

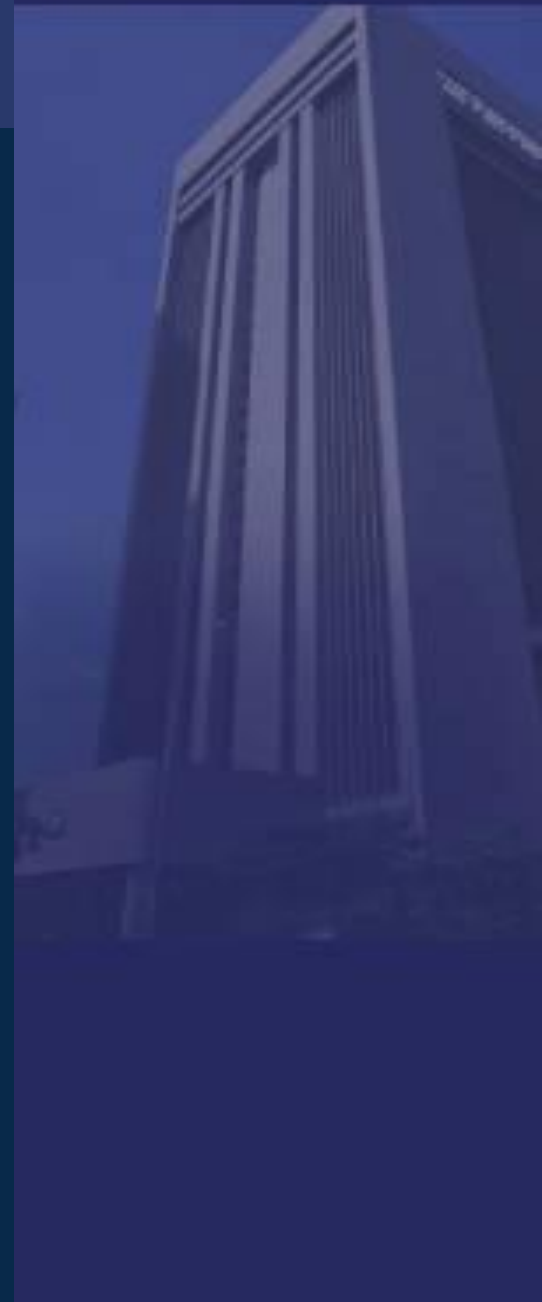


Monetary Authority of Singapore

BANK RISK MANAGEMENT AND GOVERNANCE

**BANK EXAMINER
FOUNDATIONAL SKILLS
DEVELOPMENT**

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CORPORATE GOVERNANCE FRAMEWORK

What is Corporate Governance?

The process and structure in which the business and affairs of a company are directed and managed, in order to enhance long-term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders.

CORPORATE GOVERNANCE FRAMEWORK

Why corporate governance?

- ⦿ To ensure that the business of a bank is managed in a safe and sound manner
- ⦿ To maintain public trust and confidence in the banking system
- ⦿ To protect depositors

CORPORATE GOVERNANCE FRAMEWORK

Why corporate governance?

- ⦿ CG for banks is of greater importance given their crucial financial intermediation roles in an economy
- ⦿ Underscores the importance of having appropriate levels of accountability and checks and balances within each bank

CORPORATE GOVERNANCE FRAMEWORK

Why corporate governance?

- ⦿ Poor CG can lead markets to lose confidence in the bank's ability to properly manage its assets and liabilities
- ⦿ Poor CG can contribute to bank failures, which can in turn pose significant public costs and consequences

BOARD OF DIRECTORS : ROLES

- ⦿ Approve and oversee implementation of the bank's
 - overall strategic direction, including its risk tolerance and appetite
 - policies and procedures related to risk management and compliance
 - internal control systems; and
 - corporate governance framework, principles and corporate values

BOARD OF DIRECTORS : ROLES

- ⦿ Establish a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interests and the company's assets.

BOARD COMMITTEES

- ⦿ Nominating Committee
- ⦿ Remuneration Committee
- ⦿ Audit Committee
- ⦿ Risk Committee
- ⦿ Executive Committee
- ⦿ Loan Committee
- ⦿ Asset & Liability Management Committee

NOMINATING COMMITTEE

- ⦿ Recommends nominees for appointment/re-appointment of directors and may recommend a successor to a key senior management position.
- ⦿ Develops a management succession policy that specifies key senior management positions and qualified potential successors.
- ⦿ Develops a process for evaluation of the performance of the Board, its board committees and directors.

NOMINATING COMMITTEE

- ⦿ In reviewing nominations, the NC should satisfy itself that each nominee is a fit and proper person, and is qualified for the office taking into account the nominee's track record, age, experience, capabilities, skills and such other relevant factors as may be determined by the NC.
- ⦿ NC – at least 3 directors, the majority of whom, including the NC Chairman, should be independent.

