



GUIDELINES ON CORPORATE GOVERNANCE FOR FINANCE COMPANIES

Date: 27 November 2019

CONTENTS

| | |
|---|----|
| PRINCIPLES: FINANCE COMPANIES | 3 |
| I. BOARD MATTERS | 5 |
| A. THE BOARD'S CONDUCT OF AFFAIRS | 5 |
| B. BOARD COMPOSITION AND GUIDANCE | 10 |
| C. CHAIRMAN AND CHIEF EXECUTIVE OFFICER | 14 |
| D. BOARD MEMBERSHIP | 16 |
| E. BOARD PERFORMANCE AND STRUCTURE | 19 |
| F. ACCESS TO INFORMATION | 21 |
| II. REMUNERATION MATTERS | 23 |
| A. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES | 23 |
| III. ACCOUNTABILITY AND AUDIT | 26 |
| A. ACCOUNTABILITY OF THE BOARD FOR THE AFFAIRS OF THE FINANCE COMPANY AND THE ROLE OF SENIOR MANAGEMENT IN REPORTING | 26 |
| B. RISK MANAGEMENT AND INTERNAL CONTROLS | 29 |
| C. AUDIT COMMITTEE | 39 |
| D. INTERNAL AUDIT AND COMPLIANCE | 41 |
| IV. SHAREHOLDER RIGHTS AND RESPONSIBILITIES | 44 |
| A. SHAREHOLDER RIGHTS | 44 |
| B. COMMUNICATION WITH SHAREHOLDERS AND STAKEHOLDERS | 45 |
| C. CONDUCT OF SHAREHOLDER MEETINGS | 47 |
| V. ADDITIONAL PRINCIPLES AND GUIDELINES OF THE AUTHORITY | 48 |
| A. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST | 48 |
| VI. GLOSSARY | 50 |

PRINCIPLES:

- Principle 1 : Every finance company should be headed by an effective Board to lead and control the finance company. The Board has ultimate responsibility for the finance company's business strategy and financial soundness and is collectively responsible for the long-term success of the finance company, including approving and overseeing management's implementation of the finance company's strategic objectives, governance framework and corporate culture. The Board works with Senior Management to achieve these objectives and Senior Management remains accountable to the Board.
- Principle 2 : There should be an effective Board composition, with a strong independent element where no individual or small group of individuals should be allowed to dominate the Board's decision making.
- Principle 3 : There should be a clear division of responsibilities between the leadership of the Board and those executives responsible for managing the finance company's business. Decision making power should not be concentrated in the hands of one individual.
- Principle 4 : There should be a formal and transparent process for the identification, assessment, appointment and reappointment of directors to the Board. The Board, not Senior Management, nominates candidates and promotes appropriate succession planning of directors.
- Principle 5 : The Board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness. There should be a formal annual assessment of the effectiveness of the Board as a whole and its Board Committees and the contribution by each director to the effectiveness of the Board.
- Principle 6 : The Board should meet regularly and be duly furnished with complete and timely information.
- Principle 7 : There should be a formal and transparent procedure for fixing the remuneration packages of Board members, Chief Executive Officers and Senior Management and the remuneration policies and practices should be in line with the finance company's ethical values, objectives and culture.
- Principle 8 : The Board should present a balanced and understandable assessment of the finance company's performance, risk position and prospects.
- Principle 9 : The Board is responsible for the governance of risk. The Board should ensure that Senior Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the finance company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

- Principle 10 : Finance companies should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board.
- Principle 11 : Risks should be identified, monitored and controlled on an ongoing enterprise-wide and individual entity basis. The sophistication of the finance company's risk management and internal control infrastructure should keep pace with changes to the finance company's risk profile, to the external risk landscape and in industry practice.
- Principle 12 : The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties. The Chairman must be an Independent Director and must not be the Chairman of the Board or of any other committee.
- Principle 13 : The finance company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits. The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the finance company.
- Principle 14 : The finance company's board of directors is responsible for overseeing the management of the finance company's compliance risk. The board should establish a compliance function and approve the finance company's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.
- Principle 15 : Finance companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.
- Principle 16 : Finance companies should actively engage their shareholders, depositors and other relevant stakeholders and put in place an investor relations policy to promote regular, effective and fair communication with stakeholders.
- Principle 17 : Finance companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the finance company.
- Principle 18 : Persons empowered with decision-making authority (including directors) should exercise care to avoid situations that may give rise to a conflict of interest situation.

I. BOARD MATTERS

A. THE BOARD'S CONDUCT OF AFFAIRS

Principle 1:

1. Every finance company should be headed by an effective Board to lead and control the finance company. The Board has ultimate responsibility for the finance company's business strategy and financial soundness and is collectively responsible for the long-term success of the finance company, including approving and overseeing management's implementation of the finance company's strategic objectives, governance framework and corporate culture. The Board works with Senior Management to achieve these objectives and Management remains accountable to the Board.

Guidelines:

- 1.1 The Board's roles and responsibilities are to:
 - (a) provide entrepreneurial leadership, set strategic objectives, monitor their implementation and ensure that the necessary financial and human resources are in place for the finance company to meet its objectives. Accordingly, the board should actively engage in the affairs of the finance company and keep up with material changes in the finance company's business and the external environment as well as act in a timely manner to protect the long term interests of the finance company;
 - (b) establish a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interests and the finance company's assets;
 - (c) approve the selection and oversee the performance of the Senior Management, including the heads of control functions within the finance company;
 - (d) take into account the legitimate interests of depositors, shareholders and other relevant stakeholders. It should also ensure that the finance company maintains an effective relationship with its supervisors. It should recognize that the perceptions of these key stakeholder groups affect the finance company's reputation;
 - (e) set the finance company's culture, values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met;
 - (f) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation;

- (g) monitor the effectiveness of the finance company's governance framework and practices, and make changes as needed including overseeing the process of disclosure and communications. It should also periodically review that the governance framework remains appropriate in the light of material changes to the finance company's size, complexity, geographical footprint, business strategy, markets and regulatory requirements;
 - (h) Establish, with the assistance of the Senior Management and the CRO, the finance company's risk appetite (see Principle 9.1), taking into account the competitive and regulatory landscape and the finance company's long-term interests, risk exposure and ability to manage risk effectively;
 - (i) oversee the finance company's adherence to its risk appetite statement, risk policy and risk limits;
 - (j) approve the approach and oversee the implementation of key policies pertaining to the Finance company's capital adequacy assessment process (ICAAP), capital and liquidity plans, compliance policies and obligations, and the internal control system;
 - (k) require that the finance company maintain a robust finance function responsible for accounting and financial data;
 - (l) approve the annual financial statements and require a periodic independent review of critical areas;
 - (m) oversee the finance company's approach to compensation, including monitoring and reviewing executive compensation and assessing whether it is aligned with the finance company's risk culture and risk appetite; and
 - (n) oversee the integrity, independence and effectiveness of the finance company's policies and procedures for whistleblowing.
- 1.2 All directors should act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the finance company and its shareholders.
- 1.3 The Board may delegate the authority to make decisions to any Board Committee or Management Committee but without abdicating its roles and responsibilities. Any such delegation should be disclosed in the annual report.
- 1.4 The Board should be able to allocate sufficient time to the finance company to discharge its responsibilities effectively.

- 1.5 Every finance company should prepare a document with guidelines setting forth the following items and the finance company should consider disclosing such guidelines in the annual report:
- (a) the key responsibilities and authorities of the Board, including matters reserved for the Board's decision;
 - (b) the key delegated responsibilities of Senior Management, including clear directions to Senior Management on matters that must be approved by the Board; and
 - (c) The types of material transactions that require Board approval under such guidelines.
- 1.6 First-Time Directors should receive comprehensive and tailored induction upon joining the Board. The induction should brief the First-Time Directors regarding their duties and how to discharge those duties, and an orientation program to ensure that they are familiar with the finance company's business and governance practices. The finance company should provide training for First-Time Directors in areas such as accounting, legal, conventional and Islamic banking and finance and any other industry-specific knowledge as appropriate (see Principle 4.5 for more detail on training and development).
- 1.7 In order to help incumbent directors maintain and enhance their knowledge and skills, and fulfil their responsibilities, the Board should ensure that individual directors have access to ongoing and regular training on relevant issues which may involve internal or external resources, including training on any relevant new laws, regulations and changing commercial risks, from time to time. More extensive efforts should be made to train and keep updated any Board member with relatively limited financial, regulatory or risk-related experience.
- 1.8 The finance company should be responsible for arranging and funding the training of individual directors. The Board should dedicate sufficient time, budget and other resources for this purpose, and draw on external expertise as needed. The Board should also disclose in the finance company's annual report the induction, orientation and training provided to First-Time Directors and any incumbent directors.
- 1.9 Upon appointment of each director to the Board, the finance company should provide a formal letter to the director, setting out the director's duties and obligations, including the director's duty of care and duty of loyalty to the finance company.

Corporate Values

- 1.10 A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behaviour. These norms are especially

critical in terms of a finance company's risk awareness, risk-taking behaviour, risk management and its overall risk culture.

1.11 In order to instill the "tone at the top" and promote a sound corporate culture, the Board should:

- (a) set and adhere to corporate values that create expectations that all business should be conducted in a legal and ethical manner, and oversee the adherence to such values by senior management and other employees;
- (b) promote risk awareness within a strong risk culture, convey the Board's expectation that it does not support excessive risk-taking and that all employees are responsible for helping the finance company operate within the established risk appetite and risk limits;
- (c) confirm that appropriate steps have been or are being taken to communicate throughout the finance company the corporate values, professional standards or codes of conduct it sets, together with supporting policies; and
- (d) confirm that employees, including senior management, are aware that appropriate disciplinary or other actions will follow unacceptable behaviours and transgressions.

