



ABA/ABAC/PECC Symposium
Promoting Good Corporate Governance and Transparency

Corporate Governance for Banking Organisations
- The Supervisors' Perspective -

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Agenda

- Core Principles for Effective Banking Supervision
- Enhancing Corporate Governance for Banking Organisations
- Other Basel Committee Corporate Governance-related Guidance
- BIS Central Bank Governance Forum



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 jurisdictions 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



BIS Central Bank Governance Forum

- **Governance Group**
 - Discusses central bank governance issues and guides related work at BIS
 - Chaired by Joseph Yam (HKMA); Members: Mr Ferguson (FRB), Mr King (BoE), Mr MacFarlane (RBA), Mr Mboweni (SARB), Mr Ortiz (BdM), Mr Papademos (ECB), Ms Zeti Aziz (BNM)
- **Central Bank Governance Network**
 - Nearly 50 central banks and monetary authorities participate (roughly one half from industrialised and one half from emerging market economies)
 - Clearing house for central bank governance information
- **Secretariat**
 - Supports the Governance Group and Network by compiling, analysing and disseminating governance information
 - e-mail: cbgovernance@bis.org



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