REMUNERATION COMMITTEE

- ⦿ Review and recommend to the Board, a general framework of remuneration for the Board and key management personnel.
- ⦿ Review and recommend to the Board, the specific remuneration packages for each director as well as for the key management personnel.
- ⦿ RC – at least 3 directors, the majority of whom, including the RC Chairman, should be independent.
- ⦿ All RC members should be non-executive directors.

AUDIT COMMITTEE

- ⦿ Review the significant financial reporting issues and judgements so as to ensure the integrity of the company's financial statements.
- ⦿ Review and report to the Board at least annually, the adequacy and effectiveness of the company's internal controls, including the financial, operational, compliance and IT controls.
- ⦿ Review the effectiveness of the company's internal audit function.

AUDIT COMMITTEE

- ⦿ Reviews the scope and results of the external audit, and the independence and objectivity of the external auditors.
- ⦿ Makes recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.
- ⦿ Ensures senior management is taking timely corrective actions to rectify control weaknesses.

AUDIT COMMITTEE

- ⦿ AC – at least 3 directors, the majority of whom, including the RC Chairman, should be independent.
- ⦿ All AC members should be non-executive directors.
- ⦿ The AC should meet with (a) the external auditors; and (b) the internal auditors, in each case without the presence of management, at least annually.

RISK COMMITTEE

- ⦿ Board level risk committee – responsible for advising the Board on the bank’s overall current and future risk tolerance/appetite and strategy, and for overseeing senior management’s implementation of that strategy.
- ⦿ Include strategies for capital and liquidity management, as well as for credit, market, operational, compliance, reputational and other risks.

BOARD AND RISK MANAGEMENT

- ⦿ Responsible for the governance of risk.
- ⦿ Ensure management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets.
- ⦿ Determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

BOARD AND RISK MANAGEMENT

- ⦿ Board and senior management – understand the bank's business strategy, nature of the business activities, new products, and major management initiatives and their associated risks.
- ⦿ Senior management provides the Board with information on all potentially material risks facing the bank, including those relevant to the bank's risk profile, capital and liquidity needs – Board should satisfy itself that the information is comprehensive, accurate, complete and timely for decision making.

BOARD AND RISK MANAGEMENT

- ⦿ Board determines the company's level of risk tolerance and risk policies, and oversee management in the design, implementation and monitoring of the risk management and internal control systems.
- ⦿ At least annually, review and comment on the adequacy and effectiveness of the company's risk management and internal control systems.

RISK CULTURE AND RISK APPETITE

- ◎ The Board should:-
 - set the tone from the top and inculcate an appropriate risk culture throughout the institution;
 - Approve the risk appetite framework which should be comprehensive and consistent with the institution's business strategy; and
 - Review, at least annually, the institution's risk profile, risk tolerance and risk strategy.

INDEPENDENCE OF THE RISK CONTROL FUNCTIONS

- ⦿ Risk management function – responsible for identifying, measuring, monitoring, controlling, and reporting risk exposures.
- ⦿ Encompass all risks faced by the bank, on- and off-balance sheet and at a group-wide, portfolio and business line level.
- ⦿ Risk management function – independent of the business units whose activities and exposures it reviews.

RISK MANAGEMENT SYSTEM

- ⦿ Establish a risk management system for identifying, measuring, evaluating, monitoring, controlling and reporting risks regularly.
- risk management strategies, policies, processes and limits – properly documented and communicated; regularly reviewed and appropriately adjusted
- risk management policies and processes – provide a comprehensive “institution-wide” view of the institution’s exposures to material risks.

RISK MANAGEMENT SYSTEM

- risk management processes – assess risks arising from the macroeconomic environment affecting the markets in which the institution operates in and to incorporate such assessments into the risk management process.
- exceptions to policies, processes and limits should receive the prompt attention of, and authorisation by, the appropriate level of management and the Board, where necessary.

RISK MANAGEMENT SYSTEM

- risk management function – adequately resourced and independent, with clearly delineated authority and responsibilities.

RISK MANAGEMENT SYSTEM

- ⦿ risk management system – commensurate with the scope, size and complexity of the bank's business.
- ⦿ Senior management – responsible for implementing the policies and procedures for conducting the risk strategy and policies approved by the Board.
- ⦿ Senior management – ensure that the institution has effective risk management and control processes, reliable risk measurement and reporting systems, and competent staff for sound risk management.

INCENTIVES AND RISK STRATEGY

- ⦿ Ensure remuneration practices do not create incentives for excessive or inappropriate risk-taking behaviour.
- ⦿ The level and structure of remuneration should be aligned with the long-term interests and risk policies of the company.

INCENTIVES AND RISK STRATEGY

Financial Stability Forum Principles for Sound Compensation Practices: Alignment of Compensation with Prudent Risk Taking

- Compensation must be adjusted for all types of risk .
- Compensation outcomes must be symmetric with risk outcomes – link size of bonus pool to the overall performance of the firm.
- The mix of cash, equity and other forms of compensation must be consistent with risk alignment.