

Strengthening Individual Accountability of Senior Managers and Raising the Standard of Conduct

September 2020

As a push to strengthen culture and conduct in Financial Institutions (“FIs”), the Monetary Authority of Singapore (“MAS”) **has formally published the Guidelines on Individual Accountability and Conduct (“IAC Guidelines” or “Guidelines”) on 10 September 2020**. The final Guidelines are built on two rounds of consultation conducted by the MAS, once in 2018 where it issued the initial consultation paper for industry feedback, and the other in 2019 where the MAS issued its detailed response to the industry together with a second consultation paper on scope extension.

The IAC Guidelines will be **effective 10 September 2021**, giving FIs a one- year transitional period to implement the IAC Guidelines.

Overview of the Guidelines

The IAC Guidelines set by the MAS presents an **outcome-based approach** to facilitate implementation proportionate to the context of specific FIs. The **five specific outcomes** are focused on the measures FIs should put in place to promote the individual accountability of senior managers (“SMs”), strengthen oversight over material risk personnel (MRPs), and reinforce standards of proper conduct among all employees.

MAS also published [Information Paper: Culture and Conduct Practices of Financial Institutions](#), setting out MAS’ approach towards culture and conduct outcomes that FIs should work towards. It also provides examples of good practices that FIs can adopt. We recommend that FIs read this information paper, along with the IAC Guidelines so as to adopt good practices and strengthen overall culture and conduct.

Who is impacted?

The Guidelines apply to **all FIs regulated by the MAS** other than those explicitly exempted.

In line with the MAS’ consolidated supervision approach, the Guidelines will apply on a group basis for (i) locally-incorporated banks and insurers and (ii) approved exchanges and approved clearing houses that are operated as a single group.

At a glance

- Guidelines will be applicable to Payment Services Firms and Registered Fund Management Companies but not to Variable Capital Companies (VCCs)
- FIs with a headcount of less than 50, should still achieve the five outcomes, but will not ordinarily be expected to adopt the specific guidance described in the Guidelines
- The MAS will not exempt FIs which are subject to similar requirements or expectations overseas or deem such FIs as compliant with the Guidelines



Anticipated challenges include:

Outcome 1

- Setting criteria for identification of CMFs and SMs, in a manner relevant to your business
- Mapping responsibilities for roles that double hat or have matrix reporting structure

Outcome 2 & 3

- No clear ownership of organisational charts, including clear definition of dotted vs solid reporting lines
- Insufficient documentation of SMs' responsibilities. e.g. outdated JDs
- Extending the fit and proper standards beyond the licensed staff
- Effectiveness and content of committee structure & set up

What are the five outcomes?

The section presents a summary of the five outcomes, along with specific guidance, listed by the MAS in the IAC Guidelines. Based on our experience, we have highlighted some of the common industry challenges of each outcome and will be able to share insights with you.

Outcome 1 - Senior managers responsible for managing and conducting the FI's core functions are clearly identified.

- Board or Head Office should ensure
 - (i) **clear identification of SMs** who have responsibility for functions that are core to the management of the FI's affairs, including but not limited to the core management functions ("CMFs")
 - (ii) **accurate identification of SMs that reflects actual oversight responsibilities and decision-making authority, regardless of his or her physical location; and**
 - (iii) **appropriate management oversight** over all material aspects of the FI's affairs.
- Board directors are considered SMs under the Guidelines, only to the extent that they are employed in the capacity of **an executive function** within the FI.

Outcome 2 - Senior managers are fit and proper for their roles and held responsible for the actions of their employees and the conduct of the business under their purview.

Outcome 3 - The FI's governance framework supports senior managers' performance of their roles and responsibilities, with a clear and transparent management structure and reporting relationships.

- Board or Head Office should ensure:
 - (i) **robust standards and processes to assess fitness and propriety** of each SM, prior to appointment and on an on-going basis thereafter;
 - (ii) **clear specification** of each SM's individual areas of responsibility and appointment and **responsibilities** in management committees;
 - (iii) **appropriate delineation** of the FI's overall management structure;
 - (iv) **acknowledgement** by each SM on their specific roles, responsibilities and reporting lines;
 - (v) **approval** by the Board or Head Office of each SM's specified roles and responsibilities and the FI's overall management structure;
 - (vi) **documentation** of each SM's specified roles and responsibilities and the FI's overall management structure, including timely updates where there are material changes;
 - (vii) **appropriate** incentive, escalation, and consequence management frameworks; and
 - (viii) a succession plan that is **regularly reviewed and updated**.
- In setting up management committees, FIs should establish a **formal mandate** and articulate the terms of reference and reporting lines for each committee.