1.12 The finance company's code of conduct or code of ethics, or any other comparable policies, should define acceptable and unacceptable behaviours, including:

- (a) explicitly disallowing illegal activities, such as financial misreporting and misconduct, economic crime including fraud, breach of sanctions, money laundering, anti-competitive practices, bribery, corruption, and any violations of consumer rights.
- (b) making clear that employees are expected to conduct themselves ethically and perform their job with skill, due care and diligence in addition to complying with laws, regulations and finance company policies.

1.13 The finance company's corporate values should recognise the critical importance of timely and frank discussion and escalation of problems to higher levels within the organisation.

- (a) Employees should be encouraged and able to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices. This can be facilitated through a well-communicated policy and adequate procedures and processes, consistent with the law, which allow employees to communicate material and bona fide concerns and observations of any violations in a confidential manner (e.g. 'whistleblower' policy). This includes communicating material concerns to the Authority.

- (b) The Board should have oversight of the whistleblowing policy mechanism and ensure that Senior Management addresses legitimate issues that are raised. The Board should take responsibility for ensuring that the members of staff who raise a concern are protected from detrimental treatment or reprisals.
- (c) The Board should oversee and approve how and by whom legitimate material concerns are to be investigated and addressed by an objective independent internal or external body, Senior Management and/or the Board itself.

Oversight of senior management

1.14 The Board should provide oversight of Senior Management. It should hold members of Senior Management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the Board's performance expectations. This includes adhering to the finance company's values, risk appetite and risk culture, under all circumstances. In doing so, the Board should:

- (a) monitor that Senior Management's actions are consistent with the strategy and policies approved by the board, including the risk appetite;
- (b) meet regularly with Senior Management;
- (c) question and critically review explanations and information provided by Senior Management;
- (d) set appropriate performance and remuneration standards for Senior Management consistent with the long-term strategic objectives and the financial soundness of the finance company;
- (e) assess whether the Senior Management's collective knowledge and expertise remain appropriate given the nature of the business and the finance company's risk profile; and
- (f) be actively engaged in succession plans for the CEO and other key positions, as appropriate, and ensure that appropriate succession plans are in place for Senior Management positions.

B. BOARD COMPOSITION AND GUIDANCE

Principle:

- | |
|---|
| <p>2. There should be an effective Board composition, with a strong independent element where no individual or small group of individuals should be allowed to dominate the Board's decision making.</p> |
|---|

Guidelines:

BOARD COMPOSITION

- 2.1 The number of directors constituting a Board is an important factor in determining the effectiveness of the Board in providing direction and guidance to the Senior Management and in performing its oversight role effectively. To be effective, the Board should have an appropriate number of directors that is commensurate with the complexity, the size, the scope and operations of the finance company.
- 2.2 The Board should determine the appropriate size of the Board and in determining the size, consideration should be given to ensure an efficient and effective conduct of Board deliberation.
- 2.3 The Board should be comprised of directors who as a group provide a mixture of diversity and core competencies such as finance, accounting, legal, business management, information technology and investment management, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the finance company and therefore facilitate effective oversight.
- 2.4 In assessing the collective suitability of the Board, the following should be taken into account:
- (a) Individual board members should have a range of knowledge and experience in relevant areas and varied backgrounds to promote diversity of views. Relevant areas of competence may include, but are not limited to capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance and management skills;
 - (b) Whether the Board has a reasonable understanding of local, regional and, if appropriate, global economic and market forces and of the legal and regulatory environment. International experience, where relevant, should also be considered; and
 - (c) individual Board members' attitude regarding facilitating communication, collaboration and critical debate in the decision-making process.

- 2.5 The participation of non-executive directors on the Board enables a balanced and objective consideration of issues and enhances accountability in the decision-making process. Thus, a higher proportion of non-executive directors could mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the finance company.
- 2.6 The presence of suitably qualified independent directors can help to provide the necessary checks and balances in ensuring the finance company operates in a safe and sound manner. Such directors can also bring new perspectives from other businesses that may enhance the effectiveness of the Board.
- 2.7 Where there are directors who have been nominated by specific shareholders, the Board should ensure that such directors understand their duties. Directors have responsibilities to the finance company's overall interests, regardless of who appoints them. In cases where directors are selected by a controlling shareholder, the Board may wish to set out specific procedures or conduct periodic reviews to facilitate the appropriate discharge of responsibility by all directors.

TYPES OF DIRECTORS

- 2.8 **Executive director:** a person who is in the direct employment of, or acting for or by arrangement with, the finance company and is concerned with or takes part in the management of the finance company on a day-to-day basis.
- 2.9 **Non-executive director:** a director who is not paid by the finance company as staff nor employed under a service contract and not involved in the daily management of the finance company.
- 2.10 **Independent director:** a director who -
- (a) independent from any management and business relationships with the finance company or of any related corporation, as the case may be;
 - (b) independent from any substantial shareholder of the finance company or of any related corporation, as the case may be; and
 - (c) has not served on the board of the finance company or of any related corporation, as the case may be, for a continuous period of 9 years or longer.

The Nomination Committee (NC) of the finance company should determine annually whether a director is independent.

- 2.11 The independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review. In doing

so, the Board should also take into account the need for progressive refreshing of the Board. The Board should also explain why any such director should continue to be considered independent

MAXIMUM NUMBER OF EXECUTIVE DIRECTORS

2.12 As the function of the Board is to provide effective oversight of Management, the number of executive directors on the Board should be kept to the very minimum. In this regard, there should **not be more than one** executive director sitting on the Board. The Board may however invite other Senior Management officers to attend Board meetings to provide inputs as and when necessary.

MINIMUM NUMBER OF INDEPENDENT DIRECTORS

2.13 Finance companies should ensure that **at least a majority** of their Board members are independent directors.

RESPONSIBILITIES OF INDEPENDENT DIRECTORS

2.14 Independent directors should ensure a strong element of independence on the Board, both in thought and actions.

2.15 The effective participation of independent directors enhances accountability in the Board's decision-making process. The responsibilities of an independent director should therefore include the following:

- (a) to provide and enhance the necessary independence and objectivity to the Board;
- (b) to ensure effective checks and balances on the Board;
- (c) to mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the finance company;
- (d) to constructively challenge and contribute to the development of business strategy and direction of the finance company; and
- (e) to ensure that adequate systems and controls to safeguard the interests of the finance company are in place.

2.16 In addition to the other similar rights accorded to directors generally, independent directors may request that their views, comments and stance are minuted to enable them to effectively discharge their duties.

- 2.17 Given the increased responsibilities and expectations imposed on independent directors, their remuneration should be commensurate with their level of expertise and experience as well as the responsibilities assumed and their contribution to the effective functioning of the Board.
- 2.18 Non-executive directors should:
- (a) constructively challenge and help develop proposals on strategy; and
 - (b) review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

C. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle:

3. There should be a clear division of responsibilities between the leadership of the Board and those executives responsible for managing the finance company's business. Decision making power should not be concentrated in the hands of one individual.

Guidelines:

- 3.1 The Chairman and the CEO should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The division of responsibilities between the Chairman and the CEO should be clearly established, set out in writing and agreed by the Board. In addition, the Board should disclose the relationship between the Chairman and the CEO in the annual report if they are Immediate Family members.
- 3.2 The Chairman plays a crucial role in the proper functioning of the Board. The Chairman should:
- (a) provide leadership to the Board and is responsible for its effective overall functioning, including maintaining a relationship of trust with directors.
 - (b) possess the requisite experience, competencies and personal qualities in order to fulfil these responsibilities;
 - (c) ensure that board decisions are taken on a sound and well informed basis;
 - (d) promote a culture of openness and debate at the Board by encouraging and promoting critical discussion and ensuring that dissenting views can be freely expressed and discussed within the decision-making process;
 - (e) dedicate sufficient time to the exercise of his or her responsibilities.
- 3.3 The Chairman should:
- (a) set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
 - (b) ensure that the directors receive complete, adequate and timely information;
 - (c) ensure effective communication with shareholders;
 - (d) encourage constructive relations within the Board and between the Board and Management;

- (e) facilitate the effective contribution of non-executive directors in particular; and
- (f) promote high standards of corporate governance.

The responsibilities set out above provide guidance and should not be taken as an exhaustive list of all the duties and responsibilities of a Chairman.

3.4 Every finance company should appoint an independent director to be the lead independent director where:

- (a) the same person is both Chairman and CEO;
- (b) the Chairman and the CEO are Immediate Family members;
- (c) the Chairman is an executive director; or
- (d) the Chairman is not an independent director.

The lead independent director (if appointed) should be available to shareholders where they have concerns and for which contact through the normal channels of the Chairman, the CEO or CFO (or equivalent) has failed to resolve an issue or where such contact may be inappropriate.

3.5 Led by the lead independent director, the independent directors should meet periodically without the presence of the other directors, and the lead independent director should provide feedback to the Chairman after such meetings.

D. BOARD MEMBERSHIP

Principle:

4. There should be a formal and transparent process for the identification, assessment, appointment and reappointment of directors to the Board. The Board, not Senior Management, should nominate candidates and promote appropriate succession planning of directors.

Guidelines:

- 4.1 The Board should establish a Nomination Committee (NC) to make recommendations to the Board on all appointments to the Board and Senior Management. The NC should have written terms of reference which clearly set out its authority and duties. The NC should comprise at least three directors, the majority of whom, including the NC Chairman, should be independent. The lead independent director, if any, should be a member of the NC. The Board should disclose in the finance company's annual report the names of the members of the NC and the key terms of reference of the NC, explaining its role and the authority delegated to it by the Board.
- 4.2 The selection process for Board members should include reviewing whether the board candidates:
- (a) possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind given their responsibilities on the board and in the light of the finance company's business and risk profile;
 - (b) have a record of integrity and good repute;
 - (c) have sufficient time to fully carry out their responsibilities; and
 - (d) have the ability to promote a smooth interaction between board members.
- 4.3 Board candidates should not have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from:
- (a) Other persons (such as family members or friends or business colleagues);
 - (b) Past or present positions held; or
 - (c) Personal, professional or other economic relationships with other members of the Board or management (or where applicable, with other entities within the group).

