



# **Prudential Supervision Policy Statement No: 1**

## **MINIMUM REQUIREMENTS FOR CORPORATE GOVERNANCE OF LICENSED ENTITIES**

**NOTICE TO LICENSED COMMERCIAL BANKS, CREDIT INSTITUTIONS, INSURANCE  
COMPANIES, SECURITIES EXCHANGE AND MANAGEMENT COMPANIES OF  
MANAGED INVESTMENT SCHEMES**

**Reserve Bank of Fiji  
February 2019**

## PART 1: PRELIMINARY

### 1.0 Introduction

- 1.1 This Policy is issued pursuant to:
- a) Section 14(3) of the Banking Act 1995;
  - b) Section 3(2)(a) of the Insurance Act 1998; and
  - c) Section 3(1)(a) of the Reserve Bank of Fiji (Capital Markets and Securities Industry) Regulation 2015.
- 1.2 This Policy applies to all licensed commercial banks and credit institutions, licensed insurance companies, licensed securities exchange and management companies of managed investment schemes hereinafter referred to collectively as “**Licensed Entities**” for the purpose of this Policy. This Policy therefore supersedes the following prudential supervision policy statements:
- a) *Insurance Supervision Policy Statement No.4 – Guidelines on Corporate Governance for Insurance Companies Licensed to Conduct Insurance Business in Fiji;*
  - b) *Banking Supervision Policy Statement No.11 – Minimum Requirements on Corporate Governance for Licensed Financial Institutions; and*
  - c) *Corporate Governance Code for the Capital Markets*<sup>1</sup>.
- 1.3 The Policy sets out the Reserve Bank of Fiji’s (“**Reserve Bank**”) minimum requirements for the establishment of an acceptable corporate governance framework within all licensed entities, outlining sound corporate governance principles and practices to be applied, and covers the roles and responsibilities of the board of directors (“**board**”) and the senior management of a licensed entity, and its control functions<sup>2</sup>.
- 1.4 The minimum standards reflected in this Policy have been aligned to the international standards and best practices including those advocated by the Basel Committee for Banking Supervision, the International Association of Insurance Supervisors and the Organisation for Economic Co-operation and Development.

### 2.0 Background

- 2.1 Corporate governance<sup>3</sup> is defined as ‘a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance provides the structure through which the objectives of an institution are set, and the means of how these objectives are attained, and their performance monitored’.

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<sup>1</sup> The Corporate Governance Code for the Capital Markets will be superseded by this Policy for the licensed securities exchange and the management companies of managed investment schemes only; but remains effective for the rest of the Capital Markets players and the listed companies.

<sup>2</sup> Refer to definition in page 26.

<sup>3</sup> The Organisation for Economic Cooperation and Development.

- 2.2 Good governance is a vital part of any entity, both within and beyond the financial sector. Weak corporate governance can have severe consequences, especially in the financial sector, where failures in governance and risk management can have an adverse effect on the entire financial system and the economy as a whole.
- 2.3 Corporate governance affects how a licensed entity:
- a) protects the interests of its beneficiaries, be they depositors, policyholders, investors or unit holders;
  - b) sets its corporate objectives;
  - c) runs the daily operations of its business;
  - d) is accountable to its shareholders and the interests of its stakeholders; and
  - e) complies with the laws, regulations and prudential supervision requirements relevant to its operations.
- 2.4 The Reserve Bank recognises that corporate governance practices differ between licensed entities, depending on a range of factors including size, complexity of operation, organisational structure, ownership structure, nature and scope of financial activity, corporate strategy and the risk profile. Nonetheless, the Reserve Bank expects every licensed entity to establish and implement an appropriate and sound governance framework, operate with a high degree of integrity, and work under a strong governance culture.
- 2.5 Some key components of an effective corporate governance framework are also contained in other relevant supervision policy statements issued by the Reserve Bank; therefore this Policy should be read in conjunction with these policy statements; as well as the relevant provisions of the Banking Act 1995, Insurance Act 1998 and the Companies Act 2015; and other supervision policy statements that the Reserve Bank may issue from time to time.

### **3.0 Objectives of the Policy**

- 3.1 The objectives of the Policy are to:
- a) promote the fundamental principles of good corporate governance in licensed entities;
  - b) ensure that licensed entities have in place an effective corporate governance framework;
  - c) emphasise the separate responsibilities of the board and the senior management; and,
  - d) ensure that licensed entities establish control functions to provide objective assessment, reporting and /or assurance to the board.
- 3.2 The Policy applies to the board and senior management of locally incorporated licensed entities. In the case of branches of foreign incorporated licensed financial institutions, the requirements of the Policy will apply to the board proxy and senior management of the Fiji branch.

## **PART 2: REQUIREMENTS OF THE POLICY**

### **4.0 Corporate Governance Framework**

- 4.1 Each licensed entity must establish and implement a Corporate Governance Framework approved by its board or board proxy in case of branch operations. Licensed entities may adopt the relevant requirements of the Corporate Governance Policy/Framework of their Group or Head Office, however, it at a minimum, the requirements specified in this Policy must be included.
- 4.2 The size, nature, scope, complexity and risk profile of the licensed entity must be considered in the development of its Corporate Governance Framework.
- 4.3 The licensed entity's Corporate Governance Framework, must at a minimum include, but is not limited to:
- a) Company objectives – in addition to commercial objectives, each licensed entity is encouraged to disclose policies relating to issues of business ethics, the business environment and other public policy statements;
  - b) Governance structures and policies – clearly defined authorities and responsibilities of the board, board committees, company secretary and senior management, the risk management function, the compliance function and the internal and external audit functions;
  - c) Policies and procedures for the selection, approval, renewal, removal and succession of the board and the senior management;
  - d) Policies and procedures for the establishment of control functions;
  - e) Policies and procedures for the appointment of the heads of the control functions;
  - f) Policies and procedures for appointment of internal and external auditors; and the approach to audit;
  - g) Policies on group structure governance (if the financial group is domiciled in Fiji);
  - h) Policies and procedures for dealing with conflicts of interest;
  - i) Policies and procedures for related party dealings;
  - j) Policies and procedures for remuneration arrangements for the board, senior management and material risk takers;
  - k) Policies and procedures on public disclosure of relevant information regarding the licensed entity;
  - l) Policies and procedures for the management of corruption (including bribery) and other unethical or illegal behaviour; and,
  - m) The establishment and approval of internal codes of conduct, ethical standards and corporate values for the board, the senior management and the staff. The ethical standards (and professional behaviour) in a licensed entity's internal and external activities should address, but are not limited to:

- complaints handling<sup>4</sup> and whistleblowing provisions;
- protection of an employee who reports issues in good faith to the to the senior management and/or the board of the licenced entity or the Reserve Bank;
- employees of a licensed entity must not be constrained or impeded, whether by confidentiality clauses or other means, from:
  - 1) disclosing information to the Reserve Bank;
  - 2) discussing issues with the Reserve Bank of relevance to the management and prudential supervision of the licensed entity; and
  - 3) providing documents under their control to the Reserve Bank.