Anticipated challenges include:

Outcome 4

- Setting criteria for identification of MRPs, including consideration of relevant financial and non-financial risks which you may be exposed to and the materiality impact that an individual's decisions or activities could have on the risk profile
- Extending the fit and proper standards beyond the licensed staff to other MRPs identified

Outcome 5

- Inconsistent measurement of conduct in incentive structures
- Insufficient training on key governance documents such as code of conduct, escalation frameworks, etc
- Absence of a robust framework and inadequate communication plans

Outcome 4 - Material risk personnel are fit and proper for their roles, and subject to effective risk governance, and appropriate incentive structures and standards of conduct.

- *Boards and senior management should ensure that **appropriate standards and processes** are in place to:*
 - (i) **identify MRPs**, including establishing of relevant criteria for their identification;
 - (ii) **assess their fitness and propriety** prior to appointment and on an on-going basis thereafter;
 - (iii) **facilitate effective risk governance**; and
 - (iv) subject MRPs to **standards of proper conduct, regular training and an appropriate incentive structure**.

Outcome 5 - The FI has a framework that promotes and sustains among all employees the desired conduct.

Board and Senior Management should:

- *ensure that a **framework** is in place which addresses:*
 - (i) **the standards of conduct expected** of all employees;
 - (ii) **consistent and effective communication** of the expected standard of conduct;
 - (iii) **the appropriate policies, systems, and processes** to enforce the expected standards of conduct, including but not limited to (a) regular monitoring, reporting, and escalation to the board and senior management on matters relating to the FI's and employees' conduct; (b) an incentive structure which considers risk and control objectives; (c) a consequence management system; and (d) a formalised whistleblowing programme; and
 - (iv) **engagement strategies** with key stakeholders to ensure transparent and timely communication of relevant material information.
- **notify MAS** as soon as it becomes aware of any material adverse developments.
- **regularly review** the adequacy and effectiveness of the FI's conduct framework, taking into account any gaps between observed behaviours and the desired standards of conduct.

Useful Links

- ✓ [MAS' Guidelines on Individual Accountability and Conduct](#)
- ✓ [FAQs on Individual Accountability and Conduct](#)
- ✓ [Information Paper: Culture and Conduct Practices of FIs](#)
- ✓ [MAS Response to Feedback Received on Proposed Scope of Application](#)

Contact us

If you would like further information in relation to the issues outlined above, please call your usual PwC contact or any of the individuals listed below:

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What FI's should consider?

Given the application of a one-year transitional period, it is recommended that FIs do the following:

- Assess if you are in scope
- For smaller FIs, based on the headcount numbers of your organisation, determine the proportionate approach required to achieve the five outcomes in a manner relevant to your business
- Assess your readiness to comply with the Guidelines, if you have not done already so, as the implementation effort may require considerable time and effort
- Determine the key actions required in order to meet the requirements of the Guidelines

How PwC can help

Our dedicated team has assisted several FIs in assessing the gaps and implications of ensuring compliance with the IAC Guidelines and provided end-to-end implementation support.

We have helped FIs in Singapore with:

- Gap assessment including:
 - Reviewing the current state, maturity and operation of existing governance arrangements related to the elements covered by the IAC Guidelines
 - Prioritise activities and remediation plans
- Implementation support including:
 - Defining criteria for SMs and MRPs
 - Developing the IAC framework and address other gaps for remediation
 - Providing advice on incentive structures and conduct measures
- Designing and facilitating workshops to bring stakeholders across the FI up-to-speed on the potential implications of the IAC Guidelines as well as scenario analysis workshops to test defined roles and responsibilities

We bring to you deep industry expertise, data analytics solutions, experience in advising boards and senior management on corporate governance matters as well as overall experience helping our clients navigate large scale regulatory change initiatives.