explain why not.

Financial institutions and insurance undertakings must also comply with the relevant provisions on audit committees contained within the CBI Requirements, which operate on a statutory basis rather than a comply or explain basis.

iii Market disclosure

Listed companies must also comply with certain disclosure requirements contained in the Listing Rules, the EU Market Abuse Regulation (MAR) (as implemented in July 2016) and the Takeover Rules. Pursuant to MAR, Irish listed companies are required to release inside information to the market without delay (except when limited circumstances exist for deferring this information). Under MAR, companies are required to put systems in place to ensure both their initial and their continuing compliance with market abuse legislation. MAR also introduces more significant record-keeping and reporting obligations when market disclosure has been delayed.

Changes to MAR came into effect on 1 January 2021 as a result of the Regulation on SME Growth Markets,¹⁰ which came into force on 31 December 2019. Some of the amendments are aimed solely at issuers trading on small and medium-sized enterprise (SME) growth markets, but there are also a number of amendments to the MAR regime as it applies to all market participants. As a result of these changes, issuers on SME growth markets (e.g., Euronext Growth) will no longer be exempt from producing insider lists and will instead have reduced disclosure requirements.

iv Disclosure of share interests

Under the Companies Act, directors, shadow directors and company secretaries must disclose to the company, in writing, interests they have in shares and debentures in the company, its subsidiary or holding company. Specifically, they must disclose the subsistence of their interest, the number of shares of each class and the number of debentures of each class of the company, subsidiary or holding company. Under the Companies Act, the threshold at and above which that interest in a public company must be disclosed has been reduced to

¹⁰ Regulation (EU) 2019/2115 of 27 November 2019 amending Directive 2014/65/EU and Regulations (EU) No. 596/2014 and (EU) 2017/1129 as regards the promotion of the use of SME growth markets.

3 per cent. The Act also provides that certain transactions and arrangements between directors and persons connected to them, and the company or its subsidiary, must be disclosed in the company's accounts.

In addition, persons discharging managerial responsibilities are obliged to disclose their interests and those of close family members in shares of companies whose shares are admitted to trading on a regulated market, under the MAR. Under the Transparency Regulations and related Central Bank Transparency Rules, major shareholders in issuers whose shares are admitted to trading on a regulated market in Ireland must disclose the voting rights held by them.

v Beneficial ownership

The European Union (Anti-Money Laundering: Beneficial Ownership of Corporate Entities) Regulations 2019 (the Regulations) came into force on 22 March 2019. The Regulations revoked previous legislation from 2016 and brought Ireland's beneficial ownership rules for corporates in line with the Fourth Anti-Money Laundering Directive, as amended by the Fifth Anti-Money Laundering Directive.

All corporate and other legal entities, but excluding companies listed on an EU-regulated market, must comply with the Regulations. The Regulations require entities incorporated in the state to hold adequate, accurate and current information on the controllers and beneficial owners of more than 25 per cent of their entity.

Corporate and legal entities are now required to file information about their beneficial owners with a central beneficial ownership register. The central register in Ireland is maintained by the Companies Registration Office.

Listed companies are not required to comply with the Regulations, as they are subject to disclosure requirements that are consistent with this law.

vi Non-financial and diversity information

EU Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups was implemented in Ireland in July 2017, by means of the European Union (Disclosure of non-financial and diversity information by certain large undertakings and groups) Regulations 2017.

The Directive amended the Fourth and Seventh Accounting Directives on Annual and Consolidated Accounts¹¹ by including new provisions on the disclosure of non-financial information, and new provisions on boardroom diversity.

The Regulations provide for two separate reporting requirements, as follows:

- a* The directors of companies that are categorised as public interest entities and large, and that have more than 500 employees, and companies that are ineligible entities (companies that do not qualify for audit exemptions) must include a statement containing specific non-financial information in the company's directors' report. The non-financial statement must include information about environmental, social and employee matters, respect for human rights and bribery and corruption. If a company does not have policies in any of these areas, it must explain why not.

