

Proposed Enhancements Towards **BETTER CORPORATE GOVERNANCE**

On 18 March 2010, The Monetary Authority of Singapore (MAS) issued a consultation paper that sets out proposed measures to improve the MAS Corporate Governance Framework (hereon referred to as “Framework”) for Financial Institutions (FIs) which comprises the Regulations and Guidelines for banks and direct insurers incorporated in Singapore and relevant financial holding companies. This Framework was issued in 2005 and came into effect in 2007.

MAS has been keeping close tabs on the developments in FIs to ensure that the Framework is kept up to pace with global industry and regulatory developments. The recent financial crisis has brought into question the effectiveness of corporate governance arrangements, in particular, the importance of effective risk management oversight at the Board level, and the need for the Board to set appropriate remuneration policies to prevent excessive risk-taking.

MAS’s proposed enhancements to the Framework is timely in view of the current financial turmoil brought on by the FIs.

(A) CONTINUOUS DEVELOPMENT

One of the cornerstones of good corporate governance is the quality of directors. It is important that the Boards of FIs comprise of

competent directors with integrity, knowledge, business and industry experience and motivation to effectively carry out their fiduciary duties in the best interests of the FI and all of its stakeholders. MAS made the following proposals on this front:

PROPOSAL 1 ANNUAL ASSESSMENT OF DIRECTORS’ COMPETENCE

The Nominating Committee (NC) shall conduct an assessment of the skills of the directors on an annual basis.

PROPOSAL 2 DEVELOP A CONTINUOUS DEVELOPMENT PROGRAMME FOR DIRECTORS

The NC should (i) establish a continuous development programme for all directors; (ii) develop a framework to identify the skills that the Board needs collectively in order to discharge its responsibilities effectively; and (iii) to assess, at

least annually, if the Board and Board Committees lack any skills to perform their roles effectively and identify steps to improve their effectiveness.

(B) TIME COMMITMENT

In addition to ensuring that the Board has the right “hardware” to exercise effective oversight of FIs, the right “software” in terms of sufficient time, effort and energy to serve as an effective director is just as important.

PROPOSAL 3 MORE TIME AND EFFORT TO BE INVESTED BY DIRECTORS

The NC should set internal guidance on the time commitment expected of each director which may include the number of Board memberships each director may hold. Any deviation from the internal guidelines should be explained and disclosed in the FI’s annual report.

(C) DIRECTOR INDEPENDENCE

The Board should be able to exercise objective independent judgement on corporate affairs especially in cases of potential conflicts of interest. Independent directors serve as the check and balance to management and majority shareholders, and play an important role in protecting the interests of the company as a whole. Long-serving directors, in particular those that serve under the same Chairman or CEO could have certain entrenched interest that may impact their ability to act independently. To address this concern, MAS has made the following 2 proposals:

PROPOSAL 4 DIRECTOR DEEMED NON-INDEPENDENT AFTER NINE YEARS

A director shall be deemed non-independent after having served for a continuous period of nine years on the Board. Notwithstanding the proposed nine-year threshold, the NC should assess annually prior to the ninth year, whether

THE 12 MEASURES PROPOSED ARE:

(A) CONTINUOUS DEVELOPMENT

- Annual Assessment Of Directors’ Competence
- Develop A Continuous Development Programme For Directors

(B) TIME COMMITMENT

- More Time and Effort To Be Invested by Directors

(C) DIRECTOR INDEPENDENCE

- Director Deemed Non-Independent After Nine Years
- Appointment Of Lead Independent Director

(D) COMPOSITION OF BOARD AND BOARD COMMITTEES

- Chairman Cannot Be Immediate Family Member of Chief Executive Officer (CEO)
- Increase The Number Of Independent Directors

(E) GOVERNANCE OVER REMUNERATION FRAMEWORK AND PRACTICES

- Incorporation Of The FSB Compensation Principles And Standards

(F) GOVERNANCE OVER RISK MANAGEMENT

- Establish A Risk Management Committee
- Appointment of A Chief Risk Officer
- Additional Best Practice Standards Of The Board

the length of service of a director has affected his/her independence. A director who has served more than nine years can still remain as a non-independent director on the Board, so long as the composition requirements are met.

PROPOSAL 5 APPOINTMENT OF LEAD INDEPENDENT DIRECTOR

The FI should consider appointing a lead independent director if the Board Chairman has other relationships, e.g. Chairman is not independent or when the rights of the minority shareholders are weak, with the FI and to include additional guidance on the role of the lead independent director.

(D) COMPOSITION OF BOARD AND BOARD COMMITTEES

Since the outbreak of the financial crisis, some Board of banks have moved to introduce independent Chairman to achieve an appropriate balance of power, increase accountability and improve the Board's capacity for decision making independent of management.

PROPOSAL 6 CHAIRMAN CANNOT BE AN IMMEDIATE FAMILY MEMBER OF CEO

The FI shall not appoint a person who is a member of the immediate family of the CEO as the Board Chairman.