## **5.0 The Board**

### **5.1 Key Responsibilities**

- 5.1.1 The responsibilities of the board outlined in this Policy should be read in conjunction with the relevant provisions of the Companies Act 2015.
- 5.1.2 The board has the overall responsibility for promoting the sustainable growth and financial soundness of a licensed entity, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes a consideration of the long-term implications of the board's decisions on the licensed entity and its customers, officers and the general public.
- 5.1.3 The members of the board should act bona fide in the interest of the licensed entity, and on an informed and prudent basis, in accordance with all applicable laws, regulations and supervisory requirements.
- 5.1.4 The board should maintain and periodically update the charters that set out the responsibilities and procedures of the board and the board committees.
- 5.1.5 The minimum responsibilities of the board include, but are not limited to:
- a) reviewing and approving in a timely manner the licensed entity's organisational structure, risk appetite, budget, strategic plan and its accompanying business plan which would, singularly or cumulatively, have a material impact on the licensed entity's risk profile;
  - b) approving and overseeing the selection, performance, remuneration and succession plans of the Chief Executive Officer ("**CEO**")<sup>5</sup>, heads of control functions and other members of senior management, such

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<sup>4</sup> Complaints handling must be in line with the requirements specified in the Complaints Management Policy issued by the Reserve Bank of Fiji.

<sup>5</sup> Chief Executive Officer, General Manager, Country Head or equivalent hereinafter throughout this policy will be referred to as "CEO/chief executive officer".

- that the board is satisfied with the collective competence of senior management to effectively lead the operations of the licensed entity;
- c) overseeing the implementation of the licensed entity's governance framework and internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the licensed entity's operations;
  - d) promote, together with senior management, a sound corporate and risk management culture within the licensed entity which reinforces ethical, prudent and professional behaviour;
  - e) promote sustainability through appropriate environmental, social and governance considerations in the licensed entity's business strategies;
  - f) overseeing and approving the recovery and resolution as well as business continuity plans for the licensed entity to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress;
  - g) promote timely and effective communication between the licensed entity and the Reserve Bank and being accountable on matters affecting or that may affect the safety and soundness of the licensed entity;
  - h) set the licensed entity's values and standards (including ethical standards) and ensure that obligations to shareholders and other stakeholders (such as depositors, policyholders, investors, etc.) are understood and met;
  - i) establish control functions, i.e. the independent compliance function, independent risk management function and internal audit function; and
  - j) ensure its availability to meet with the Reserve Bank when requested.

## **5.2 Board Meetings**

5.2.1 The chairperson is responsible for the overall effectiveness of the board. In fulfilling this role, the chairperson must, among other things:

- a) set the agenda for board meetings and ensure that all board directors are given an opportunity to include matters on the agenda;
- b) ensure that all board directors receive accurate, timely and clear information for board meetings;
- c) ensure that appropriate procedures are in place to govern the board's operation;
- d) encourage and promote open and critical discussions at board meetings;
- e) ensure that any concerns and dissenting views are expressed and discussed within the approved board decision making process;
- f) ensure that decisions are taken on a sound and well-informed basis and that all strategic and critical issues are considered by the board;
- g) encourage constructive relations within the board and between the board and senior management;
- h) lead efforts to address the board's developmental needs;

- i) promote high standards of corporate governance; and,
  - j) ensure that when required, there is access to independent professional advice at the licensed entity's expense where this is considered necessary to discharge their responsibilities.
- 5.2.2 The board should maintain a schedule of its meetings and the meetings of its committees. The board should preferably meet on a monthly basis, but not less than once every quarter. The number of meetings should be commensurate with the nature, complexity and risk profile of the licensed entity.
- 5.2.3 Board directors must devote sufficient time to prepare for and attend board meetings, maintain a sound understanding of the business of the licensed entity, as well as relevant market and regulatory developments.
- 5.2.4 Board directors must attend at least 75 percent of all ordinary board meetings held in a financial year. Reasonable effort must be made to attend all extraordinary board meetings. Board members must not appoint another person<sup>6</sup> to attend or participate in a board meeting on his or her behalf.
- 5.2.5 A licensed entity must ensure that attendance at a board meeting, by way of other than physical presence, remains an exception rather than the norm, and is subject to appropriate safeguard to preserve the confidentiality of meeting discussions.
- 5.2.6 In respect of the quorum for board meetings, licensed entities must require at least the majority of the board members to be present.
- 5.2.7 The board directors must ensure that clear, accurate and signed minutes of board meetings are maintained to record the decisions of the board, including discussions of key issues, rationale for each decision made, and any significant concerns or dissenting views. The minutes must indicate whether any board member had abstained from voting or excused himself/herself from discussion on a particular matter. The approved signed minutes should be made available to the Reserve Bank when requested.
- 5.2.8 The board directors must ensure that their commitments as directorships in other organisations do not hinder their duties as directors of the licensed entity or in any way affect the licensed entity's safety and soundness. In the event that the Reserve Bank is of the view that a board director is not performing his/her responsibilities in accordance with this Policy, the Reserve Bank reserves the right to limit the number of directorships, or seek removal of that director.
- 5.2.9 The board directors must keep confidential all information they receive for the purpose of being a member of a licensed entity's board; unless required by law or the Reserve Bank of Fiji to disclose such information. These

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<sup>6</sup> This may exclude Alternate Directors who have undertaken fit and proper assessment by the Reserve Bank.

include board information packages, minutes, and reports to the board and associated documents, and information contained in those documents. The obligation to maintain confidentiality continues to apply even after completion of the board member's tenure at the licenced entity.