- 4.4 If a director ceases to be qualified or is failing to fulfil his or her responsibilities, the Board should take appropriate actions as permitted by law, which may include notifying the Authority.
- 4.5 The NC should analyse the role and responsibilities of the directors and the knowledge, experience and competence which the role requires. The NC should strive to ensure that the Board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the finance company as a whole (See Principle 2). It may be involved in assessment of the Board and Senior Management effectiveness and may be involved in overseeing the finance company's personnel or human resource policies. It should make recommendations to the Board on relevant matters relating to:
- (a) the review of Board succession plans for directors, in particular, the Chairman and for the CEO (if appointed as a director);
 - (b) the development of a process for evaluation of the performance of the Board, its Board Committees and directors;
 - (c) the review of training and professional development programs for the Board; and
 - (d) the appointment and re-appointment of directors (including alternate directors, if applicable).

Important issues to be considered as part of the process for the selection, appointment and re-appointment of directors include composition and progressive renewal of the Board and each director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an independent director. All directors should submit themselves for re-nomination and reappointment at regular intervals and at least once every three years.

- 4.6 The NC is charged with the responsibility of determining annually, and as and when circumstances require, if a director is independent, bearing in mind the circumstances set forth in Guidelines 2.11 and 2.12 and any other salient factors. If the NC considers that a director who has one or more of the relationships mentioned therein can be considered independent, it should provide its views to the Board for the Board's consideration. Conversely, the NC has the discretion to consider that a director is not independent even if he or she does not fall under the circumstances set forth in Guideline 2.11 or 2.12 and should similarly provide its views to the Board for its consideration.
- 4.7 When a director has multiple Board representations, he or she should ensure that sufficient time and attention is given to the affairs of each company. The NC should decide if a director is able to and has been adequately carrying out his or her duties as a director of the finance company, taking into consideration the number of directorships held by the director and other principal commitments. The Board should introduce internal guidelines

and policies which address the competing time commitments that are faced when directors serve on multiple Boards. The Board should determine the maximum number of Board representations which any director may hold at any one time, and disclose this in the finance company's annual report. In any event, a director should not have more than 3 Board representations.

- 4.8 The Board should generally avoid the appointment of alternate directors. Alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency. If alternate directors are permitted, an alternate director should be familiar with the finance company's affairs, and be appropriately qualified. If a person is proposed as an alternate director to an independent director, the NC and the Board should review and determine that the person would similarly qualify as an independent director, before his appointment as an alternate director. Alternate directors, in their personal capacity, assume all the duties, responsibilities and liabilities of a director.
- 4.9 A description of the process for the selection, appointment and reappointment of directors to the Board should be disclosed in the finance company's annual report. This should include disclosure on the search and nomination process.
- 4.10 Key information regarding directors, such as academic and professional qualifications, shareholding in the finance company and its related corporations, Board committees served on (as a member or chairman), date of first appointment as a director, date of last re-appointment as a director, directorships or chairmanships both present and those held over the preceding three years in other Companies, and other Principal Commitments, should be disclosed in the finance company's annual report. In addition, the finance company's annual disclosure on corporate governance should indicate which directors are executive, non-executive or considered by the NC to be independent. The names of the directors submitted for appointment or re-appointment should also be accompanied by details and information to enable shareholders to make informed decisions. Such information, which should also accompany the relevant resolution, would include:
- (a) any relationships including Immediate Family relationships between the candidate and the directors, the finance company or its substantial shareholders;
 - (b) a separate list of all current directorships in other corporations; and
 - (c) details of other principal commitments.

E. BOARD PERFORMANCE AND STRUCTURE

Principle:

5. The Board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness. There should be a formal annual assessment of the effectiveness of the Board as a whole and its Board Committees and the contribution by each director to the effectiveness of the Board.

Guidelines:

- 5.1 The Board should structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the Board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues.
- 5.2 The Board should maintain and periodically update organisational rules, by-laws, or other similar documents setting out its organisation, rights, responsibilities and key activities.
- 5.3 Every Board should implement regular reviews to be carried out by the NC – alone or with the assistance of external experts – for assessing the effectiveness of the Board as a whole and its Board Committees and for assessing the contribution by the Chairman and each individual director to the effectiveness of the Board. The Board should:
 - (a) periodically review its structure, size and composition as well as committees' structures and coordination;
 - (b) assess the ongoing suitability of each director periodically (at least annually), also taking into account his or her performance on the Board;
 - (c) either separately or as part of these assessments, periodically review the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary changes; and
 - (d) use the results of these assessments as part of the ongoing improvement efforts of the Board and, where required, share the results with the Authority.
- 5.4 The Board should maintain appropriate records (e.g. meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. These should be made available to the Authority, when required.
- 5.5 The Board should state in the finance company's annual report how the assessment of the Board, its Board Committees and each director has been conducted (i.e. the assessments

of the individual committees or directors do not have to be disclosed, but the process needs to be described so the reader understands how the assessment process works). If an external facilitator has been used, the Board should disclose in the finance company's annual report whether the external facilitator has any other connection with the finance company or any of its directors.

- 5.6 The NC should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria should be approved by the Board and address how the Board has enhanced long-term shareholder value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.
- 5.7 Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and Board Committees, and any other duties). The Chairman should act on the results of the performance evaluation, and, in consultation with the NC, propose, where appropriate, new members to be appointed to the Board or seek the resignation of directors.
- 5.8 To increase efficiency and allow deeper focus in specific areas, the Board may establish certain specialised Board Committees. The Board Committees should be created and mandated by the full Board. The number and nature of committees depend on many factors, including the size of the finance company and its Board, the nature of the business areas of the finance company, and its risk profile.
- 5.9 Each Board Committee should have a charter or other instrument that sets out its mandate, scope and working procedures. This includes how the committee will report to the full Board, what is expected of committee members and any tenure limits for serving on the Board Committee. The Board should consider the occasional rotation of members, including the chairman of such committees, as this can help avoid undue concentration of power and assist to promote fresh perspectives.
- 5.10 In the interest of greater transparency and accountability, the Board should disclose in the annual report the Board Committees it has established, their mandates and their composition (including members who are considered to be independent).
- 5.11 Board Committees should maintain appropriate records of their deliberations and decisions (eg meeting minutes or summaries of matters reviewed, recommendations made and decisions taken). Such records should document the committees' fulfilment of their responsibilities and help the Authority or other supervisory authorities to assess the effectiveness of these committees.
- 5.12 A Board Committee Chairman should be an independent non-executive director.

F. ACCESS TO INFORMATION

Principle:

6. The Board should meet regularly and be duly furnished with complete and timely information.

Guidelines:

BOARD MEETINGS

- 6.1 The Board is collectively responsible for the overall control and performance of a finance company, and by meeting frequently enough, the Board will receive sufficient information from the Senior Management to monitor the financial condition and enable the Board to deliberate and discuss important strategic issues. Circular resolution cannot be a perfect substitute for Board meetings since they do not offer the opportunity for the Board to actively debate the issues circulated and to raise immediate questions or resolutions, which may lead to inappropriate decisions being made. Therefore, circular resolution cannot be included as a Board meeting for the purposes of this document.

FREQUENCY OF MEETINGS AND ATTENDANCE

- 6.2 Meetings should be held sufficiently frequently to ensure that:
- (a) the Board is kept sufficiently in touch with the business of the finance company; and
 - (b) the operations of the finance company are not adversely affected because of the difficulty in securing Board's approval for policy and decision-making.
- 6.3 Individual directors are expected to contribute actively to the functioning of the Board and to allocate adequate time and effort to discharge their duties effectively. Individual directors should attend **at least 75%** of the Board meetings held in each financial year. If not, non-attendance should be disclosed in the annual report ~~and an explanation given for non-attendance~~. If necessary, the participation of the director can be facilitated by means of video or telephone conferencing.
- 6.4 The number of Board meetings held in the year, as well as the attendance record of every Board member should be disclosed in the finance company's annual report. The Board must meet as required by the concerned legal or stock exchange requirements, but as guidance the Authority would recommend that the Board of a finance company must meet at least four times per year to be effective and meet its objectives as outlined in this document.

MINIMUM QUORUM

6.5 A simple majority of directors should constitute a quorum for a meeting of the Board.

MINUTES OF MEETINGS

6.6 Finance companies should keep full minutes of all Board meetings. The Chairman should ensure that all directors are briefed on issues arising at Board meetings. The minutes should record the decisions and their rationales. It is of utmost importance that any concerns or dissenting views raised by any director (including independent directors) are discussed and minuted. The minutes should also facilitate the performance evaluation of the Board and individual directors.

INFORMATION TO THE BOARD

6.7 In order to fulfil their responsibilities, the Board should be provided with complete, adequate and timely information prior to Board meetings and on an ongoing basis. The finance company should set up broad parameters of information to be supplied to the Board. Senior Management must supply the Board with complete, well-focused and adequate information in a timely manner.

6.8 Information provided should include background or explanatory information relating to matters to be brought before the Board, financial performance, and other major types of information relating to the activities of the finance company that the Board should know and be informed of.

6.9 The Board should regularly review the information it receives from Senior Management and assess the qualifications of the information of those it relies on by asking questions and obtaining answers about the processes used and about the substance of the advice and reports received by the Board.

6.10 In addition to that, the Board should have a procedure for directors (either individually or as a group) to have access to independent professional advice, at the expense of the finance company. The Board should also have separate and independent access to Senior Management and the company secretary at any point of time.

COMPANY SECRETARY

6.11 The role of the company secretary should be clearly defined and should include responsibility for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The company secretary should attend all Board meetings and should maintain accurate and adequate records of any action deliberated during Board meetings.