11 Directives 78/660/EEC and 83/349/EEC, respectively.

- b* Large traded companies must include a diversity report in their company's corporate governance statement. The report must include a description of the company's diversity policy, and must contain information on the age, gender or educational and professional backgrounds of board members. If a company does not have a diversity policy, it must explain why not.

The Regulations came into effect in August 2017 and apply to financial years beginning on or after 1 August 2017.

IV CORPORATE RESPONSIBILITY

There are no specific legal requirements or guidance in Ireland regulating corporate social responsibility. However, Irish companies are increasingly aware of corporate social responsibility issues. Most public listed companies acknowledge the need for and benefits of providing information to shareholders and the public on corporate social responsibility.

Legislation exists in Ireland that is designed to protect whistle-blowers. The Protected Disclosures Act 2014 aims to ensure workers are protected from reprisal if, in good faith and in the public interest, they disclose information relating to wrongdoing in the workplace. Employers are required to publish and put in place policies and procedures to deal with whistle-blowing. The Act protects workers in all sectors. For employees who believe that they have been unfairly treated as a result of disclosing company malpractice, there are also remedies under employment law, and in particular unfair dismissals legislation.

V SHAREHOLDERS

There has been a global move towards enhanced rights for shareholders. A significant development in shareholders rights, and one that Ireland shares with its EU neighbours, is the Shareholders Rights Directive,¹² implemented in Ireland by the Shareholders' Rights (Directive 2007/36/EC) Regulations 2009.

Directive (EU) 2017/828 amending Directive 2007/36/EC, which introduces new provisions in the Shareholder Rights Directive aimed at improving engagement with shareholders, was agreed in May 2017. The European Union (Shareholders' Rights) Regulations 2020 came into operation on 30 March 2020, transposing Directive (EU) 2017/828 into Irish law.

Among the provisions of note are the right for companies to be able to identify their shareholders, the transmission of information between companies and shareholders, and provisions concerning remuneration policies of directors. These new provisions substantially reflect current practice in the Irish market, which has been developed as a result of Irish listed companies that are also listed on the London Stock Exchange opting to comply with the position in the United Kingdom on a number of these issues.

12 Directive 2007/36/EC of 11 July 2007 on the exercise of certain rights of shareholders in listed companies.

i Shareholder rights and powers

Equality of voting rights

Every registered shareholder entitled to attend meetings of an Irish company is also entitled to vote on any shareholder matter, unless the company's constitution or articles of association, or the terms of issue of the shares, dictate otherwise. Many private companies in Ireland have only one class of ordinary shares in issue, with each share carrying equal rights in relation to voting and dividends, and on a winding-up. However, it is also quite common for an Irish company to introduce different classes of shares, for example voting and non-voting, or a share class that might attach weighted voting rights either generally or on a particular matter.

Rights accrue only to those persons who are registered in the register of members of the company and not to beneficial holders. There is some suggestion that direct and indirect holders of shares may be given equal rights in the future, but this has yet to materialise.

Other rights of shareholders

Shareholders in Irish companies enjoy all the usual rights associated with membership of a company, for example the right to receive copies of financial information, pre-emption rights and the right to wind up the company.

Shareholders of some Irish listed companies also enjoy certain additional and enhanced rights. For example, under the Companies Act, a general meeting can be called by members representing only 5 per cent of the voting capital of a company listed on Euronext Dublin (10 per cent for companies listed on the smaller Euronext Growth). In addition, members holding 3 per cent of the issued capital of a company listed on Euronext Dublin, representing at least 3 per cent of its total voting rights, have the new right to put items on the agenda and table draft resolutions to be adopted at AGMs. Listed companies are allowed to offer members participation in and voting at general meetings by electronic means (although there is likely to be debate about exactly what this means) and will also be allowed to offer the possibility of voting by correspondence in advance. However, neither of the latter provisions is mandatory, and companies are merely permitted to provide these facilities.

Decisions reserved to shareholders

Generally, shareholders do not have a role in deciding or approving operational matters, regardless of size or materiality. An exception to this principle arises under the Listing Rules in relation to large transactions.