### **5.3 Board Appointments and Terminations**

- 5.3.1 The Reserve Bank expects shareholders of licensed entities to undertake the necessary due diligence in appointing new board directors. The licensed entity must have adequate policies and procedures for the selection, approval, renewal and succession of directors. The policies and procedures must take into account the requirements set out in the Companies Act 2015.
- 5.3.2 A board director must not be a disqualified person under Section 19 of the Banking Act 1995, Section 23 of the Insurance Act 1998 and Section 133 of the Companies Act 2015; and must not have been previously removed by any licensed entity as a board director, or as an appointed responsible person.
- 5.3.3 The board directors must meet the criteria of fit and proper as provided under the following policies:
- a. For commercial banks and credit institutions – Banking Supervision Policy Statement No. 10: *Fit and Proper Requirements for Licensed Financial Institutions in Fiji*;
  - b. For insurance companies – Insurance Supervision Policy Statement No. 7: *Fit and Proper Requirements for Insurance Companies and Insurance Brokers in Fiji*; and,
  - c. For capital markets entities – Capital Markets Supervision Policy Statement No.6: *Fit and Proper Requirements for Market Participants*.
- 5.3.4 A board director must not have competing time commitments that impair his or her ability to discharge his or her duties effectively. To help meet this requirement, the board must maintain a policy on the maximum number of external professional commitments that a board director may have. This is to be commensurate with the responsibilities placed on the board director, as well as the nature, size and complexity of the licensed entity's operations.
- 5.3.5 The licensed entity must ensure that there is sufficient continuity in board membership so that it does not impair the stability of the licensed entity and its board.
- 5.3.6 A board director must immediately disclose to the board any information or circumstance that may affect his or her ability to meet the minimum requirements set out in 5.3.2 to 5.3.4.
- 5.3.7 The board must ensure that each director acknowledges the terms of his or her appointment, which must include:
- a) the roles and responsibilities, including those arising from his or her membership in any board committee;

- b) the tenure of the appointment; and
  - c) provisions for removal in the event that he/she no longer meets the minimum requirements set out in this Policy or has been assessed to be ineffective, errant or otherwise unfit to carry out his/her responsibilities.
- 5.3.8 A licensed entity must not make an application to the Reserve Bank to appoint and reappoint a director unless the board is wholly satisfied, based on its objective assessment that the candidate:
- a) meets the minimum requirements set out in this Policy; and
  - b) understands the expectations of the role and is able to meaningfully contribute to the board.
- 5.3.9 Unless written approval of the Reserve Bank has been obtained:
- a) a licensed entity must not publicly announce the proposed appointment of a board director; and
  - b) a board director whose term has expired and is being proposed for reappointment must immediately cease to hold office and act in such capacity, including participating in board meetings or hold himself out as a board director of a licensed entity.
- 5.3.10 The Reserve Bank may require cooling-off period on the appointment of board directors to mitigate any actual or perceived conflict of interest.

## **5.4 Board Qualifications and Composition**

- 5.4.1 The board should have an adequate number and appropriate composition of members to ensure sufficient independence and collective expertise for effective and objective decision making. Boards of licensed entities must have a minimum of five members at all times. The chairperson must be an independent director or a non-executive director.
- 5.4.2 As a prudent practice, the Reserve Bank requires that at least two board directors are independent. At least one of the independent members must be a Fiji citizen, residing in Fiji, with relevant experience and competencies as described in 5.4.8. In the event that the board size increases to more than the minimum five members, licensed entities must ensure to maintain at least 40 percent of independent directors at all times.
- 5.4.3 The independent board directors must disclose to the board immediately if there have been changes in their circumstances that may affect their status as independent members.
- 5.4.4 The tenure limit for independent board directors should not exceed nine (9) years.
- 5.4.5 The board must not have more than one executive director, unless the Reserve Bank approves in writing. The Reserve Bank may allow more than one executive director on the board of the licensed entities if the Reserve

Bank is satisfied that the additional appointment will not compromise board effectiveness, having regard to:

- a) The extent of his/her involvement in making or implementing management decisions that are subject to board oversight;
- b) The degree to which his/her incentives are influenced by the performance of the licensed entities;
- c) The effectiveness of the independent and non-executive directors in providing a counterbalance to the collective influence of executives on the board; and,
- d) The significant and uniqueness of the contribution that the candidate is expected to bring to the board.

5.4.6 Executive directors bring to the board technical expertise and useful insights about the licensed entity's operations. However, it is important that their representation on the board does not reduce the board's ability to objectively scrutinise any proposals or the performance of the senior management.

5.4.7 A board director must not be a director in more than three (3) Reserve Bank regulated entities, and must not be a director of more than one (1) Reserve Bank regulated entity<sup>7</sup> within the same industry<sup>8</sup>.

5.4.8 The Board must collectively have the appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. The board should ideally have a mix of core competencies in relevant areas such as banking, finance, insurance, capital markets, accounting, strategic planning, risk management, legal, actuarial and underwriting risks, investment analysis, portfolio management, compensation, regulation, corporate governance and management skills.

5.4.9 Boards of licenced entities should have an effective understanding of the nature of the licensed entity's business and its associated risks commensurate with their responsibilities. The board collectively should have adequate knowledge and expertise relevant to each of the material business activities the licensed entity pursues (or intends to pursue) and the associated risks in order to ensure effective governance and oversight.

## **5.5 Board Committees**

5.5.1 Although the board is ultimately responsible for the conduct of the licensed entities' affairs, to enhance efficiency and allow deeper focus in specific areas, the board may establish certain specialised committees, which should be created and mandated by the full Board, commensurate to the size of the licensed entity, its board, the nature of the business and its risk profile.

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<sup>7</sup> RBF may grant exemption if the regulated entities are related companies.

<sup>8</sup> For the purpose of this Policy, (i) commercial banks and credit institutions are considered as one industry; (ii) general insurance and life insurance are considered as one industry; and (iii) the management companies of managed investment schemes and the licensed securities exchange are considered as one industry.

- 5.5.2 Each licensed entity must establish the following board committees:
- a) Audit Committee, and
  - b) Risk Management Committee.
- 5.5.3 Each licensed entity may, at its discretion, establish the other board committees, commensurate to the size of the licensed entity and its board, the nature of the business and its risk profile. Specialised committees include, but are not limited to the following:
- a) Nominations Committee; and
  - b) Remuneration Committee;
- 5.5.4 Each board committee must:
- a) have at least three members;
  - b) comprise of independent and non-executive board directors
  - c) the Audit Committee must be chaired by an independent board member; and
  - d) comprise of directors who have the skills, knowledge and experience relevant to the objectives and responsibilities of that committee.
- 5.5.5 To promote robust and open discussion by the board on matters referred by the board committees, the chairperson of the board must not chair any of the board committee meetings.
- 5.5.6 The Board remains fully accountable for any authority delegated to the board committees.
- 5.5.7 The board must ensure that the mandate and operating procedures for each board committee are set out in the board charter which clearly:
- a) outline the areas of authority delegated to the board committee; and
  - b) define reporting arrangements for keeping the board informed of the work of the board committees, key discussions and decisions on delegated matters.
- 5.5.8 The licensed entity must provide the board committee with sufficient support and resources required to investigate any matter within their mandates.
- 5.5.9 Each board committee must undertake, at the minimum, the specific responsibilities enumerated for it in Appendix 1. Licensed entities may combine its Board Committees, however, subject to prior approval by the Reserve Bank.