II. REMUNERATION MATTERS

A. PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle:

7. There should be a formal and transparent procedure for fixing the remuneration packages of Board members, Chief Executive Officers and Senior Management and the remuneration policies and practices should be in line with the finance company's ethical values, objectives, risk appetite and culture.

Guideline:

- 7.1 No director should be involved in deciding his own remuneration.
- 7.2 The Board should establish a Remuneration Committee (RC) to perform this function. The RC should consist exclusively or a majority of, non-executive directors, drawing advice from experts, if necessary. Finance companies without a RC should have Board policies and procedures on matters that would otherwise be dealt with by the RC. Board remuneration policies and procedures should be disclosed in the annual report.
- 7.3 Finance companies are encouraged to implement the international best standards including the Financial Stability Board ('FSB') principles on compensation (i.e. remuneration).
- 7.4 The policy on the remuneration of directors and Senior Management should be developed under conditions of objectivity and transparency. The levels of remuneration should be sufficient to attract and retain directors of calibre, but at the same time, should also be balanced against the need to ensure that the finance company's funds are not used to subsidise excessive remuneration packages and not compromising the ongoing viability, solvency and reputation of the finance company.
- 7.5 The RC should be responsible for developing a clear policy and framework on the remuneration of directors, the CEO, the CRO, head of internal audit and Senior Management, and should oversee development and operation of remuneration policies, systems and related control processes. In setting the remuneration packages, the RC should consider the following:
 - (a) ensure that the remuneration policy supports the finance company's objectives, culture and strategy;
 - (b) remuneration and employment conditions of the industry;
 - (c) the finance company's relative performance;
 - (d) the performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors. However, salary

scales should be within the scope of the general business policy and not be solely based on short-term performance to avoid incentives for excessive risk-taking;

- (e) the remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the directors. In addition, the remuneration of each Board member may differ based on their level of expertise, knowledge and experience; and
 - (f) to cover all aspects of remuneration including director's fees, salaries, allowances, bonuses, options and benefits-in-kind and termination benefits.
- 7.6 The RC should be constituted in a way that enables it to exercise competent and independent judgment on compensation policies and practices and the incentives they create. The RC works closely with the finance company's risk committee in evaluating the incentives created by the remuneration system. The risk committee should, without prejudice to the tasks of the RC, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.
- 7.7 Remuneration systems form a key component of the governance and incentive structure through which the Board and Senior Management promote good performance, convey acceptable risk-taking behaviour and reinforce the finance company's operating and risk culture. The RC is responsible for the overall oversight of the Senior Management's implementation of the remuneration system for the entire finance company. In addition, the RC should regularly monitor and review outcomes to assess whether the group-wide remuneration system is creating the desired incentives for managing risk, capital and liquidity. The RC should review the remuneration plans, processes and outcomes at least annually.
- 7.8 For all employees in control functions (e.g. risk, compliance and internal audit), remuneration should be determined independently of any business line overseen, and performance measures should be based principally on the achievement of their own objectives so as not to compromise their independence.
- 7.9 The remuneration structure should be in line with the business and risk strategy, objectives, values and long-term interests of the finance company. It should also incorporate measures to prevent conflicts of interest. Remuneration programmes should encourage a sound risk culture in which risk-taking behaviour is appropriate and which encourages employees to act in the interest of the finance company as a whole (also taking into account customer interests) rather than for themselves or only their business lines. In particular, incentives embedded within remuneration structures should not incentivise staff to take excessive risk.

- 7.10 Remuneration should reflect risk-taking and risk outcomes. Practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain should be carefully evaluated by means of both qualitative and quantitative key indicators. The remuneration framework should provide for variable remuneration to be adjusted to take into account the full range of risks, including breaches of risk appetite limits, internal procedures or legal requirements.
- 7.11 The finance company should set specific provisions for employees with a significant influence on the overall risk profile, so-called material risk-takers. Remuneration payout schedules should be sensitive to risk outcomes over a multi-year horizon. For material risk-takers, this is often achieved through arrangements that defer a sufficiently large part of the compensation until risk outcomes become better known. This includes “malus/forfeiture” provisions, where compensation can be reduced or reversed based on realised risks or conduct events before compensation vests, and/or “clawback” provisions, under which compensation can be reduced or reversed after compensation vests if new facts emerge showing that the compensation paid was based on erroneous assumptions, such as misreporting, or if it is discovered that the employee has failed to comply with internal policies or legal requirements. In such cases, the finance company should take action as soon as practicable to recover forfeitable or recoupable amounts to improve the likelihood of successful recovery. “Golden hellos” or “golden parachutes”, under which new or terminated executives or staff receive large payouts irrespective of performance, are generally not consistent with sound compensation practice.
- 7.12 If so requested by the Authority, the finance company should submit the detailed formula or parameters on remuneration package of the Board and the CEO. Details of the remuneration (including benefits-in-kind) of the CEO and individual Board directors should be submitted together with the submission of the annual financial statements of the finance company to the Authority.

III. ACCOUNTABILITY AND AUDIT

A. ACCOUNTABILITY OF THE BOARD FOR THE AFFAIRS OF THE FINANCE COMPANY AND THE ROLE OF SENIOR MANAGEMENT IN REPORTING

Principle:

8. The Board should present a balanced and understandable assessment of the finance company's performance, risk position and prospects.

Guidelines:

- 8.1 The Board's responsibility to provide a balanced and understandable assessment of the finance company's performance, position and prospects extends to interim and other price sensitive public reports, and reports to regulators (if required).
- 8.2 The Board should take adequate steps to ensure compliance with all relevant legislative and regulatory requirements, including requirements under the listing rules of the securities exchange, for instance, by establishing written policies where appropriate.
- 8.3 Under the direction and oversight of the Board, Senior Management should carry out and manage the finance company's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the Board.
- 8.4 Senior Management consists of a core group of individuals responsible and accountable to the Board for the sound and prudent day-to-day management of the finance company. The organisation and procedures and decision-making of Senior Management should be clear and transparent and designed to promote effective management of the finance company. This includes clarity on the role, authority and responsibility of the various positions within Senior Management, including that of the CEO (see Principle 3). Members of Senior Management should have the necessary experience, competencies and integrity to manage the businesses and people under their supervision. They should receive access to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility.
- 8.5 Members of Senior Management should be selected through an appropriate promotion or recruitment process which takes into account the qualifications required for the position in question. For those Senior Management positions for which the Board is required to review or select candidates through an interview process, Senior Management should provide sufficient information to the Board.

- 8.6 Senior Management contributes substantially to a finance company’s sound corporate governance through personal conduct (e.g. by helping to establish the “tone at the top” along with the board). Members of Senior Management should provide adequate oversight of those they manage, and ensure that the finance company’s activities are consistent with the business strategy, risk appetite and the policies approved by the Board. Senior Management is responsible for delegating duties to staff and should establish a management structure that promotes accountability and transparency throughout the finance company.
- 8.7 Consistent with the direction given by the Board, Senior Management should implement business strategies, risk management systems, risk culture, processes and controls for managing the risks – both financial and non-financial – to which the finance company is exposed and concerning which it is responsible for complying with laws, regulations and internal policies. This includes comprehensive and independent risk management, compliance and audit functions as well as an effective overall system of internal controls. Senior Management should recognise and respect the independent duties of the risk management, compliance and internal audit functions and should not interfere in their exercise of such duties.
- 8.8 Senior Management should provide the Board with the information it needs to carry out its responsibilities, supervise staff and assess the quality of staff performance. In this regard, Senior Management should keep the Board regularly and adequately informed of material matters, including:
- (a) changes in business strategy, risk strategy/risk appetite;
 - (b) the finance company’s performance and financial condition (see 9.9 below);
 - (c) breaches of risk limits or compliance rules;
 - (d) internal control failures;
 - (e) legal or regulatory concerns; and
 - (f) issues raised as a result of the finance company’s whistleblowing procedures.
- 8.9 In particular, Senior Management should provide all members of the Board with management accounts and such explanation and information every two months and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the finance company's performance, risk position and prospects.
- 8.10 Ongoing communication about risk issues, including the finance company's risk strategy, throughout the finance company is a key tenet of a strong risk culture. A strong risk culture should promote risk awareness and encourage open communication and challenge about risk-taking across the organisation as well as vertically to and from the Board and Senior Management. Senior Management should actively communicate and consult with the control functions on the finance company's major plans and activities so that the control functions can effectively discharge their responsibilities.

- 8.11 Information should be communicated to the Board and Senior Management in a timely, accurate and understandable manner so that they are equipped to take informed decisions. While ensuring that the Board and Senior Management are sufficiently informed, those responsible for the risk management and financial reporting functions should avoid voluminous information that can make it difficult to identify key issues. Rather, information should be prioritised and presented in a concise, fully contextualised manner. The Board should assess the relevance and the process for maintaining the accuracy of the information it receives and determine if additional or less information is needed.
- 8.12 Material risk-related ad-hoc information that requires immediate decisions or reactions should be promptly presented to Senior Management and, as appropriate, the Board, the responsible officers and, where applicable, the heads of control functions so that suitable measures and activities can be initiated at an early stage.
- 8.13 Risk reporting to the Board requires careful design in order to convey enterprise-wide, individual portfolio and other risks in a concise and meaningful manner. Reporting should accurately communicate risk exposures and results of stress tests or scenario analysis and should provoke a robust discussion of, for example, the finance company's current and prospective exposures (particularly under stressed scenarios), risk/return relationships and risk appetite and limits. Reporting should also include information about the external environment to identify market conditions and trends that may have an impact on the finance company's current or future risk profile.
- 8.14 Risk reporting systems should be dynamic, comprehensive and accurate, and should draw on a range of underlying assumptions. Risk monitoring and reporting should not only occur at the disaggregated level (including material risk residing in subsidiaries) but should also be aggregated to allow for an enterprise-wide or integrated perspective of risk exposures. Risk reporting systems should be clear about any deficiencies or limitations in risk estimates, as well as any significant embedded assumptions (eg regarding risk dependencies or correlations).
- 8.15 The finance company should avoid organisational "silos" that can impede effective sharing of information across an organisation and can result in decisions being taken in isolation from the rest of the finance company. Overcoming these information-sharing obstacles may require the Board, Senior Management and control functions to re-evaluate established practices in order to encourage greater communication.