Under Irish law, there is a list of structural matters that are reserved to be decided by the shareholders by ordinary resolution (or a simple majority) of those who vote. Examples include the consolidation or subdivision of shares, the payment of compensation to former directors and the purchase 'on market' of the company's own shares. Certain other actions are also reserved but require a special resolution (or 75 per cent of the votes). Examples of these matters include the alteration of the memorandum and articles of association of the company, the giving of financial assistance in connection with the purchase of the company's own shares and the reduction of share capital.

Rights of dissenting shareholders

A number of remedies are open to disgruntled shareholders under Irish law. Perhaps the remedy that is most often talked about is the statutory right of minority shareholders to seek potentially far-reaching redress on the grounds of majority shareholder oppression, where shareholders can also apply to court to have a forced sale of the company or to have the

company wound up on just and equitable grounds. Here it must be shown that the act or measure complained of has as its primary motive the advancement of the interests of the majority shareholders as opposed to the interests of the company as a whole. Mere dissent by a minority is insufficient to support a claim for redress. The Companies Act permits the courts to award a wide range of remedies, including forced sale, winding up and compensation for any loss or damage as a result of oppressive conduct.

ii Shareholder duties and responsibilities

Controlling shareholders

The Irish company is legally separate from its shareholders, even its controlling shareholder. The powers, rights, duties and responsibilities of the controlling shareholder, as any other shareholder, will be determined by the terms of issue of the shares, the constitution or articles of association of the company and any applicable shareholders' agreement. However, the actions of a controlling shareholder should always be measured in the context of the various remedies open to minority shareholders.

Institutional investors

Corporate governance is currently a key concern for institutional investors, and so many other interested parties. The UK Stewardship Code sets out good practice for institutional investors when engaging with UK listed companies and will be relevant to how those institutional investors engage with Irish listed companies. Although there are currently no plans to introduce a similar code in Ireland, it is likely that Irish institutional investors will view this Code as a standard of market practice in the area.

iii Shareholder activism and shareholder remedies

Shareholder activism is relatively underdeveloped in Ireland. However, there are a number of signs of change.

Shareholders can bring proceedings if the directors are exercising their powers or conducting the affairs of the company in a manner oppressive to the shareholders or in disregard of their interests. As indicated above, courts can grant relief if it can be proved by a member that the affairs of the company have been conducted in an oppressive manner against him or her or any of the members of the company, including members who are directors themselves.

Aggrieved members may also take a derivative action (i.e., an action in the name of the company itself) if the company has been wronged, with one shareholder representing the body of shareholders. This typically arises in circumstances where the directors of a company are responsible for taking actions in the company's name and refuse to take that action. Derivative actions will be permitted when an *ultra vires* or illegal act has been perpetrated against the company, when more than a bare majority is required to ratify the wrong in question, when members' personal rights have been infringed or when fraud has been committed on a minority of members.

iv Takeover defences

Certain takeover defence mechanisms may risk conflicting with the Irish Takeover Panel Rules. As a rule, in any defensive action, it is imperative that boards ensure that their actions do not amount to frustrating actions, and that a level playing field is afforded to all potential bidders.

A company that has received a bid is not prevented from seeking alternative bids elsewhere (although this may possibly be subject to any inter-party agreement). The offer of the third party may be announced at any time except where the Takeover Panel directs that the third-party white knight make its intentions clear. In general terms, the directors must provide equality of information to all parties.

v Contact with shareholders

Mandatory and best practice reporting to all shareholders

Under the Transparency Regulations, companies whose securities are admitted to trading on a regulated market are required to publish annual and half-yearly financial reports. The annual report contains audited financial statements, a management report and responsibility statements. The half-yearly report contains a condensed set of financial statements, an interim management report and responsibility statements. Responsibility statements contain certain confirmations, including that the financial statements represent a fair and true view of the financial status of the company.

Members also enjoy the right to access certain information from the company, including the company memorandum and articles of association, resolutions and minutes of general meetings, company registers and the annual financial statements, directors' reports and auditors' reports.

