
Straight away

MAS issues amendments to Corporate Governance Regulations and Guidelines

14 December 2010

What is new?

The Monetary Authority of Singapore (“MAS”) has issued amendments to the Banking (Corporate Governance) Regulations and Insurance (Corporate Governance) Regulations (collectively “Regulations”), and Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers (“Guidelines”) on 9 December 2010.

Key provisions

The revisions took into account lessons learnt from the financial crisis and enhanced corporate governance practices internationally.

Some of the key amendments include:

- *Strengthening risk management oversight*

Affected financial institutions need to establish a Risk Management Committee, with provisions on independence. The Risk Management Committee will oversee the effectiveness of identification of, measurement of, monitoring of, controlling and reporting enterprise-wide risks. This will include risks relating to remuneration and incentive structures.

The appointment of “chief risk officer” will now require the approval of the MAS.

- *Strengthening Board independence, and fit and proper*

The Board and Board Committees must now comprise majority independent directors. A director will no longer be considered independent after he has served for a continuous period of 9 years on the Board. The Guidelines recommends an additional safeguard in the appointment of a lead independent director under certain situations, such as when the Chairman and Chief Executive Officer are part of the executive management team.

Institutions are now required to more proactively evaluate and implement programmes to ensure that the Board and Board Committees continue to have the requisite competencies to carry out their functions effectively. This includes the need for, and disclosure of, a continuous professional development programme for directors.

Institutions will also need to set internal guidance on the time commitment expected of each director.

- *Safeguards against imprudent remuneration and incentive structures*

Institutions should adopt the Principles for Sound Compensation Practices and Implementation Standards issued by the Financial Stability Board (“FSB”). This means that institutions will need to implement more structured review processes to guard against remuneration and incentive practices that may promote imprudent risk taking and other undesirable behaviour. For example, institutions will need to consider the appropriateness of deferring remuneration/bonuses of executives when financial risks are taken over different time periods.

Effective date and transition

The revised Regulations are effective no later than the first Annual General Meeting of the financial institutions held on or after 1 January 2011 (except for the provisions on the definition of “independent director” and composition of the Nominating Committee and Remuneration Committee which shall take place from 2012).

The revised Guidelines take effect immediately.

Am I affected?

The revised Regulations and Guidelines affect banks, financial holding companies and direct insurers which are incorporated in Singapore.

What do I need to do?

Affected financial institutions should immediately conduct a gap analysis of its existing processes against the revised Regulations and Guidelines to identify areas requiring enhancements.

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