## **5.6 Board Evaluations and Development**

- 5.6.1 The board through its existing collective expertise, or with the assistance of external experts if necessary, must formally review at least annually, its own performance to ascertain whether members collectively and individually remain effective in discharging their assigned roles and responsibilities, and identify opportunities to improve the performance of the board as a whole.

5.6.2 The board should implement appropriate measures to address any identified inadequacies arising from the review, including any relevant training programmes for its members.

5.6.3 The board must dedicate sufficient resources towards the on-going development of its members. This must include dedicated budgets, robust development and training plans, to ensure that each board director possesses the knowledge and the skills necessary to fulfil his/her responsibilities.

## **5.7 Company Secretary/Board Secretary**

5.7.1 The company secretary/board secretary<sup>9</sup> is responsible for supporting the effective functioning of the board. In discharging this role, the board secretary provides counsel to the board on governance matters and facilitates effective information flows between the board, the board committees and the senior management.

5.7.2 Key responsibilities of the board secretary include, but are not limited to:

- a) assisting the chairperson of the board in preparing the meeting agenda and compiling and circulating the board meeting papers;
- b) attending board meetings and prepare meeting minutes and resolutions for approval by the chairperson;
- c) maintaining a register of declared conflicts of interest; and organising induction training for newly appointed board members.

5.7.3 In recording meeting minutes, the board secretary must ensure to record:

- a) details of the names of all board members present at the meeting;
- b) any apologies or absence of board members;
- c) key discussions, rationale for each decision made, and any significant concerns or dissenting views;
- d) all resolutions passed at the meeting; and
- e) any board member who have abstained from voting or excused himself/herself from discussion, and decision making on a particular matter due to a declared conflict of interest.

5.7.4 The board secretary must ensure that the board minutes are circulated for review, and are signed and approved by the appropriate authority in a timely manner. All original copies of signed minutes are to be maintained at the licensed entities' premises at all times.

5.7.5 The board secretary must keep confidential the affairs of the licensed entity and its officers at all times. Accordingly, where the board secretary also serves as company secretary or board secretary for a licensed entity's affiliates, he/she shall not disclose the affairs of the licensed entity or its

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<sup>9</sup> This must be read in conjunction with the requirements for Company Secretary set out in the Companies Act 2015.

officers to the affiliates except with the knowledge and consent of the licensed entity.

5.7.6 The board secretary must not have competing time commitments that may impair his/her ability to discharge his/her duties effectively.

5.7.7 The appointment and removal of the licensed entity's company secretary/board secretary must be approved by the board.

## **6.0 Governance Arrangements – Foreign Incorporated Licensed Entities**

6.1 The ultimate responsibility for the safety and soundness of a foreign incorporated licensed entity resides with its board. In light of this, foreign incorporated licensed entities must appoint a board proxy (whether a director or senior executive or a committee) outside the Fiji operations, with delegated authority from the board who will be responsible for overseeing the Fiji branch operations.

6.2 The licensed entity must inform the Reserve Bank of the appointment of the board proxy, and the board proxy must be available to meet with the Reserve Bank when requested.

6.3 The board proxy must ensure that the Fiji branch operations meet the minimum requirements of this Policy and all other prudential supervision requirements set by the Reserve Bank from time to time.

## **7.0 Senior Management**

### **7.1 Key Responsibilities**

7.1.1 The chief executive officer, in leading the senior management of the licensed entity bears primary responsibility over the day-to-day management of the licensed entity. The key responsibilities of senior management<sup>10</sup> include, but are not limited to:

- a) developing the licensed entity's business objectives, strategies, plans, organisational structure and controls, and policies for board approval;
- b) implementing and monitoring the board-approved business objectives, strategies, plans, controls, and policies;
- c) updating the organisational structure as and when changes are made, and informing the Reserve Bank accordingly of the changes;
- d) establishing a structure that promotes accountability and transparency throughout the licensed entity's operations, and maintaining the effectiveness and independence of control functions;

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<sup>10</sup> This must be read in conjunction with the relevant requirements for Senior Management set out in the Companies Act 2015.

- e) promoting, together with the board, a sound corporate culture within the licensed entity which reinforces ethical, prudent and professional behaviour;
- f) addressing actual or suspected breaches of regulatory requirements or internal policies in a timely and appropriate manner;
- g) updating the board regularly with the material information the board needs, to carry out its oversight responsibilities, particularly on matters relating to:
  - i. the performance, financial condition and operating environment of the licensed entity;
  - ii. internal control failures, including breaches of risk limits; and
  - iii. legal and regulatory obligations, including supervisory concerns and the remedial actions taken to address them.
- h) acknowledging the independent duties of the Compliance Function and Internal Audit Function and not interfering with their fulfilment; and,
- i) ensuring their availability to meet with the Reserve Bank when requested.

## **7.2 Senior Management Appointments and Terminations**

- 7.2.1 A member of senior management must not be a disqualified person under Section 19 of the Banking Act 1995, Section 23 of the Insurance Act 1998 and Section 133 of the Companies Act 2015; and must not have been previously removed by any licensed entity as a responsible person.
- 7.2.2 Senior management of licensed entities must meet the criteria of fit and proper as provided under the following policies:
- a) For commercial banks and credit institutions – Banking Supervision Policy Statement No. 10: *Fit and Proper Requirements for Licensed Financial Institutions in Fiji*; and Banking Supervision Policy Statement No. 15: *Minimum Requirements for Appointing Heads of Licensed Financial Institutions in Fiji*;
  - b) For insurance companies – Insurance Supervision Policy Statement No 7: *Fit and Proper Requirements for Insurance Companies and Insurance Brokers in Fiji*; and,
  - c) For Capital Markets – Capital Markets Supervision Policy Guideline No. 6: *Fit and Proper Requirement for Licensed Intermediaries and Issuers*.
- 7.2.3 A shareholder who holds 15% or more equity interest directly or indirectly in the licensed entity must not hold a senior management position in the licensed entity. This serves to enhance an appropriate separation between ownership and management of licensed entities in line with the broader responsibilities of the licensed entity towards its depositors, policyholders and market participants.
- 7.2.4 A licensed entity must have a robust succession plan for senior management and a clearly defined process for:

- a) the appointment and removal of the chief executive officer, and each member of senior management; and,
  - b) assessment of the candidates against the minimum requirements in this Policy.
- 7.2.5 Each member of the senior management must be assessed against the relevant minimum requirements set out in section 7.2.1 to 7.2.3 of this Policy, at least annually, and as and when the board becomes aware of information that may materially compromise the individual's fitness and propriety, or any circumstance that may suggest that the individual is ineffective, errant or otherwise unsuited to carry out his/her responsibilities. It is the responsibility of each member of the senior management to disclose immediately to the board any circumstance that may affect his/her ability to meet the minimum requirements.
- 7.2.6 A licensed entity must not make an application to the Reserve Bank to appoint or re-appoint a member of the senior management (including the chief executive officer) unless the board is wholly satisfied, based on its objective assessment that the candidate meets the minimum requirements set out in this Policy.
- 7.2.7 Unless written approval of the Reserve Bank has been obtained:
- a) A licensed entity must not publicly announce the proposed appointment of the chief executive officer or any member of its senior management; and
  - b) A licensed entity's chief executive officer or a member of its senior management whose term has expired and is being proposed for reappointment must immediately cease to hold office and act in such capacity, including holding himself/herself out as the chief executive officer or a member of the senior management of the licensed entity.

## **8.0 Governance of Group Structures**

### **8.1 Responsibilities as a Holding Company**

- 8.1.1 Where a licensed entity is a parent or a holding company, the licensed entity is responsible to exercise adequate oversight over its subsidiaries while respecting the independent legal and governance responsibilities that apply to them.
- 8.1.2 The parent/holding company has the overall responsibility for ensuring the establishment and operation of a clear governance structure, appropriate to the nature, size and complexity of governance principles throughout the group. The board and senior management of a parent/holding company must:
- a) ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies;

- b) ensure that the differences in the operating environment, including legal and regulatory regime for each jurisdiction in which the group has a presence, are properly understood and reflected in the group governance framework;
- c) have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the parent/holding company and its subsidiaries;
- d) assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and
- e) ensure that there are adequate resources to effectively monitor compliance of the parent/holding company and its subsidiaries with all applicable legal and regulatory requirements.

8.1.3 Group structures can substantially increase the complexity of the organisation of a financial group. Complex structures involving a large number of legal entities can increase group-wide risk, including risks arising from operational interdependencies, intra-group exposures, trapped collateral, counterparty concentrations and reputational associations.

8.1.4 The parent/holding company must ensure that the group structure does not undermine its ability to exercise effective oversight. The board and senior management of a licensed entity which is part of a group structure must know and understand the group structure at all times, and assess the implications of such a structure on its capacity to identify and manage its material risks. This must be supported by a sound understanding of risks associated with the group structure and an evaluation of whether group controls and policies are adequate to address those risks.

8.1.5 The parent/holding company must establish a clearly defined process for approving the creation of new legal entities and other structures. This should serve to ensure that the proposed structure fulfils a legitimate business purpose and its associated risks are understood and managed.

## **8.2 Responsibilities as a Subsidiary**

8.2.1 A licensed entity must discharge its own legal and governance responsibilities as a separate entity, even if it is a subsidiary of another licensed entity or of a foreign entity. Accordingly, the board and senior management of a licensed entity must:

- a) validate that the objectives, strategies, plans, governance framework and other policies set at the group level are fully consistent with the licensed entity's regulatory obligations and ensure that entity-specific risks are adequately addressed in the implementation of group-wide policies; and
- b) In the case of locally-incorporated foreign licensed entities, ensure timely engagement with the Reserve Bank on strategic and regulatory developments at the group level that may significantly impact the Fiji operations of the licensed entity.

## 9.0 Risk Governance

- 9.1 Risk governance is a distinct and crucial element of the corporate governance framework of licensed entities. Risks may arise from direct exposures or through exposures taken by subsidiaries, affiliates or counterparties. Hence, each licensed entity should have adequate risk management systems to identify, measure, monitor, and control risks inherent in their operations.
- 9.2. Each licensed entity must establish an independent risk management function<sup>11</sup>, under the direction of a senior manager<sup>12</sup> (Chief Risk Officer or equivalent hereinafter referred to as “CRO”), with sufficient qualification, experience, independence, resources, access to the board and with the overall responsibility for the licensed entity’s risk management function.
- 9.3 The board should have a sound understanding of the licensed entity’s business activities and their associated risks, including climate-related risks and cybersecurity risks and ensure these risks are properly managed.
- 9.4 In fulfilling this responsibility, the board should establish and approve an overall risk strategy, including clearly articulated risk tolerance/appetite statements and limits for the licensed entity commensurate with its operations and strategic goals; risk management and compliance capabilities.
- 9.5. The board should approve key risk management policies and oversee management in developing and reviewing policies and practices to manage risks in accordance with the board’s strategy and the licensed entity’s risk tolerance/appetite. These risk governance arrangements should be subject to regular review by the board to ensure that they remain effective and consistent with the licensed entity’s operating environment.
- 9.6. The CRO is primarily responsible for overseeing the development and effective undertaking of the licensed entity’s risk management function. This include ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports as necessary to ensure that the licensed entity’s risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities.
- 9.7 The CRO must provide support to the board in its engagement with and oversight of the development of the licensed entity’s risk appetite and risk appetite statements, and the translating of the risk appetite into a meaningful risk limits structure.

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<sup>11</sup> Insurance Companies must refer to the Insurance Supervision Policy Statement No.8, Minimum Requirements for Risk Management Framework of Licensed Insurers in Fiji regarding risk management.

<sup>12</sup> For Subsidiaries and Branch Operations, this function can be headed at Group or Head Office level with adequate risk managers and staff within the Fiji Operation.

9.8 The CRO, together with other senior management, should actively engage in monitoring performance relative to risk-taking and risk limit adherence.

9.9 The appointment, dismissal and other changes to the CRO position should be approved by the board, or its risk committee. The CRO's performance and compensation should be reviewed and approved by the board or its relevant designated board committee.

## **10.0 Compliance Function**

10.1 An independent, adequately resourced compliance function is a key component of the licensed entity's second line of defence, to ensure that the licensed entity operates with integrity and in compliance with applicable laws, regulations, supervisory requirements, and internal policies.