B. RISK MANAGEMENT AND INTERNAL CONTROLS

Principle:

9. The Board is responsible for the governance of risk. The Board should ensure that Senior Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the finance company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

Guidelines:

- 9.1 The Board should determine the finance company's levels of risk tolerance and risk policies in a risk appetite statement (RAS), and oversee Senior Management in the design, implementation and monitoring of the risk management and internal control systems. The Board should ensure that the finance company's risk appetite is aligned with its strategic, capital and financial plans and compensation practices.
- 9.2 The Board should, at least annually, review the adequacy and effectiveness of the finance company's risk management and internal control systems, including financial, operational, compliance and information technology controls. Such review can be carried out internally or with the assistance of any competent third parties.
- 9.3 The risk governance framework should outline actions to be taken when stated risk limits are breached, including disciplinary actions for excessive risk-taking, escalation procedures and board of director notification.
- 9.4 The finance company's risk appetite should be clearly conveyed through an RAS that can be easily understood by all relevant parties: the Board itself, Senior Management, the finance company's employees and the concerned supervisor(s).
- 9.5 The finance company's RAS should: (a) include both quantitative and qualitative considerations; (b) establish the individual and aggregate level and types of risk that the finance company is willing to assume in advance of and in order to achieve its business activities within its risk capacity; (c) define the boundaries and business considerations in accordance with which the finance company is expected to operate when pursuing the business strategy; and (d) communicate the Board's risk appetite effectively throughout the finance company, linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns across the finance company.

- 9.6 The development of an effective RAS should be driven by both top-down Board leadership and bottom-up Senior Management involvement. While the definition of risk appetite may be initiated by Senior Management, successful implementation depends upon effective interactions between the Board, Senior Management, risk management and operating businesses, including the CFO.
- 9.7 A risk governance framework should include well-defined organisational responsibilities for risk management, typically referred to as the three lines of defence: (a) the business line; (b) a risk management function and a compliance function independent from the first line of defence; and (c) an internal audit function independent from the first and second lines of defence.
- 9.8 Depending on the finance company's nature, size and complexity, and the risk profile of its activities, the specifics of how these three lines of defence are structured can vary. Regardless of the structure, responsibilities for each line of defence should be well defined and communicated.
- 9.9 Business units are the first line of defence. They take risks and are responsible and accountable for the ongoing management of such risks. This includes identifying, assessing and reporting such exposures, taking into account the finance company's risk appetite and its policies, procedures and controls. The manner in which the business line executes its responsibilities should reflect the finance company's existing risk culture. The Board should promote a strong culture of adhering to limits and managing risk exposures.
- 9.10 The second line of defence includes an independent risk management function. The risk management function complements the business line's risk activities through its monitoring and reporting responsibilities. Among other things, it is responsible for overseeing the finance company's risk-taking activities and assessing risks and issues independently from the business line. The function should promote the importance of Senior Management and business line managers in identifying and assessing risks critically rather than relying only on surveillance conducted by the risk management function. Among other things, the finance function plays a critical role in ensuring that business performance and profit and loss results are accurately captured and reported to the Board, management and business lines that will use such information as a key input to risk and business decisions.
- 9.11 The second line of defence also includes an independent and effective compliance function. The compliance function should, among other things, routinely monitor compliance with laws, corporate governance rules, regulations, codes and policies to which the finance company is subject. The Board should approve compliance policies that are communicated to all staff. The compliance function should assess the extent to which policies are observed and report to Senior Management and, as appropriate, to the Board on how the finance company is managing its compliance risk. The function should also have sufficient authority, stature, independence, resources and access to the Board.

9.12 The third line of defence consists of an independent and effective internal audit function. Among other things, it provides independent review and objective assurance on the quality and effectiveness of the finance company's internal control system, the first and second lines of defence and the risk governance framework including links to organisational culture, as well as strategic and business planning, compensation and decision-making processes. Internal auditors must be competent and appropriately trained and not involved in developing, implementing or operating the risk management function or other first or second line of defence functions (see Internal Audit Guideline 9.12 and Principle 13).

9.13 The Board should ensure that the risk management, compliance and internal audit functions are properly positioned, staffed and resourced and carry out their responsibilities independently, objectively and effectively. In the Board's oversight of the risk governance framework, the Board should regularly review key policies and controls with Senior Management and with the heads of the risk management, compliance and internal audit functions to identify and address significant risks and issues as well as determine areas that need improvement.

9.14 The Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems, in the finance company's annual report. The Board's commentary should include information needed by stakeholders to make an informed assessment of the finance company's internal control and risk management systems.

The Board should also comment in the finance company's annual report on whether it has received assurance from the CEO and the CFO:

- (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the finance company's operations and finances; and
- (b) regarding the effectiveness of the finance company's risk management and internal control systems.

9.15 The Board should establish a separate Board Committee to assist it in carrying out its responsibility of overseeing the finance company's risk management framework and policies. This Board Committee shall be called the Risk Management Committee (RMC).

9.16 The RMC should:

- (a) is strongly recommended for finance companies based on its size, risk profile or complexity;
- (b) be distinct from the AC, but may have other related tasks, such as finance;
- (c) have a chair who is an independent director and not the chair of the Board or of any other Board Committee;

- (d) include a majority of members who are independent;
 - (e) include members who have experience in risk management issues and practices;
 - (f) discuss all risk strategies on both an aggregated basis and by type of risk and make recommendations to the Board thereon, and on the risk appetite;
 - (g) be required to review the finance company's risk policies at least annually; and
 - (h) oversee that Senior Management has in place processes to promote the finance company's adherence to the approved risk policies.
- 9.17 The RMC is responsible for advising the Board on the finance company's overall current and future risk appetite, overseeing Senior Management's implementation of the RAS, reporting on the state of risk culture in the finance company, and interacting with and overseeing the CRO.
- 9.18 The RMC's work includes oversight of the strategies for capital and liquidity management as well as for all relevant risks of the finance company, such as credit, market, operational and reputational risks, to ensure they are consistent with the stated risk appetite.
- 9.19 The RMC should receive regular reporting and communication from the CRO and other relevant functions about the finance company's current risk profile, current state of the risk culture, utilisation against the established risk appetite, and limits, limit breaches and mitigation plans (see Risk Management Function – Principle 9).
- 9.20 There should be effective communication and coordination between the AC and the RMC to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the finance company.

Principle:

10. Finance companies should have an effective independent risk management function, under the direction of a CRO, with sufficient stature, independence, resources and access to the Board.

Guidelines:

- 10.1 The independent risk management function is a key component of the finance company's second line of defence. This function is responsible for overseeing risk-taking activities across the enterprise and should have authority within the organisation to do so. Key activities of the risk management function should include:
- (a) identifying material individual, aggregate and emerging risks;
 - (b) assessing these risks and measuring the finance company's exposure to them;
 - (c) subject to the review and approval of the Board, developing and implementing the enterprise-wide risk governance framework, which includes the finance company's risk culture, risk appetite and risk limits;
 - (d) ongoing monitoring of the risk-taking activities and risk exposures in line with the Board approved risk appetite, risk limits and corresponding capital or liquidity needs (i.e. capital planning);
 - (e) establishing an early warning or trigger system for breaches of the finance company's risk appetite or limits;
 - (f) influencing and, when necessary, challenging decisions that give rise to material risk; and
 - (g) reporting to Senior Management and the Board or RMC on all these items, including but not limited to proposing appropriate risk-mitigating actions.
- 10.2 While it is common for risk managers to work closely with individual business units, the risk management function should be sufficiently independent of the business units and should not be involved in revenue generation. Such independence is an essential component of an effective risk management function, as is having access to all business lines that have the potential to generate material risk to the finance company as well as to relevant risk-bearing subsidiaries and affiliates.
- 10.3 The risk management function should have a sufficient number of employees who possess the requisite experience and qualifications, including market and product knowledge as well as command of risk disciplines. Staff should have the ability and willingness to effectively

challenge business operations regarding all aspects of risk arising from the finance company's activities. Staff should have access to regular training.

- 10.4 Finance companies should have a member from Senior Management who is a CRO or equivalent with overall responsibility for the finance company's risk management function. All references in this document to the CRO are intended to incorporate equivalent positions, provided they meet the independence and other requirements set out herein.
- 10.5 The CRO has primary responsibility for overseeing the development and implementation of the finance company's risk management function. This includes the ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports as necessary to ensure that the finance company's risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities. The CRO is responsible for supporting the Board in its engagement with and oversight of the development of the finance company's risk appetite and RAS and for translating the risk appetite into a risk limits structure. The CRO, together with management, should be actively engaged in monitoring performance relative to risk-taking and risk limit adherence. The CRO's responsibilities also include managing and participating in key decision-making processes (e.g. strategic planning, capital and liquidity planning, new products and services, compensation design and operation).
- 10.6 The CRO should have the organizational stature, authority and necessary skills to oversee the finance company's risk management activities. The CRO should be independent and have duties distinct from other executive functions. This requires the CRO to have access to any information necessary to perform his or her duties. The CRO, however, should not have management or financial responsibility related to any operational business lines or revenue-generating functions, and there should be no "dual hatting" (i.e. the CEO, CFO, chief auditor or other members of the Senior Management should in principle not also serve as the CRO). While formal reporting lines may vary across finance companies, the CRO should report and have direct access to the Board or the RMC without impediment. The CRO should have the ability to interpret and articulate risk in a clear and understandable manner and to effectively engage the Board and Senior Management in constructive dialogue on key risk issues. Interaction between the CRO and the Board and/or RMC should occur regularly, and the CRO should have the ability to meet with the Board or RMC without executive directors being present.
- 10.7 Appointment, dismissal and other changes to the CRO position should be approved by the NC or the RMC. If the CRO is removed from his or her position, this should be disclosed publicly. The finance company should also discuss the reasons for such removal with the Authority. The CRO's performance, compensation and budget should be reviewed and approved by the RMC or the Board.