Listed companies follow the Corporate Governance Code, which sets out the best practice guidelines for corporate governance. Listed companies must comply with the Code or explain any deviations to shareholders. In addition, the Irish Corporate Governance Annex to the Listing Rules encourages Irish listed companies to provide more detailed explanations of their actions, and in particular any deviation from certain aspects of the Corporate Governance Code to promote dialogue with shareholders.

Twenty-one clear days' notice must be given for an AGM. Extraordinary general meetings (EGMs) of listed companies may be held on 14 days' notice, but only when the company offers all members the facility to vote by electronic means at general meetings and the company has passed a special resolution approving the holding of EGMs on 14 days' notice, at its immediately preceding AGM or at a general meeting held since that meeting. However, if it is proposed to pass a special resolution at the EGM of the listed company, then 21 days' notice must be given. Notwithstanding the minimum statutory period, for listed companies, 20 business days is the minimum period recommended under the Corporate Governance Code.

Virtual and hybrid AGMs

The Companies (Miscellaneous Provisions Covid-19) Act 2020 (the 2020 Act) was commenced on 21 August 2020. The new measures derive, in part, from recommendations of the Irish Company Law Review Group put forward in response to difficulties faced by Irish companies during the covid-19 pandemic.

The Act makes temporary amendments to the 2014 Act which, at the time of writing, apply for an interim period, expiring on 9 June 2021. The 2020 Act contains a number of corporate governance provisions, the most notable of which concern general meetings. For the first time in Irish law, general meetings do not need to be held at a physical venue but

may be conducted ‘wholly or partly by the use of electronic communications technology’.¹³ This means that a company may choose to hold either a virtual meeting (with no physical location) or a hybrid meeting (a physical meeting combined with electronic participation). Each member or proxy who participates in a general meeting electronically shall be counted in the quorum for the meeting. The 2020 Act provides that those in attendance must be able to hear what is said and to speak and submit questions at the general meeting to the extent that they are entitled to do so under the company’s constitution.

VI OUTLOOK

i New legislation

Companies (Corporate Enforcement Authority) Bill

The General Scheme was published in 2018 and is currently undergoing pre-legislative scrutiny. The Bill will establish a stand-alone authority with extended powers and autonomy, and will give effect to long-awaited recommendations of the Irish Company Law Review Group in relation to corporate governance, shares and share capital.

Investment Screening Bill

Plans have been announced to draft an Investment Screening Bill to give full effect to the EU Regulation on foreign direct investment screening.¹⁴ Under the proposed legislation, the Minister for Enterprise, Trade and Employment will be able to assess, investigate, authorise, condition, prohibit or unwind foreign investments from outside the European Union, based on a range of security and public order criteria. At present, no such investment screening mechanism exists in Ireland.

ii Brexit

Central securities depositories

On 26 November 2020, the European Commission published its decision to determine the legal and supervisory requirements for UK central securities depositories (CSDs) as equivalent to those in the European Union until 30 June 2021.

This decision permitted Euroclear UK & Ireland (EUI) to continue to provide CSD services in connection with Irish securities after 31 December 2020. It also permitted the European Securities and Markets Authority (ESMA) to commence a formal recognition process for EUI.

ESMA recognition of EUI will allow Irish securities continued to be settled through EUI until this market transferred to Euroclear Bank Belgium in Q1 2021.

Market abuse

For Irish companies listed on both the London Stock Exchange and Euronext Dublin, a number of changes to the continuing obligations regime under MAR have been introduced as of 1 January 2021, as a result of the new UK market abuse regime.

¹³ Article 6, Paragraph 174A(5).

¹⁴ Regulation (EU) 2019/452 of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union.

One such change relates to persons discharging managerial responsibilities (PDMR). Under MAR, it was sufficient for a PDMR (and closely associated persons) of a dual-listed (London and Dublin) issuer to submit a PDMR notification to the CBI as the issuer's competent authority for EU purposes. Since 1 January 2021, however, a separate submission to the Financial Conduct Authority is now also required. This is regardless of whether an issuer is also required to report to the CBI.

There are a number of other changes that will affect these dual-listed companies, including timing of PDMR notifications and the delay mechanism relating to publication of inside information.

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