



# **HIGH-LEVEL CONTROLS MODULE**



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<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-A:</b>	<b>Introduction</b>

## HC-A.1 Purpose

### *Executive Summary*

- HC-A.1.1 This Module presents requirements that have to be met by conventional bank licensees with respect to:
- (a) Corporate governance principles issued by the Ministry of Industry and Commerce as “The Corporate Governance Code”; and
  - (b) International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and
  - (c) Related high-level controls and policies.
- HC-A.1.2 The Principles referred to in this Module are in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce.
- HC-A.1.3 The purpose of the Module is to establish best practice corporate principles in Bahrain, and to provide protection for investors and other conventional bank licensee’s stakeholders through compliance with those principles.
- HC-A.1.4 Whilst the Module follows best practice, it is nevertheless considered as the minimum standard to be applied. This Module also includes additional rules and guidance issued by the CBB prior to the publication of the Code and previously contained in Module HC.

### *Structure of this Module*

- HC-A.1.5 This Module follows the structure of the Corporate Governance Code and each Chapter deals with one of the eight Principles of corporate governance. The numbered directives included in the Code are Rules for purposes of this Module. Recommendations under the Code have been included as guidance. However, where the previous version of Module HC had a similar recommendation as a Rule, the Module retains this Paragraph as a Rule.
- HC-A.1.6 The Module also incorporates other high-level controls and policies that apply in particular to conventional bank licensees.
- HC-A.1.7 All references in this Module to ‘he’ or ‘his’ shall, unless the context otherwise requires, be construed as also being references to ‘she’ and ‘her’.



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## HC-A.1 Purpose (continued)

### *The Comply or Explain Principle*

#### HC-A.1.8

This Module is issued as a Directive (as amended from time to time) in accordance with Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). In common with other Rulebook Modules, this Module contains a mixture of Rules and Guidance (See Module UG-1.2 for detailed explanation of Rules and Guidance). All Rulebook content that is categorised as a Rule must be complied with by those to whom the content is addressed. Other parts of this Module are Guidance; nonetheless every conventional bank licensee to whom Module HC applies, is expected to comply with recommendations made as Guidance in Module HC or explain its noncompliance in the Annual Report in accordance with Subparagraph PD-1.3.8(x) and to the CBB (see Chapter HC-8).

### *Monitoring and Enforcement of Module HC*

HC-A.1.9 Disclosure and transparency are underlying principles of Module HC. Disclosure is crucial to allow outside monitoring to function effectively. This Module looks to a combined monitoring system relying on the board, the conventional bank licensee's shareholders and the CBB.

HC-A.1.10 It is the board's responsibility to see to the accuracy and completeness of the conventional bank licensee's corporate governance guidelines and compliance with Module HC. Failure to comply with this Module is subject to enforcement measures as outlined in Module EN (Enforcement).

### *Legal Basis*

#### HC-A.1.11

This Module contains the CBB's Directive (as amended from time to time) relating to high-level controls and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). The Directive in this Module is applicable to conventional bank licensees (including their approved persons).

HC-A.1.12 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



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## HC-A.1 Purpose (continued)

### *Effective Date*

HC-A.1.13 The previous version of Module HC is applicable until 31<sup>st</sup> December 2010. This updated Module issued in October 2010, is effective on 1<sup>st</sup> January 2011. All conventional bank licensees to which Module HC applies should be in full compliance by the financial year end 2011. At every conventional bank licensee's annual shareholder meeting held after 1<sup>st</sup> January 2011, corporate governance should be an item on the agenda for information and any questions from shareholders regarding the conventional bank licensee's governance. Where possible, the conventional bank licensee should also have corporate governance guidelines in place at that time and should have a "comply or explain" report as described in Paragraph HC-A.1.8.