Principle:

- 11.** Risks should be identified, monitored and controlled on an ongoing enterprise-wide and individual entity basis. The sophistication of the finance company's risk management and internal control infrastructure should keep pace with changes to the finance company's risk profile, to the external risk landscape and in industry practice.

Guidelines:

- 11.1 The finance company's risk governance framework should include policies, supported by appropriate control procedures and processes, designed to ensure that the finance company's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the finance company's size, complexity and risk profile.
- 11.2 Risk identification should encompass all material risks to the finance company, on- and off-balance sheet and on a group-wide, portfolio-wise and business-line level. In order to perform effective risk assessments, the Board and Senior Management, including the CRO, should, regularly and on an ad-hoc basis, evaluate the risks faced by the finance company and its overall risk profile. The risk assessment process should include ongoing analysis of existing risks as well as the identification of new or emerging risks. Risks should be captured from all organizational units. Concentrations associated with material risks should likewise be factored into the risk assessment.
- 11.3 Risk identification and measurement should include both quantitative and qualitative elements. Risk measurements should also include qualitative, enterprise-wide views of risk relative to the finance company's external operating environment. Finance companies should also consider and evaluate harder-to-quantify risks, such as reputation risk.
- 11.4 Internal controls are designed, among other things, to ensure that each key risk has a policy, process or other measure, as well as a control to ensure that such policy, process or other measure is being applied and works as intended. As such, internal controls help ensure process integrity, compliance and effectiveness. Internal controls provide reasonable assurance that financial and management information is reliable, timely and complete and that the finance company is in compliance with its various policies and applicable laws and regulations.
- 11.5 In order to avoid actions beyond the authority of the individual or even fraud, the finance company should put in place internal controls to provide reasonable checks on managerial and employee discretion. Key management decisions should be taken by more than one person. Internal reviews should also determine the extent of a finance company's compliance with finance company policies and procedures as well as with legal and regulatory policies. Adequate escalation procedures are a key element of the internal control system.

- 11.6 The degree of sophistication of the finance company's risk management infrastructure, including, in particular, a sufficiently robust data infrastructure, data architecture and information technology infrastructure, should keep pace with developments such as balance sheet and revenue growth, increasing complexity of the finance company's business, risk configuration or operating structure, geographical expansion, mergers and acquisitions, or the introduction of new products or business lines.
- 11.7 Finance companies should have accurate internal and external data to be able to identify, assess and mitigate risk, make strategic business decisions and determine capital and liquidity adequacy. The Board and Senior Management should give special attention to the quality, completeness and accuracy of the data used to make risk decisions. While tools such as external credit ratings or externally purchased risk models and data can be useful as inputs into a more comprehensive assessment, finance companies are ultimately responsible for the assessment of their risks.
- 11.8 Risk measurement and modelling techniques should be used in addition to, but should not replace, qualitative risk analysis and monitoring. The risk management function should keep the Board and Senior Management apprised of the assumptions used in and potential shortcomings of the finance company's risk models and analyses. This would ensure better understanding of risks and exposures and may allow quicker action to address and mitigate risks.
- 11.9 As part of its quantitative and qualitative analysis, the finance company should utilise stress tests and scenario analyses to better understand potential risk exposures under a variety of adverse circumstances:
- (a) internal stress tests should cover a range of scenarios based on reasonable assumptions regarding dependencies and correlations. Senior Management should define and approve and, as applicable, the Board should review and provide effective challenge to the scenarios that are used in the finance company's risk analyses;
 - (b) reverse stress testing could provide additional insight into the risk position of the finance company as well as potential future management actions;
 - (c) stress test programme results should be periodically reviewed with the Board or the RMC. Test results should be incorporated into the reviews of the risk appetite, the capital and liquidity planning processes, and budgets. They should also be linked to recovery and resolution planning. The risk management function should suggest if and what action is required based on results; and
 - (d) the results of stress tests and scenario analyses should also be communicated to, and given appropriate consideration by, relevant business lines and individuals within the finance company.

- 11.10 Finance companies should regularly compare actual performance against risk estimates (i.e. backtesting) to assist in judging the accuracy and effectiveness of the risk management process and making necessary adjustments.
- 11.11 In addition to identifying and measuring risk exposures, the risk management function should evaluate possible ways to mitigate these exposures. In some cases, the risk management function may direct that risk be reduced or hedged to limit exposure. In other cases, such as when there is a decision to accept or take risk that is beyond risk limits (i.e. on a temporary basis) or take risk that cannot be hedged or mitigated, the risk management function should report material exemptions to the RC and monitor the positions to ensure that they remain within the finance company's framework of limits and controls or within exception approval. Either approach may be appropriate depending on the issue at hand, provided that the independence of the risk management function is not compromised.
- 11.12 Finance companies should have risk management and approval processes for new or expanded products or services, lines of business and markets, as well as for large and complex transactions that require significant use of resources or have hard-to-quantify risks. Finance companies should also have review and approval processes for outsourcing finance company functions. The risk management function should provide input on risks as part of such processes and on the outsourcer's ability to manage risks and comply with legal and regulatory obligations. Such processes should entail the following:
- (a) A full and frank assessment of risks under a variety of scenarios as well as an assessment of potential shortcomings in the ability of the finance company's risk management and internal controls to effectively manage associated risks;
 - (b) An assessment of the extent to which the finance company's risk management, legal and regulatory compliance, information technology, business line and internal control functions have adequate tools and the expertise necessary to measure and manage related risks;
 - (c) If adequate risk management processes are not in place, a new product, service, business line or third party relationship or major transaction should be delayed until the finance company is able to appropriately address the activity. There should also be a process to assess risk and performance relative to initial projections and to adapt the risk management treatment accordingly as the business matures.
- 11.13 Effective risk identification and measurement approaches are likewise necessary in subsidiary entities and affiliates. Material risk-bearing affiliates and subsidiaries should be captured by the enterprise-wide risk management system and should be a part of the overall risk governance framework.

11.14 Mergers and acquisitions, divestitures and other changes to a finance company's organisational structure can pose special risk management challenges to the finance company. In particular, risks can arise from conducting due diligence that fails to identify post-merger risks or activities conflicting with the finance company's strategic objectives or risk appetite. The risk management function should be actively involved in assessing risks that could arise from mergers and acquisitions and inform the Board and Senior Management of its findings.

C. AUDIT COMMITTEE

Principle:

- 12.** The Board should establish an Audit Committee (AC) with written terms of reference which clearly set out its authority and duties. The Chairman must be an Independent Director and must not be the Chairman of the Board or of any other committee.

Guidelines:

- 12.1 The members of the AC must be made up of entirely Independent or Non-Executive Directors and should consist of at least two persons with extensive professional experience.
- 12.2 At least one member of the AC should be a person with extensive professional experience in the field of financial reporting or auditing.
- 12.3 The AC is, in particular, responsible for -
- (a) recommendations on appointment, remuneration and dismissal of the external auditors, the scope of external audits and other services;
 - (b) providing the opportunity for the internal and external auditors to meet and discuss findings;
 - (c) reviewing with the external auditors the end of year financial statements;
 - (d) framing policy on internal audit and financial reporting, among other things;
 - (e) overseeing the financial reporting process;
 - (f) providing oversight of and interacting with the finance company's internal and external auditors;
 - (g) reviewing and approving the audit scope and frequency;
 - (h) receiving key audit reports and ensuring that Senior Management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and other control functions;
 - (i) overseeing the establishment of accounting policies and practices by the finance company; and

- (j) reviewing the third-party opinions on the design and effectiveness of the overall risk governance framework and internal control system.
- 12.4 The Board should determine the further responsibilities and conditions of the AC (see Principles 13.5 and 18.8).
- 12.5 The AC should periodically report to the Board and where needed, the AC should have access to external expert advice.

D. INTERNAL AUDIT AND COMPLIANCE

Principle:

13. The finance company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits. The internal audit function should provide independent assurance to the Board and should support Board and Senior Management in promoting an effective governance process and the long-term soundness of the finance company.

Guidelines:

- 13.1 The internal auditor function's primary line of reporting should be to the AC Chairman although the head of the internal auditor function would also report administratively to the CEO. The AC approves the hiring, removal, evaluation and compensation of the head of the internal audit function, or the accounting/auditing firm or corporation to which the internal audit function is outsourced. The staff of the internal audit function should have unfettered access to all the finance company's documents, records, properties and personnel, including access to the AC.
- 13.2 The AC should ensure that the internal audit function is adequately resourced and has appropriate standing within the finance company. For the avoidance of doubt, the internal audit function can be in-house, outsourced to a reputable accounting/auditing firm or corporation, or performed by a Substantial Shareholder, holding company or controlling enterprise with an internal audit staff.
- 13.3 The internal audit function should be staffed with persons with the relevant qualifications and experience.
- 13.4 The staff of the internal audit function should carry out their functions according to the standards set by nationally or internationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.
- 13.5 The AC should, at least annually, review the adequacy and effectiveness of the internal audit function.
- 13.6 An effective and efficient internal audit function constitutes the third line of defence in the system of internal control. It provides an independent assurance to the Board and Senior Management on the quality and effectiveness of a finance company's internal control, risk management and governance systems and processes, thereby helping the Board and Senior Management protect their organisation and its reputation.
- 13.7 The internal audit function should have a clear mandate, be accountable to the Board and be independent of the audited activities. It should have sufficient standing, skills, resources

and authority within the finance company to enable the auditors to carry out their assignments effectively and objectively.