PROPOSAL 7 INCREASE THE NUMBER OF INDEPENDENT DIRECTORS

To raise the number of independent directors on the Board, NC and Remuneration Committee (RC) from the current one-third to a majority. A single substantial shareholder who holds 50 percent or more of a locally-incorporated bank or significant life insurer can continue to have majority representation on the Board, NC and RC provided the FI's Board comprise at least one-third of directors who are independent directors.

(E) GOVERNANCE OVER REMUNERATION FRAMEWORK AND PRACTICES

The current financial crisis has brought the corporate spotlight on the compensation schemes of executives. The issue is whether compensation schemes have been well-designed to achieve an appropriate balance between risk appetite, performance and firm-wide objective.

To reduce incentives for excessive risk-taking that may arise from the structure of compensation schemes within FIs, the G20 endorsed the Financial Stability Forum's "Principles for Sound Compensation Practices" issued in April 2009. In September 2009, the Financial Stability Board (FSB) issued Implementation Standards to strengthen the adherence to FSB Principles. MAS proposed to incorporate the FSB Compensation Principles and Standards into our Framework.

PROPOSAL 8 INCORPORATION OF THE FSB COMPENSATION PRINCIPLES AND STANDARDS

To include in the Framework:

- (i) Additional components and factors that the RC must consider in the design and operation of the remuneration framework;
- (ii) RC must ensure that the remuneration practices of the FI are aligned and accord with the remuneration framework;
- (iii) RC must review the remuneration practices annually; and
- (iv) RC must have unfettered access to information in the FI for the purposes of carrying out its responsibilities.

PROPOSAL 9 INCORPORATION OF THE FSB COMPENSATION PRINCIPLES AND STANDARDS

To adopt the FSB Principles and Standards on Sound Compensation Practices into the Framework.

(F) GOVERNANCE OVER RISK MANAGEMENT

Effective risk management is a key element of good corporate governance. Risk management is integral to corporate strategy not only to help companies avoid losses but also to help companies seize new opportunities. The financial crisis showed that risk management needs to be an enterprise-wide undertaking and not just practiced in any particular product/market lines.

The Board should ensure that it possesses sufficient knowledge and expertise of the FI's significant activities to enable it to define the FI's risk appetite appropriately and to manage the risk effectively. A separate channel of risk reporting to the Board, such as via a Chief Risk Officer (CRO), is warranted in the same way as internal audit reports separately to the audit committee and not just to the CEO.

To strengthen the enterprise risk management framework, MAS has put forth 3 proposals:

PROPOSAL 10 ESTABLISH A RISK MANAGEMENT COMMITTEE

FIs to establish a dedicated Board Risk Management Committee (RMC) at the Board level. The RMC must comprise at least 3 directors and a majority (including the chairman of the RMC) must be non-executive directors to ensure that there is a degree of independent oversight of the FI's risk management function.

PROPOSAL 11 APPOINTMENT OF A CHIEF RISK OFFICER

FIs to seek MAS approval for the appointment of the CRO.

PROPOSAL 12 ADDITIONAL BEST PRACTICE STANDARDS OF THE BOARD

To include the following additional guidance in the Framework:

- (i) MAS's expectations on the roles and responsibilities of the Board in overseeing the FI's risk management system;
- (ii) The appropriate skills that the Board should have in order to perform its role effectively;
- (iii) When the FI appoints a CRO, the Board should ensure that the CRO has a direct reporting line to the Board; and
- (iv) The RMC to comprise at least 2 directors with the relevant technical financial sophistication in risk disciplines or business experience, as the Board determines its judgement.

MAS proposed that the amendments to the Framework will take effect no later than from the first Annual General Meeting (AGM) of each FI held on or after 1 January 2011, with the exception of Proposals 4 and 7 which will take effect no later than from the first AGM of each FI held on or after 1 January 2012. This is to take into consideration that FIs may need time to reconfigure their Boards and Board Committees to meet the proposed requirements on independence and composition.

MAS is calling for public feedback on its proposals by 19 April 2010.

ABOUT ICPAS RESEARCH ICPAS Research identifies, explores and analyses the major issues driving today's business dynamics and shaping tomorrow's marketplace. We aim to closely monitor the accounting and auditing industry in order to provide an outlook for tomorrow.

ICPAS Research is committed to supporting and encouraging high quality research which is focused, timely, relevant and useful to the accountancy profession. We support the conduct of research with a global or local perspective.

ICPAS Research focuses our attention on continuously connecting with our practice members. Public practitioners have numerous concerns and issues on their day-to-day practice. These may range from technical understanding to practical applications or even operational issues. A part of ICPAS Research is directed at engaging our members to examine these practice matters and exploring practical solutions with them. The various ways that ICPAS shows its commitment to the research arena includes sponsoring research projects, partnering with business partners or interested parties and organising thought leadership roundtables. There will also be conferences held to feature and showcase the results of our research with our members and the public.

We will continuously seek comments from ICPAS members through surveys to gather views from the CPA Singapore community. Do send your comments to research@icpas.org.sg

This document contains general information only and ICPAS is not, by means of this document, rendering any professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a professional advisor. Whilst every care has been taken in compiling this document, ICPAS makes no representations or warranty (expressed or implied) about the accuracy, suitability, reliability or completeness of the information for any purpose. ICPAS, its employees or agents accept no liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.