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## HC-A.2 Module History

HC-A.2.1 This Module was first issued in June 2004 by the BMA and updated in October 2007 to reflect the switch to the CBB. Following the issuance of the Corporate Governance Code by the Ministry of Industry and Commerce in March 2010, the Module was amended in October 2010 to be in line with the new Corporate Governance Code and to include previous requirements that were in place in the originally issued Module HC. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

HC-A.2.2 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
HC-1 to HC-8	10/2010	Amendments due to introduction of new MOIC Corporate Governance Code.
HC-1.3	10/2010	Prohibition of proxies and requirement to attend 75% of board meetings in a financial year.
HC-A.1.8 and HC-A.1.11	01/2011	Clarified legal basis.
HC-2.2.4, 2.2.5 and 3.2.1	01/2011	Corrected cross references.
HC-2.3.2	01/2011	Corrected cross reference; reference changed to connected persons.
Appendix C	01/2011	Corrected cross reference.
Appendix A	04/2011	Clarified membership of audit committee to be in line with Rule HC-3.2.1.
HC-6.2.1	10/2011	Clarified management structure.
HC-B.2.2	01/2012	Clarified language related to corporate governance.
HC-1.2.8 and HC-1.5.3	01/2012	Clarified that the Chairman of the Board may delegate specific duties dealt with in these Paragraphs.
HC-1.3.12	01/2012	Amended Rule on Directorships.
HC-1.9.1	01/2012	Deleted last sentence to be in line with other Volumes of the CBB Rulebook.
HC-3.2.1(a) and HC-5.6.6	01/2012	Amended to be in line with other Volumes of the CBB Rulebook.
HC-6.3.1	01/2012	Clarified Rule by following corporate governance code wording.
Appendix A	01/2012	Amended criteria for audit committee member.
HC-A.1.8	04/2012	Clarified the reporting of noncompliance with Module HC in the Annual Report.
HC-7.2.5	04/2012	Clarified Guidance on election of board members.
Appendices A, B and C	04/2012	Amended requirement for written report on performance evaluation for various Board committees.
Appendix A	04/2012	Included reference to compliance under Committee Duties and Responsibilities.
HC-2.2.6A and HC-2.2.6B	07/2012	Added Rule and guidance dealing with benefits received from approved persons from projects and investments.
Appendices A, B and C	07/2012	Clarified requirement for written report on performance evaluation for various Board committees.



MODULE	HC:	High-Level Controls
CHAPTER	HC-B:	Scope of Application

## HC-B.1 Scope of Application

**HC-B.1.1** The contents of this Module – unless otherwise stated – apply to all conventional bank licensees, incorporated under the Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law (‘Company Law’).

**HC-B.1.2** Overseas conventional bank licensees must satisfy the CBB that equivalent arrangements are in place at the parent entity level, and that these arrangements provide for effective high-level controls over activities conducted under the Bahrain license.





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<b>CHAPTER</b>	<b>HC-B:</b>	<b>Scope of Application</b>

## HC-B.2 Subsidiaries and Foreign Branches

### HC-B.2.1

Bahraini conventional bank licensees must ensure that, as a minimum, the same or equivalent provisions of this Module apply to their foreign branches, located outside the Kingdom of Bahrain, such that these are also subject to effective high-level controls. In instances where local jurisdictional requirements are more stringent than those applicable in this Module, the local requirements are to be applied.

### HC-B.2.2

Bahraini conventional bank licensees must satisfy the CBB that financial services activities conducted in subsidiaries and other group members are subject to the same or equivalent arrangements for ensuring effective corporate governance over their activities.

### HC-B.2.3

Where a conventional bank licensee is unable to satisfy the CBB that its subsidiaries and other group members are subject to the same or equivalent arrangements, the CBB will assess the potential impact of risks – both financial and reputational – to the licensee arising from inadequate high-level controls in the rest of the group of which it is a member. In such instances, the CBB may impose restrictions on dealings between the licensee and other group members. Where weaknesses in controls are assessed by the CBB to pose a major threat to the stability of the licensee, then its authorisation may be called into question.



MODULE	HC:	High-Level Controls
CHAPTER	HC-1:	The Board

## HC-1.1 Principle

### HC-1.1.1

All Bahraini conventional bank licensees must be headed by an effective, collegial and informed Board of Directors ('the Board').



MODULE	HC:	High-Level Controls
CHAPTER	HC-1:	The Board

## HC-1.2 Role and Responsibilities

### HC-1.2.1

All directors must understand the board's role and responsibilities under the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time. In particular:

- (a) The board's role as distinct from the role of the shareholders (who elect the board and whose interests the board serves) and the role of officers (whom the board appoints and oversees); and
- (b) The board's fiduciary duties of care and loyalty to the conventional bank licensee and the shareholders (see HC-2.1).