- 13.8 There should be no “dual hatting” by the heads of the above functions.
- 13.9 The Board and Senior Management contribute to the effectiveness of the internal audit function by:
- (a) providing the function with full and unconditional access to any records, file data and physical properties of the finance company, including access to management information systems and records and the minutes of all consultative and decision-making bodies;
 - (b) requiring the function to independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes;
 - (c) requiring internal auditors to adhere to national and international professional standards, such as those established by the Institute of Internal Auditors;
 - (d) requiring that audit staff collectively have or can access knowledge, skills and resources commensurate with the business activities and risks of the finance company;
 - (e) requiring timely and effective correction of audit issues by Senior Management; and
 - (f) requiring the function to perform a periodic assessment of the finance company’s overall risk governance framework, including but not limited to an assessment of:
 - the effectiveness of the risk management and compliance functions;
 - the quality of risk reporting to the Board and Senior Management; and
 - the effectiveness of the finance company’s system of internal controls.
- 13.10 The Board and Senior Management should respect and promote the independence of the internal audit function by ensuring that:
- (a) internal audit reports are provided to the Board or its AC without management filtering and that the internal auditors have direct access to the Board or the Board’s AC;
 - (b) the head of the internal audit function’s primary reporting line is to the Board (or its AC), which is also responsible for the selection, oversight of the performance and, if necessary, dismissal of the head of this function;
 - (c) if the chief audit executive is removed from his or her position, this should be disclosed publicly. The finance company should also notify and discuss the reasons for such removal with the Authority.

Principle:

- 14.** The Board is responsible for overseeing the management of the finance company's compliance risk. The Board should establish a compliance function and approve the Finance company's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.

Guidelines:

- 14.1 An independent compliance function is a key component of the finance company's second line of defence. This function is responsible for, among other things, ensuring that the finance company operates with integrity and in compliance with applicable laws, regulations and internal policies. The Senior Management is responsible for establishing a compliance policy that contains the basic principles to be approved by the Board and explains the main processes by which compliance risks are to be identified and managed through all levels of the organisation.
- 14.2 While the Board and Senior Management are accountable for the finance company's compliance, the compliance function has an important role in supporting corporate values, policies and processes that help ensure that the finance company acts responsibly and fulfils all applicable obligations. The compliance function should advise the Board and Senior Management on the finance company's compliance with applicable laws, rules and standards and keep them informed of developments in the area. It should also help educate staff about compliance issues, act as a contact point within the finance company for compliance queries from staff members, and provide guidance to staff on the appropriate implementation of applicable laws, rules and standards in the form of policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.
- 14.3 The compliance function is independent from management to avoid undue influence or obstacles as that function performs its duties. The compliance function of the finance company should directly report to the Board, as appropriate, on the finance company's efforts in the above areas and on how the finance company is managing its compliance risk.
- 14.4 To be effective, the compliance function must have sufficient authority, stature, independence, resources and access to the Board. Senior Management should respect the independent duties of the compliance function and not interfere with their fulfilment. As previously noted, there should be no "dual hatting" by the head of the compliance function.

IV. SHAREHOLDER RIGHTS AND RESPONSIBILITIES

A. SHAREHOLDER RIGHTS

Principle:

15. Finance companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Guidelines:

- 15.1 Finance companies should facilitate the exercise of ownership rights by all shareholders. In particular, shareholders should have the right to be sufficiently informed of changes in the finance company or its business which would be likely to materially affect the price or value of the finance company's shares.
- 15.2 Finance companies should ensure that shareholders have the opportunity to participate effectively in and vote at general meetings of shareholders. Shareholders should be informed of the rules, including voting procedures, which govern general meetings of shareholders.
- 15.3 Finance companies should allow corporations which provide nominee or custodial services to appoint more than two proxies so that shareholders who hold shares through such corporations can attend and participate in general meetings as proxies.

B. COMMUNICATION WITH SHAREHOLDERS AND STAKEHOLDERS

Principle:

- 16.** Finance companies should actively engage their shareholders, depositors and other relevant stakeholders and market participants and put in place an investor relations policy to promote regular, effective and fair communication with their stakeholders.

Guidelines:

- 16.1 Finance companies should devise an effective investor relations policy to regularly convey pertinent information to shareholders and other stakeholders. In disclosing information, finance companies should be as descriptive, detailed and forthcoming as possible, and avoid boilerplate disclosures.
- 16.2 Finance companies should disclose information on a timely basis through any secured information channels, including a well-maintained and updated corporate website. Where there is inadvertent disclosure made to a selected group, finance companies should make the same disclosure publicly to all others as promptly as possible.
- 16.3 Transparency is consistent with sound and effective corporate governance. It is difficult for shareholders, depositors, other relevant stakeholders and market participants to effectively monitor and properly hold the Board and Senior Management accountable when there is insufficient transparency. The objective of transparency in the area of corporate governance is therefore to provide these parties with the information necessary to enable them to assess the effectiveness of the Board and Senior Management in governing the finance company.
- 16.4 Finance companies should disclose relevant and useful information that supports the key areas of corporate governance identified by these Guidelines. Such disclosure should be proportionate to the size, complexity, structure, economic significance and risk profile of the finance company. At a minimum, finance companies should disclose annually the following information either as part of the annual report or as attachments or appendices to the annual report:
- (a) the recruitment approach for the selection of members of the Board and for ensuring an appropriate diversity of skills, backgrounds and viewpoints;
 - (b) whether the finance company has set up Board Committees and the number of times key standing committees have met; and

- (c) disclosures required in Principles 16.5 to 16.8 below and other parts of this document, including: Section B page 7 (non-compliance), and disclosures relating to Principles 1.3, 1.5, 1.8, 3.1, 4.1, 4.7, 4.9, 4.10, 5.5, 5.10, 6.3, 6.4, 7.2, 9.14 (and 10.7 and 13.10 as applicable).
- 16.5 In general, disclosure should include, but not be limited to, material information on the finance company's objectives, organisational and governance structures and policies (in particular, the content of any corporate governance or remuneration code or policy and the process by which it is implemented), major share ownership and voting rights, and related party transactions. Finance companies should appropriately disclose their incentive and compensation policy following the Financial Stability Board principles related to compensation. In particular, an annual disclosure on compensation should be made to the public as part of the annual report. It should include: the decision-making process used to determine the enterprise-wide compensation policy; the most important design characteristics of the compensation system, including the criteria used for performance measurement and risk adjustment; and aggregate quantitative information on remuneration. Measures that reflect the longer-term performance of the finance company should also be presented.
- 16.6 The finance company should also disclose key points concerning its risk exposures and risk management strategies in its annual report without breaching necessary confidentiality. When involved in material and complex or non-transparent activities, the finance company should disclose adequate information on their purpose, strategies, structures, and related risks and controls.
- 16.7 Disclosure should be accurate, clear and presented such that shareholders, depositors, other relevant stakeholders and market participants can consult the information easily. Timely public disclosure is desirable on a finance company's public website, in its annual and periodic financial reports, or by other appropriate means. It is good practice to have an annual corporate governance-specific and comprehensive statement in a clearly identifiable section of the annual report. All material developments that arise between regular reports should be disclosed to the Authority and relevant stakeholders as required by law without undue delay.
- 16.8 The Board should state in the finance company's annual report the steps it has taken to solicit and understand the views of the shareholders e.g. through analyst briefings, investor roadshows or Investors' Day briefings.
- 16.9 The Board should establish and maintain regular dialogue with shareholders, to gather views or inputs, and address shareholders' concerns.
- 16.10 Finance companies should have a policy on payment of dividends and should communicate it to shareholders. Where dividends are not paid, finance companies should disclose their reasons.

C. CONDUCT OF SHAREHOLDER MEETINGS

Principle:

17. Finance companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the finance company.

Guidelines:

- 17.1 Shareholders should have the opportunity to participate effectively in and to vote at general meetings of shareholders. Finance companies should make the appropriate provisions in their Articles of Association (or other constitutive documents) to allow for absentia voting at general meetings of shareholders.
- 17.2 There should be separate resolutions at general meetings on each substantially separate issue. Finance companies should avoid "bundling" resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.
- 17.3 All directors should attend general meetings of shareholders. In particular, the Chairman and the respective Chairman of the AC, NC and RC should be present and available to address shareholders' queries at these meetings. The external auditors should also be present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.
- 17.4 Finance companies should prepare minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management, and should make these minutes available to shareholders upon their request.
- 17.5 Finance companies should put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages. Finance companies are encouraged to employ electronic polling.

V. ADDITIONAL PRINCIPLES AND GUIDELINES OF THE AUTHORITY

A. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

Principle:

18. Persons empowered with decision-making authority (including directors) should exercise care to avoid situations that may give rise to a conflict of interest situation.