10.2 The licensed entity's board is responsible for overseeing the management of the licensed entity's compliance function; therefore, the board should establish an Independent Compliance Function<sup>13</sup> and approve the licensed entity's policies and processes for identifying, assessing, monitoring, reporting and advising on compliance risk.

10.3 The compliance function has an important role in supporting corporate values, policies and processes that ensure that the licensed entity acts responsibly and fulfils all applicable obligations.

10.4 The compliance function of a licensed entity should advise the board and senior management of the required compliance with applicable laws, Reserve Bank's supervision policies, rules and standards and ensure that the licensed entity is kept abreast of developments in these areas.

10.5 The Compliance Function should have a direct reporting line and unfettered access to the board or its delegated committee, to ensure its operational independence and the prompt and direct reporting of any compliance issues.

## **11.0 Internal and External Audit**

### **General**

11.1 An effective and adequately resourced audit function is essential to the sound corporate governance of a licensed entity as it provides assurance to the board and senior management with respect to the licensed entity's internal control systems.

11.2 The board should recognise the importance of the audit process and ensure that similar recognition is made at all levels of the licensed entity's

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<sup>13</sup> For Subsidiaries and Branch Operations, this function can be headed at Group or Head Office level with adequate compliance manager and staff within the Fiji Operation.

operations. It should review carefully and make use of, in a timely and effective manner, the findings of both internal and external audits.

- 11.3 Board discussions on addressing audit recommendations should be documented and the board must ensure that actions agreed upon are undertaken in a timely and effective manner.

### **Internal Audit**

- 11.4 The board should establish an internal audit function, and ensure its effectiveness in performing an independent assessment of the adequacy of the internal control systems covering all relevant risks of the licensed entity.
- 11.5 The internal audit function can take the form of one or more of the following:
- a) an in-house internal audit function;
  - b) internal audit function of the group or head office (for subsidiaries and branch operations);
  - c) outsourced to a third party.
- 11.6 The internal audit function should have a direct reporting line and unfettered access to the board or its audit committee, to ensure its operational independence and prompt and direct reporting of its findings.
- 11.7 The board or its designated audit committee should approve the appointment, remuneration, resignation or dismissal of the head of internal audit function.

### **External Audit**

- 11.8 External auditors play an important role in a licensed entity's corporate governance structure as they provide the board with an independent opinion on the adequacy and effectiveness of the licensed entity's financial reporting, including the reasonableness of the judgements, estimates and presentation used in the accounts.
- 11.9 The board, not the senior management, should control the selection of external auditors<sup>14</sup>. Given the importance of external audit in the corporate governance process, the selection criteria established by the board should ensure that the external auditors appointed, whether for financial or prudential audit purposes, are competent with the appropriate skills, knowledge and experience, are independent of the licensed entity and capable of forming an objective and impartial judgement in relation to the activities undertaken by the licensed entity.

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<sup>14</sup> Commercial banks and credit institutions must refer to the detailed requirements in the Banking Supervision Policy Statement No 7 – Minimum Requirements for the Conduct of External Audits of Licensed Financial Institutions in Fiji regarding the requirements on external audit. Insurance Companies must refer to the detailed requirements in the Insurance Supervision Policy Statement No.1 – Role of External Auditors in the Supervision of Licensed Insurance Companies. For Capital Markets – Capital Markets Supervision Policy Statement No.1 – Role of External Auditors in the Supervision of Licensed Persons.

## **12.0 Culture and Conduct**

- 12.1 A licensed entity must have a documented code of conduct and ethical standards which provides guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity in reporting, and fair treatment of customers. A licensed entity must maintain a record of breaches of the code of conduct and ethical standards and address such breaches in a manner that upholds high standards of integrity.
- 12.2 A licensed entity must establish a Whistleblowing Policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Individuals must be able to raise concerns about illegal, unethical or questionable practices in confidence and without the risk of reprisal. To this end, a licensed entity must, at a minimum:
- a) clearly indicate the parties to whom that concern can be escalated to within the licensed entity;
  - b) ensure that individuals are made aware of other avenues for whistleblowing to the Reserve Bank or other regulatory or law enforcement agencies;
  - c) ensure that the whistle blower is protected from any civil or criminal proceedings and disciplinary action;
  - d) communicate the licensed entity's Whistleblowing Policy to third parties such as contractors, consultants and interns and allow them to report their concerns; and
  - e) designate the Board Audit Committee to be responsible for the effective implementation of the policy. This includes evaluating periodic reports that monitor and assess how concerns are escalated and dealt with, and overseeing periodic reviews of the effectiveness of the whistleblowing policy.

## **13.0 Remuneration**

- 13.1 Each licensed entity must establish and maintain a documented Remuneration Policy. The Remuneration Policy must outline the remuneration objectives and the structure of the remuneration arrangements, including, but not limited to the performance based remuneration components of the licensed entity.
- 13.2 A licensed entity's Remuneration Policy should be in line with its risk tolerance/appetite and long-term interests, and should promote effective risk management. The Remuneration Policy must be approved by the board or its proxy, and be subject to periodic review.
- 13.3 For the purpose of this Policy, remuneration arrangements include measures of performance, the mix of forms of remuneration (such as fixed and variable components, and cash and equity-related benefits) and the timing of eligibility to receive payment.

- 13.4 The Remuneration Policy's performance-based component of remuneration must be designed to encourage behaviour that supports:
- a) the licensed entity's long-term financial soundness; and
  - b) the effectiveness of the licensed entity's risk management framework.
- 13.5 The performance-based components of a licensed entity's remuneration arrangements must be designed to align remuneration with prudent risk-taking and must incorporate adjustments to reflect:
- a) the outcome of business activities;
  - b) the risks related to the business activities taking account, where relevant, of the cost of the associate capital; and
  - c) the time necessary for the outcomes of those business activities to be reliably measured.
- 13.6 Licensed entities may set specific provisions for employees with a significant influence on the overall risk profile (such as 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.
- 13.7 The remuneration for each member of senior management and other material risk taker must be approved by the board. A licensed entity must maintain a list of officers who fall within the definition of 'material risk takers'<sup>15</sup>.
- 13.8 In setting the remuneration packages of individual board members, licensed entities must ensure that the remuneration packages should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the directors.

## **14.0 Disclosure and Transparency**

- 14.1 Transparency is essential for sound and effective corporate governance. Public disclosure with respect to key areas of corporate governance by the licensed entity could assist shareholders, depositors, policyholders and market participants assess and monitor the effectiveness of the board and senior management and to properly hold them accountable. Therefore, licensed entities are expected to disclose relevant and useful information commensurate with their size, complexity, structure and risk profile. The

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<sup>15</sup> Refer to Definition in page 26.

disclosures must be in compliance with relevant legal and regulatory disclosure requirements, clear, accurate, timely and accessible. Listed licensed entities must disclose information as per the disclosure requirements issued by the licensed security exchange.