### HC-1.2.2

The board's role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy for the conventional bank licensee;
- (b) Causing financial statements to be prepared which accurately disclose the conventional bank licensee's financial position;
- (c) Monitoring management performance;
- (d) Convening and preparing the agenda for shareholder meetings;
- (e) Monitoring conflicts of interest and preventing abusive related party transactions;
- (f) Assuring equitable treatment of shareholders including minority shareholders; and
- (g) Establishing the objectives of the bank.

### HC-1.2.3

The precise functions reserved for the Board, and those delegated to management and committees will vary, dependent upon the business of the institution, its size and ownership structure. However, as a minimum, the Board must establish and maintain a statement of its responsibilities for:

- (a) The adoption and annual review of strategy;
- (b) The adoption and review of management structure and responsibilities;
- (c) The adoption and review of the systems and controls framework; and
- (d) Monitoring the implementation of strategy by management.



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## HC-1.2 Role and Responsibilities (continued)

**HC-1.2.4** The directors are responsible both individually and collectively for performing the responsibilities outlined in HC-1.2.1 to HC-1.2.3. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

**HC-1.2.5** In its strategy review process under Paragraphs HC-1.2.3 a) and d), the Board must:

- (a) Review the bank's business plans and the inherent level of risk in these plans;
- (b) Assess the adequacy of capital to support the business risks of the bank;
- (c) Set performance objectives; and
- (d) Oversee major capital expenditures, divestitures and acquisitions.

**HC-1.2.6** Banks must notify the CBB in writing of all major proposed changes to the strategy and/or corporate plan of the bank prior to implementation.

HC-1.2.7 The Board is expected to have effective policies and processes in place for:

- (a) Approving budgets and reviewing performance against those budgets and key performance indicators; and
- (b) The management of the bank's compliance risk.

HC-1.2.8 When a new director is inducted, the chairman of the board, or the conventional bank licensee's legal counsel or compliance officer, or other individual delegated by the chairman of the board, should review the board's role and duties with that person, particularly covering legal and regulatory requirements and Module HC (see also HC-4.5.1).

**HC-1.2.9** The conventional bank licensee must have a written appointment agreement with each director which recites the directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.



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## HC-1.2 Role and Responsibilities (continued)

### *Risk Recognition and Assessment*

#### HC-1.2.10

The Board is responsible for ensuring that the systems and controls framework, including the Board structure and organisational structure of the bank, is appropriate for the bank's business and associated risks (see HC-1.2.3 c). The Board must ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the bank is exposed in its business activities.

The Board must regularly assess the systems and controls framework of the bank. In its assessments, the Board must demonstrate to the CBB that:

- (a) The bank's operations, individually and collectively are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the bank's activities;
- (b) The bank's operations are supported by an appropriate control environment. The compliance, risk management and financial reporting functions must be adequately resourced, independent of business lines and must be run by individuals not involved with the day-to-day running of the various business areas. The Board must additionally ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice (with particular regard to anti-money laundering measures). The control environment must maintain necessary client confidentiality and ensure that the privacy of the bank is not violated, and ensure that clients' rights and assets are properly safeguarded; and
- (c) Where the Board has identified any significant issues related to the bank's adopted governance framework, appropriate and timely action is taken to address any identified adverse deviations from the requirements of this Module.

#### HC-1.2.11

The board must adopt a formal board charter or other statement specifying matters which are reserved to it, which should include but need not be limited to the specific requirements and responsibilities of directors. This charter must cover the points in HC-1.2.1 to HC-1.2.9. Wherever possible, the documents referred to in HC-1.2.3 to HC-1.2.9 or a summary of responsibilities should be disclosed publicly, for example in the annual report, which must be submitted to the CBB in line with the requirements of Module BR.



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**HC-1.3 Decision Making Process**

**HC-1.3.1** The board must be collegial and deliberative, to gain the benefit of each individual director’s judgment and experience.

**HC-1.3.2** The chairman must take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

**HC-1.3.3** The board must meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All directors must attend the meetings whenever possible and the directors must maintain informal communication between meetings.

**HC-1.3.4** Individual board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively (see table below). Voting and attendance proxies for Board meetings are prohibited at all times.

Meetings per year	75% Attendance requirement
4	3
5	4
6	5
7	5
8	6
9	7
10	8

**HC-1.3.5** The absence of Board members at Board and committee meetings must be noted in the meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when board members stand for re-election (e.g. Board member XYZ attended 95% of scheduled meetings this year).