Guidelines:

- 18.1 The directors, officers and employees of a finance company should conduct their business with the highest level of ethical values. Conflict of interest situation call into question the ability of the person involved in the conflict to act objectively in the best interest of the finance company. Generally, directors should abstain from participating in any discussion or decision-making with respect to matters where there is a conflict or potential conflict of interest situation.
- 18.2 The Board should establish procedures to address a conflict of interest situation and should ensure that Senior Management implement policies to identify, prevent or appropriately manage and disclose potential conflicts of interest situations that may arise. Such policies should ensure that the finance company's activities that may give rise to conflicts of interest are carried out with sufficient degree of independence from each other. This could be done by, for example, ensuring appropriate segregation of duties so that employees are not assigned potentially conflicting responsibilities, providing for separate reporting lines and internal controls and establishing information barriers between different activities.
- 18.3 Conflicts of interest may also arise when a finance company is part of a larger group structure, whereby reporting lines and information flow between the finance company, its parent and/or other subsidiaries of the parent can lead to the emergence of conflicts of interest situations. As such, the Board should also ensure that policies are in place to identify, prevent or manage and disclose conflicts of interest which arise as a result of such affiliation with other entities within the group e.g. pressure to conduct business on a non-arm's length basis or sharing of confidential information.
- 18.4 Where conflicts of interest cannot be prevented, they should be properly managed (based on the permissibility of relationships or transactions under sound corporate policies consistent with international best practices.
- 18.5 The Board should have a formal written conflicts-of-interest policy and an objective compliance process for implementing the policy. The policy should include:
- (a) a member's duty to avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest;
 - (b) examples of where conflicts can arise when serving as a Board member;
 - (c) a rigorous review and approval process for members to follow before they engage in certain activities (such as serving on another board of another company) so as to ensure that such activity will not create a conflict of interest;

- (d) a member's duty to promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
 - (e) a member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity or ability to properly fulfil duties to the finance company may be otherwise compromised;
 - (f) adequate procedures for transactions with related parties so that they are made on an arm's length basis (see 19.8 below); and
 - (g) the way in which the Board will deal with any non-compliance with the policy.
- 18.6 The Board should oversee and be satisfied with the process by which appropriate public disclosure is made, and/or information is provided to the Authority, relating to the company's policies on conflicts of interest and potential material conflicts of interest. This should include information on the finance company's approach to disclosing and managing material conflicts of interest that are not consistent with such policies, and conflicts that could arise because of the finance company's affiliation or transactions with other entities within the group.
- 18.7 There is a potential conflict of interest where a finance company is both owned by the state and subject to banking supervision by the state. If such conflicts of interest do exist, there should be full administrative separation of the ownership and banking supervision functions in order to minimise political interference in the supervision of the finance company.
- 18.8 The Board should also ensure that Related Party Transactions are made on an arm's length basis. The Board should establish policies and procedures on Related Party Transactions, which includes how the finance company defines Related Party, limits applied, terms of transactions and procedures for approving and monitoring these transactions. The established policies and procedures should not be overridden to accommodate any party. The AC should review all Related Party Transactions and these transactions should be monitored with particular care. Appropriate steps should also be taken to control or mitigate the risks of connected lending and ensuring compliance with all relevant laws in Brunei Darussalam. The AC should keep the Board informed of these transactions.

VI. GLOSSARY

The following terms, unless the context require otherwise, have the following meanings:

| Term | Meaning |
|-----------------|--|
| “AC” | : Audit Committee |
| “AC Chairman” | : Chairman of the AC. |
| “affiliate” | : in relation to a substantial shareholder of a finance company, means any company which is an associate of the substantial shareholder, other than — (i) the finance company, and any entity in which the finance company holds a major stake; or (ii) where the finance company is the subsidiary of another company incorporated in Brunei Darussalam (referred to in this paragraph as the parent company), the parent company and any entity in which the parent company holds a major stake. |
| “annual report” | : any publicly available information with regards to, but not limited to the finance company’s financial position and any accompanying notes as well as any accompanying commentary by the senior officials of the finance company. |
| “associate”, | : in relation to a substantial shareholder, means — : (a) any corporation in which the substantial shareholder controls the composition of the board of directors; (b) any corporation in which the substantial shareholder controls more than half of the voting power; (c) any corporation in which the substantial shareholder holds more than half of the issued share capital; (d) any corporation which is a subsidiary of any other corporation which is an associate by virtue of paragraph (a), (b) or (c); |

- (e) any corporation in which the substantial shareholder or any other corporation which is an associate by virtue of paragraph (a), (b), (c) or (d) has, or the substantial shareholder and such other corporation together have, an interest in shares entitling the beneficial owners thereof the right to cast, whether by proxy or in person, not less than 20% but not more than 50% of the total votes able to be cast at a general meeting of the first-mentioned corporation; or
- (f) any corporation (not being a corporation which is an associate by virtue of paragraph (a), (b), (c), (d) or (e)) the policies of which the substantial shareholder or any other corporation which is an associate by virtue of paragraph (a), (b), (c), (d) or (e) is, or the substantial shareholder together with such other corporation are, able to control or influence materially.

| | | |
|------------------------|---|--|
| “Authority” | : | Autoriti Monetari Brunei Darussalam as defined by the Autoriti Monetari Brunei Darussalam Order, 2010 [S 103/10]. |
| "Board" | : | The board of directors of the finance company. |
| “Board Committee” | : | All committees established by the Board. Example: Audit Committee; Remuneration Committee; Nominating Committee. |
| "CEO" | : | Chief executive officer or equivalent. |
| "CFO" | : | Chief financial officer or equivalent. |
| "Chairman" | : | Chairman of the Board. |
| “Company” | : | Has the meaning assigned to it under the Companies Act. |
| "Companies Act" | : | Companies Act (Chapter 39 of the Laws of Brunei Darussalam). |
| “control functions” | : | Those functions that have a responsibility independent from Management to provide objective assessment, reporting and/or assurance. This includes the risk management function, the compliance function and the internal audit function. |
| “corporate governance” | : | A set of relationships between a company’s management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made. |

| | |
|---------------------------|---|
| “duty of care” | : The duty of Board members to decide and act on an informed and prudent basis with respect to the finance company. Often interpreted as requiring Board members to approach the affairs of the company the same way that a “prudent person” would approach his or her own affairs. |
| “duty of loyalty” | : The duty of Board members to act in good faith in the interest of the company. The duty of loyalty should prevent individual Board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and shareholders. |
| “finance company” | : A company which carries on financing business or Islamic financing business and holds a licence granted under section 3 of the Finance Companies Act, Chapter 89 |
| “First-Time Directors” | : A director who has no prior experience in the specific industry of the finance company concerned. |
| "Immediate Family" | : in relation to an individual, means the individual’s spouse, child, adopted child, step-child, parent, step-parent, brother, step-brother, sister or step-sister. |
| “internal control system” | : A set of rules and controls governing the finance company’s organisational and operational structure, including reporting processes, and functions for risk management, compliance and internal audit. |
| "Management" | : The management of the finance company, but also refer to Guideline 8.4 for a description of ‘senior management’. |
| "NC" | : Nomination Committee |
| "NC Chairman" | : Chairman of the NC |
| "Principal Commitments" | : Includes all commitments which involve significant time commitment such as full-time occupation, consultancy work, committee work, finance company board representations and directorships and involvement in non-profit organisations. Where a director sits on the Boards of non-active related corporations, those appointments should not normally be considered principal commitments. |
| "RC" | : Remuneration Committee |
| “RMC” | : Risk Management Committee |
| "related corporation" | : in relation to a corporation, means a corporation that is deemed to be related to the first-mentioned corporation by virtue of |

section 129A of the Companies Act (Cap. 39);

- “Related Party” : In relation to a finance company, has the same meaning as under the current edition of International Financial Reporting Standards.
- “Related Party Transaction” : Means a transfer of resources or obligations between Related Parties, regardless of whether a price is charged. Related Party transactions include transactions with Related Parties and director(s) and/or director related entities.
- “risk appetite” : The aggregate level and types of risk a finance company is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.
- “risk appetite framework” (RAF) : The overall approach, including policies, processes, controls and systems, through which risk appetite is established, communicated and monitored. It includes a risk appetite statement, risk limits and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAF should consider material risks to the finance company, as well as to its reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the finance company’s strategy.
- “risk appetite statement” (RAS) : The written articulation of the aggregate level and types of risk that a finance company will accept, or avoid, in order to achieve its business objectives. It includes quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate. It should also include qualitative statements to address reputation and conduct risks as well as money laundering and unethical practices.
- “risk capacity” : The maximum amount of risk a finance company is able to assume given its capital base, risk management and control capabilities as well as its regulatory constraints.
- “risk culture” : A finance company’s norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assume.
- “risk governance framework” : As part of the overall corporate governance framework, the framework through which the Board and Management establish and make decisions about the finance company’s strategy and risk approach; articulate and monitor adherence to risk appetite and risk limits vis-à-vis the finance company’s strategy; and identify, measure, manage and control risks.

- “risk limits” : Specific quantitative measures or limits based on, for example, forward-looking assumptions that allocate the finance company’s aggregate risk to business lines, legal entities as relevant, specific risk categories, concentrations and, as appropriate, other measures.
- “risk management” : The processes established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.
- “risk profile” : Point-in-time assessment of a finance company’s gross risk exposures (ie before the application of any mitigants) or, as appropriate, net risk exposures (ie after taking into account mitigants) aggregated within and across each relevant risk category based on current or forward-looking assumptions.
- “Senior Management” : The CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the finance company.
- “Substantial Shareholder” : "substantial shareholder" of a company shall be established as follows –
- (i) A person has a substantial shareholding in a company if –
 - (a) he has an interest or interests in one or more voting shares in the company; and
 - (b) The total votes attached to that share, or those shares, is not less than 5% of the total votes attached to all the voting shares in the company.
 - (ii) A person has a substantial shareholding in a company, being a company the share capital of which is divided into two or more classes of shares, if –
 - (a) He has an interest or interests in one or more voting shares included in one of those classes; and
 - (b) The total votes attached to that share, or those shares, is not less than 5% of the total votes attached to all the voting shares included in that class.
 - (iii) A person who has a substantial shareholding in a company is a substantial shareholder in that company.

- (iv) "Voting shares" in this paragraph, exclude treasury shares.
- "voting shares" : in relation to a body corporate, means an issued share in the body corporate, not being –
- (a) a share to which, in no circumstances, is there attached a right to vote; or
 - (b) a share to which there is attached a right to vote only in one or more of the following circumstances –
 - (i) during a period in which a dividend (or part of a dividend) in respect of the share is in arrear;
 - (ii) on a proposal to reduce the share capital of the body corporate;
 - (iii) on a proposal that affects rights attached to the share;
 - (iv) on a proposal to wind up the body corporate;
 - (v) on a proposal for the disposal of the whole of the property, business and undertakings of the body corporate;
 - (vi) during the winding up of the body corporate.

Reference to any gender includes reference to any other gender, unless the context otherwise requires.