



MANAGING THE POTENTIAL RISKS OF BEING AN INDEPENDENT DIRECTOR

An Independent Director's appointment associates that person with the company and the Supervisory Board and so carries risks for the individual to his or her reputation and, potentially, legal and financial risks.

A Supervisory Board's responsibilities include the key elements of risk management and internal controls and it is essential that the Independent Director is comfortable that these are appropriate and operate effectively. Not only does the Independent Director share collective responsibility for risk management but he or she is heavily reliant upon the internal controls existing and working properly.

Risk is an inherent part of being in business, and risk management is concerned with identifying, assessing, monitoring and mitigating risk, not necessarily removing it. Risks that a business face change regularly, and the system must be able to adapt, and must be able to escalate key issues and control breakdowns, reporting to the Supervisory Board as quickly as possible so that the Supervisory Board is fully aware, and can address the challenge. An effective system of internal control is key to robust risk management. There should be a clear set of documented procedures as part of an effective control system, and there need to be regular checks to ensure that the procedures are operating effectively.

The recurring themes in corporate scandals over the last decade or so include false accounting, fraud by one or more of the senior staff or Directors, tax evasion, lack of internal controls, a dominant or charismatic CEO or Chairman, or major strategic blunders. A diligent Independent Director who takes proper advice should not find him or herself in the position of being disqualified as a result of failing to exercise his or her duties.