**HC-1.3.6** In the event that a Board member has not attended at least 75% of Board meetings in any given financial year, the bank must immediately notify the CBB indicating which member has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance. The CBB shall then consider the matter and determine whether disciplinary action, including disqualification of that Board member pursuant to Article 65 of the CBB Law, is appropriate. Unless there are exceptional circumstances, it is likely that the CBB will take disciplinary action.



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### HC-1.3 Decision Making Process (continued)

HC-1.3.7 To meet its obligations under Rule HC-1.3.3 above, the full Board should meet once every quarter to address the Board's responsibilities for management oversight and performance monitoring. Furthermore, Board rules should require members to step down if they are not actively participating in Board meetings. Board members are reminded that non attendance at board meetings does not absolve them of their responsibilities as directors. It is important that each individual director should allocate adequate time and effort to discharge his responsibilities. All Directors are expected to contribute actively to the work of the Board in order to discharge their responsibilities and should make every effort to attend board meetings where major issues are to be discussed. Banks are encouraged to amend their Articles of Association to provide for telephonic and videoconference meetings. Participation in board meetings by means of video or telephone conferencing is regarded as attendance and may be recorded as such.

**HC-1.3.8** All locally incorporated banks are required to submit, on an annual basis, as an attachment to the year-end quarterly PIR, a report recording the meetings during the year by their Board of Directors. For a sample report, refer to Appendix BR-10.

**HC-1.3.9** The Chairman is responsible for the leadership of the Board, and for the efficient functioning of the Board. The chairman must ensure that all directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each board meeting and when necessary between meetings. Therefore it is vital that the Chairman commit sufficient time to perform his role effectively. All directors must receive the same board information. At the same time, directors have a legal duty to inform themselves and they must ensure that they receive adequate and timely information and must study it carefully (See also HC-7 for other duties of the Chairman).

HC-1.3.10 The board should have no more than 15 members, and should regularly review its size and composition to assure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The board should recommend changes in board size to the shareholders when a needed change requires amendment of the conventional bank licensee's Memorandum of Association.



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### HC-1.3 Decision Making Process (continued)

HC-1.3.11 Potential non-executive directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The Nominating Committee should regularly review the time commitment required from each non-executive director and should require each non-executive director to inform the Committee before he accepts any board appointments to another company.

#### HC-1.3.12

No Board member may have more than one Directorship of a Retail Bank or a Wholesale Bank. This means an effective cap of a maximum of two Directorships of banks inside Bahrain. Two Directorships of licensees within the same Category (e.g. 'Retail Bank') are not permitted. Banks may approach the CBB for exemption from this limit where the Directorships concern banks or financial institutions within the same group.

HC-1.3.13 One person should not hold more than three directorships in public companies in Bahrain with the provision that no conflict of interest may exist, and the Board should not propose the election or reelection of any director who does.





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## HC-1.4 Independence of Judgment

**HC-1.4.1** Every director must bring independent judgment to bear in decision-making. No individual or group of directors must dominate the board's decision-making and no one individual should have unfettered powers of decision.

**HC-1.4.2** Executive directors must provide the board with all relevant business and financial information within their cognizance, and must recognise that their role as a director is different from their role as a member of management (see HC-2.3.2).

**HC-1.4.3** Non-executive directors must be fully independent of management and must constructively scrutinise and challenge management including the management performance of executive directors.

**HC-1.4.4** Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgement. At a minimum, all locally incorporated banks must appoint one independent director.

HC-1.4.5 At least half of a conventional bank licensee's board should be non-executive directors and at least three of those persons should be independent directors. (Note the exception for controlled companies in Paragraph HC-1.5.2.)

HC-1.4.6 The chairman of the board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the board for independent decision making.

**HC-1.4.7** The Chairman and/or Deputy Chairman must not be the same person as the Chief Executive Officer.

**HC-1.4.8** The Chairman must not be an Executive Director.



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## HC-1.4 Independence of Judgment (continued)

HC-1.4.9 The board should review the independence of each director at least annually in light of interests disclosed by them, and their conduct. Each independent director shall provide the board with all necessary and updated information for this purpose.

HC-1.4.10 To facilitate free and open communication among independent directors, each board meeting should be preceded or followed with a session at which only independent directors are present, except as may otherwise be determined by the independent directors themselves.