14.2 Although disclosure requirements for non-listed licensed entities may not be considered extensive as required of listed entities, they pose the same types of risks to the financial system as publicly traded licensed entities through various activities. Therefore, non-listed licensed entities should disclose relevant and useful information that upholds good corporate governance. The extent of such disclosures should be proportionate to the size, complexity, structure and risk profile of the licensed entity.

14.3 The disclosures to be made by a non-listed licensed entity must include, but are not limited to:

- a) material information on the licensed entity's objectives, organisational and governance structures and policies, in particular the content of any code of conduct or other corporate governance or remuneration code or policy and the process by which it is implemented;
- b) the recruitment approach for the selection of board members of the board and for ensuring an appropriate diversity of skills, background and viewpoints;
- c) whether the licensed entity has set up board committees and the number of times key standing committees have met;
- d) major share ownership and voting rights and related party transactions; and
- e) key points concerning its risk exposures and risk management strategies without breaching necessary confidentiality.

14.4 Disclosures should be accurate, clear and user friendly for shareholders, depositors, policyholders, other relevant stakeholders and market participants. Timely public disclosures can be made on the licensed entity's public website, annual reports and periodic financial reports or by other appropriate means.

## **15.0 Related Party dealings**

15.1 The board must ensure that the licensed entity's related party dealings are undertaken on an arm's length basis.

15.2 A licensed entity must establish policies and procedures on related party transactions, which include the definitions of relatedness, limits applied, items of transactions, and the authorities and procedures for approving, monitoring, where necessary, writing off of these transactions.

15.3 Related party transactions should be monitored with particular care, and appropriate steps taken to control or mitigate the risks of related party transactions. The terms and conditions of such transactions should must not

be more favourable than transactions conducted with non-related parties under similar circumstances.

15.4 The board must approve every transaction with a related party and the write-off of related party exposures exceeding specified amounts or otherwise posting special risks before such transactions occur. Board directors with conflicts of interest should be excluded from the approval process of granting and managing related party transactions.

15.5 The board or its audit committee should review all material related party transactions and take necessary actions if required, on the findings of its review.

## **16.0 Conflict of Interest**

16.1 The board should establish, implement and maintain effective policies to identify actual and potential conflicts of interest so that they can be prevented, or if this is not possible, at least appropriately managed.

16.2 Licensed entities must have a written policy that identifies the relationships, services, activities or transactions of the licensed entity in respect of which conflicts of interest may arise and set out measures for prevention or management of these conflicts.

16.3 Relationships and transactions which may create conflicts of interest include those between different clients of the licensed entity and those between the licensed entity and:

- a) its customers (as a result of the business model and/or various services and activities provided by the licensed entity);
- b) its shareholders;
- c) the members of its board;
- d) its staff; and
- e) other related entities (e.g. its parent company or subsidiaries).

16.4 The measures to be adopted to prevent or to manage conflicts of interest include:

- a) adequate segregation of duties;
- b) establishing information barriers such as physical separation of certain departments; and
- c) preventing board directors, senior management and other staff members of the licensed entity who are also active outside the licensed entity (e.g. acting as a director of another commercial entity) from having inappropriate influence within the licensed entity in respect of matters which have some connection with their outside activities, such as lending to a company of which one of the directors is also a director or a member of the senior management of the licensed entity.

- 16.5 For managing any conflicts of interest of its members, the board should have in place a conflicts of interest policy and an objective compliance process for implementing this policy. The policy should include, but is not limited to:
- a) a member's duty to avoid to the extent possible, activities that could create conflict of interest or the perceived conflicts of interest;
  - b) review or approval process for members to follow before they engage in certain activities (such as serving on another board) so as to ensure that such activity will not create a conflict of interest;
  - c) a member's duty to disclose any matter, and refrain from taking part in discussions and decision making that may result, or has already resulted, in a conflict of interest; and
  - d) 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 his/her duties to the licensed entity may be otherwise compromised.
- 16.6 In the case where board members are appointed by a controlling shareholder, the board should consider setting out specific procedures or regularly conduct reviews to ensure that the board members concerned have appropriately discharged their responsibilities in the best interest of the licensed entity regardless of who appoints them.
- 16.7 The board must maintain an updated register for recording and declared conflicts of interest.

### **PART 3: OVERSIGHT AND IMPLEMENTATION ARRANGEMENTS**

#### **17.0 Oversight by the Reserve Bank of Fiji**

- 17.1 Each licensed entity must provide to the Reserve Bank its initial Corporate Governance Policy and all related policies and procedures within 90 days after the implementation of this Policy. In the event of major changes made to the requirements of the licensed entity's corporate governance policy and all related policies and procedures, copies of the revised policy must be submitted to the Reserve Bank within 30 days after changes have been approved by the licensed entity's board.
- 17.2 The Reserve Bank will assess the compliance of each licensed entity with the requirements of this Policy in the course of its supervision.
- 17.3 A licensed entity that fails to comply with the requirements of this Policy will be subject to relevant sanctions by the Reserve Bank.
- 17.4 The Reserve Bank may adjust or exclude a specific requirement in this Policy by providing a written notice.

## **18.0 Implementation Arrangements**

- 18.1 This Policy applies to all commercial banks and credit institutions licensed under the Banking Act 1995, all insurance companies licensed under the Insurance Act 1998; and licensed securities exchange and management companies of managed investment schemes licensed under the Companies Act 2015.
- 18.2 This Policy becomes effective from 01 April 2019 with full compliance required within one year from the effective date, and will be reviewed as deemed necessary.
- 18.3 For the purpose of transition to appointing an independent board member or non-executive board member as the Chairperson required under Paragraph 5.4.1, licensed entities may allow the current Chairpersons to complete their existing terms, and must ensure to comply with this requirement in the next appointment of a Chairperson.

**Reserve Bank of Fiji**  
**21 February 2019**

### **Appendices:**

Schedule

Appendix 1 – Responsibilities of Board Committees

Appendix 2 – Criteria for defining an Independent Director

## SCHEDULE

Interpretation –

- (1) Any term or expression used in this Policy that is not defined in this Policy”
- a) which is defined in the Banking Act 1995, Insurance Act 1998 or Companies Act 2015, unless the context otherwise requires, have the meaning to it by the said Acts; and,
  - b) which is not defined in the Acts and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements.

