FINANCIAL STABILITY INSTITUTE

BANK FOR INTERNATIONAL SETTLEMENTS

Roundtable on Corporate Governance of Banks in Asia

Corporate Governance for Banking Organisations

- A Perspective from the Basel Committee -

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Agenda

- Core Principles for Effective Banking Supervision
- Enhancing Corporate Governance for Banking Organisations
- Other Basel Committee corporate governance-related guidance

Core Principles

- Core Principles for Effective Banking Supervision issued in 1997
- Twenty-five basic principles for a supervisory system to be effective
- Currently undergoing review and revision; revised Core Principles to be issued in late 2006

Core Principles

- Licensing criteria (CP3)
  - "…The licensing process, at a minimum, should consist of an assessment of the ownership structure and corporate governance of the bank and its wider group, including the fitness and propriety of directors and senior management…"
- CP Assessment Methodology
  - Review of strategic and operating plans of the bank including corporate governance…internal controls, oversight of outsourced functions

Enhancing Corporate Governance for Banks

- Consultative paper issued by the Basel Committee on 29 July 2005
- Final document published late 2005/early 2006
- Initial guidance on corporate governance issued by the Basel Committee in 1999
- Does not pose additional requirements to Basel II
  - Obligation to understand the risk profile of the institution and hold appropriate levels of capital
  - Effective oversight of risk models

Enhancing Corporate Governance for Banks

- The OECD definition of corporate governance in a banking context:
  - Setting of corporate objectives
  - Running the day-to-day operations of the bank
  - Meeting the obligation of accountability to shareholders and taking into account the interests of stakeholders
  - Protecting the interest of depositors

Enhancing Corporate Governance for Banks

- Establishing strategic objectives and corporate values
  - Interests of stakeholders
  - “tone at the top”
  - Ethical standards
  - Conflicts of interest
    - Reporting lines with other entities in the group
    - Ownership and supervision by one body
  - Compliance function

Enhancing Corporate Governance for Banks

- Clear lines of responsibility and accountability
  - Consider the bank and the group structure
  - Awareness of risks throughout the organisation
  - Intra-group transactions
- Fit and proper testing for board members
  - Adequate composition of the board of directors, including independent directors
  - Fiduciary responsibility
  - Board committee structure

Enhancing Corporate Governance for Banks

- Appropriate oversight by management
- Effectively using the work of internal and external auditors and other control functions
- Compensation policies and practices that are consistent with the bank's ethical values, strategy, objectives and control environment
- Conducting governance activities in a transparent manner

Enhancing Corporate Governance for Banks

- Maintaining an understanding of the bank’s operational structure
  - Operating with structures or in jurisidictions that impair transparency may raise other risks (eg legal, reputational) for the bank
  - Providing services to customers can increase risk
  - Expand the audit scope in situations where transparency of structures is lacking

Enhancing Corporate Governance for Banks

- Ensuring an environment supportive of sound corporate governance
  - Shareholders
  - Auditors
  - Banking industry associations
  - Governments
  - Banking supervisors
  - Securities regulators, stock exchanges
  - Employees

Other Basel Committee corporate governance-related guidance

- Compliance and the Compliance Function in Banks
- Framework for internal control Systems in Banking Organisations
- Enhancing Bank Transparency

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