(2) In this Notice, unless the context otherwise requires:

**‘Acts’** means the Banking Act 1995, Insurance Act 1998 and the Companies Act 2015.

**‘Board’** means the board of directors of the licensed entity.

**‘Control Functions’** means the functions that have responsibilities 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.

**‘Director’** means a person holding office as a Director of the local incorporated licensed entity regardless of the name that is given to his/her position, has the powers necessary for managing, and for directing and supervising the management of the business and affairs of the local incorporated licensed entity.

**‘Executive Director’** means a director of a licensed entity who has management responsibilities in the licensed entity or any of its subsidiaries.

**‘Independent Director’** means a non-executive director who is free from any business or other association, including those arising out of a substantial shareholding, involvement in past management or as a supplier, customer or advisor, or in a business relationship that could materially interfere with the exercise of their independent judgement. If the licensed entity is in doubt about a director’s independence for the purposes of this Policy, the licensed entity may refer to Appendix 2 for guidance. The circumstances that will not meet the test of independence, include, but not limited to those set out in Appendix 2.

**‘Material Risk Taker’** means an officer who is not a member of the senior management of a licensed entity and who:

- Can materially commit or control significant amount of the licensed entity’s resources or whose actions are likely to have a significant impact on its risk profile; and/or,
- Is among the most highly remunerated officers in the licensed entity.

**‘Non-Executive Director’** means a director who does not have management responsibilities within the licensed entity or its subsidiaries.

**‘Related Parties’** in relation to the licensed entity, means the licensed entity is a:

- a) Holding Company of another Company;
- b) Subsidiary of another Company; or
- c) Subsidiary of a Holding Company of another Company

**‘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 directors and director-related entities.

**‘Risk Appetite’** means the aggregate level and types of risk a licensed entity is willing to assume, decided in advance and with its risk capacity, to achieve its strategic objectives and business plan.

**‘Risk Appetite Statement’** means the written articulation of the aggregate level and types of risk that a licensed entity will accept or avoid, in order to achieve its business objectives. It includes quantitative measures expressed relative to earnings, capital or solvency, 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’** means the maximum amount of risk a licensed entity is able to assume given its capital base/solvency adequacy, risk management and control capabilities as well as its regulatory constraints.

**‘Risk Culture’** means a licensed entity’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 risk they assume.

**‘Risk Limits’** means the specific quantitative measures or limits based on, for example, forward-looking assumptions that allocate the licensed entity aggregate risk to business lines, legal entities as relevant, specific risk categories, concentrations and, as appropriate, other measures.

**‘Risk Management’** means the process 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’** means Point-in-time assessment of a licensed entity’s gross risk exposures (i.e. before the application of any mitigants) or, as appropriate, net risk exposures (i.e. after taking into account mitigants) aggregated within and across each relevant risk category based on current or forward-looking assumptions.

**‘Senior Management’** means officers holding senior management responsibilities that may materially affect the whole or a substantial part of the licensed entity’s business or financial standing.

**‘Substantial shareholder’** means a person that holds an aggregate interest of 5% or more in the shares of the licensed entity.

## **Appendix 1 – Responsibilities of Board Committees**

### **1. Audit Committee**

- a) Be responsible for the financial reporting process;
- b) Provide oversight of the licensed entity's internal and external auditors;
- c) Approve, or recommend for approval to the board, the appointment, compensation and termination of appointment of external auditors;
- d) Review and approve the audit scope and frequency;
- e) Receive audit reports and ensure that senior management (with the appropriate involvement of the control functions) takes necessary corrective action in a timely manner to address control weakness, non-compliance with policies, laws and regulations or other problems identified by the auditors; and
- f) Review the Reserve Bank's on-site examination reports and bring major findings to the attention of the board.

### **2. Risk Management Committee**

- a) Review and recommend for the board's approval the risk management strategies as well as the risk tolerance and risk appetite of the licensed entity;
- b) Review and assess the adequacy of the licensed entity's risk management framework and policies in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- c) Ensure appropriate infrastructure, resources and systems are in place for risk management;
- d) Ensure that staff members of the licensed entity responsible for implementing risk management systems and controls perform those duties independently of the licensed entity's risk taking activities; and
- e) Review management's period reports on risk exposure and risk management activities.

### **3. Nominations Committee**

- a) Identify and recommend to the board the individuals suitably qualified to become board members, senior management and Company Secretary of the licensed entity;
- b) Make recommendations to the board on appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;
- c) Review the structure, size and composition (including skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to support and facilitate implementation of the licensed entity's business strategy; and
- d) Regularly review the efficiency and effectiveness of the functioning of the board.

#### **4. Remuneration Committee**

- a) Assist the board in discharging its responsibility for the design and operation of the licensed entity's remuneration system, and make recommendations in respect of remuneration policy and practices to the Board;
- b) Make recommendations to the board in respect of the remuneration package for the licensed entity's senior management and material risk taker; and,
- c) Periodically review the remuneration of directors on the board, particularly on whether remuneration remains appropriate to each director's contribution, taking into account the level of expertise, commitment and responsibilities undertaken.

## Appendix 2

A director is **NOT** independent if the director:

1. is a substantial shareholder of the licensed entity or an officer of, or otherwise associated directly or indirectly with a substantial shareholder of the licensed entity;
2. is employed, or has previously been employed in an executive capacity by the licensed entity or another member of the group, and there has not been a period of at least two years between ceasing such employment and serving on the board;
3. has previously served on the board of the licensed entity as executive or non-executive director, and there has not been a period of at least two years between ceasing such directorship and serving on the board;
4. has within the last two years been a principal of a material professional advisor or a material consultant to the licensed entity or an employee materially associated with the service provider;
5. has within the last two years been a material supplier of the licensed entity or an officer, substantial shareholder of, or otherwise associated directly or indirectly with a material supplier;
6. has within the last two years been the officer of the licensed entity's external auditor directly involved in the engagement of external audit, and any partner of the firm;
7. has within the last two years been the internal auditor of the licensed entity if internal audit is or was outsourced;
8. has any other material interest, relationship or association with any person or entity which affects, or could be perceived to affect the independence of the director; has a material contractual relationship with the licensed entity or its subsidiary or group member to which the licensed entity is part of;
9. has served on the board of the licensed entity for more than nine years as independent board director; and
10. has an immediate family member who is employed by the licensed entity or any of its related company as senior management. For this purpose, an 'immediate family member' means the spouse (including de-facto spouse), parent, brother, sister, child (including adopted or step child) and the spouse of such brother, sister or child, of the independent director.