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## HC-1.5 Representation of all Shareholders

### HC-1.5.1

Each director must consider himself as representing all shareholders and must act accordingly. The board must avoid having representatives of specific groups or interests within its membership and must not allow itself to become a battleground of vested interests. If the conventional bank licensee has controllers (as defined by Module GR-5.2) (or a group of controllers acting in concert), the latter must recognise its or their specific responsibility to the other shareholders, which is direct and is separate from that of the board of directors.

### HC-1.5.2

In conventional bank licensees with a controller, at least one-third of the board must be independent directors. Minority shareholders must generally look to independent directors' diligent regard for their interests, in preference to seeking specific representation on the board.

### HC-1.5.3

In conventional bank licensees with controllers, both controllers and other shareholders should be aware of controllers' specific responsibilities regarding their duty of loyalty to the conventional bank licensee and conflicts of interest (see Chapter HC-2) and also of rights that minority shareholders may have to elect specific directors under the Company Law or if the conventional bank licensee has adopted cumulative voting for directors. The chairman of the board or other individual delegated by the chairman of the board should take the lead in explaining this with the help of the conventional bank licensee's lawyers.



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## HC-1.6 Directors' Access to Independent Advice

### HC-1.6.1

The board must ensure by way of formal procedures that individual directors have access to independent legal or other professional advice at the conventional bank licensee's expense whenever they judge this necessary to discharge their responsibilities as directors and this must be in accordance with the conventional bank licensee's policy approved by the board.

### HC-1.6.2

Individual directors must also have access to the conventional bank licensee's corporate secretary, who must have responsibility for reporting to the board on board procedures. Both the appointment and removal of the corporate secretary must be a matter for the board as a whole, not for the CEO or any other officer.

### HC-1.6.3

Whenever a director has serious concerns which cannot be resolved concerning the running of the conventional bank licensee or a proposed action, he should consider seeking independent advice and should ensure that the concerns are recorded in the board minutes and that any dissent from a board action is noted or delivered in writing.

### HC-1.6.4

Upon resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if he has any concerns such as those in Paragraph HC-1.6.3.



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## HC-1.7 Directors' Communication with Management

### HC-1.7.1

The board must encourage participation by management regarding matters the board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the directors.

### HC-1.7.2

Non-executive directors should have free access to the conventional bank licensee's management beyond that provided in board meetings. Such access should be through the Chairman of the Audit Committee or CEO. The board should make this policy known to management to alleviate any management concerns about a director's authority in this regard.



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## HC-1.8 Committees of the Board

### HC-1.8.1

The board must create specialised committees when and as such committees are needed. In addition to the Audit, Remuneration and Nominating Committees described elsewhere in this Module, these may include an Executive Committee to review and make recommendations to the whole board on the bank's actions, or a Risk Committee to identify and minimize specific risks of the conventional bank licensee's business.

### HC-1.8.2

The board should establish a corporate governance committee of at least three independent members which should be responsible for developing and recommending changes from time to time in the conventional bank licensee's corporate governance policy framework.

### HC-1.8.3

The board or a committee may invite non-directors to participate in, but not vote at, a committee's meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas.

### HC-1.8.4

Committees must act only within their mandates and therefore the board must not allow any committee to dominate or effectively replace the whole board in its decision-making responsibility.

### HC-1.8.5

Committees may be combined provided that no conflict of interest might arise between the duties of such committees, subject to CBB prior approval.

### HC-1.8.6

Every committee must have a formal written charter similar in form to the model charters which are set forth in Appendices A, B and C of this Module for the Audit, Nominating and Remuneration Committees.

### HC-1.8.7

Where committees are set up, they should keep full minutes of their activities and meet regularly to fulfil their mandates. For larger banks that deal with the general public, committees can be a more efficient mechanism to assist the main Board in its monitoring and control of the activities of the bank. The establishment of committees should not mean that the role of the Board is diminished, or that the Board becomes fragmented.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1:</b>	<b>The Board</b>

## HC-1.9 Evaluation of the Board and Each Committee

### HC-1.9.1

At least annually the board must conduct an evaluation of its performance and the performance of each committee and each individual director.

### HC-1.9.2

The evaluation process must include:

- (a) Assessing how the board operates, especially in light of Chapter HC-1;
- (b) Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee;
- (c) Reviewing each director's work, his attendance at board and committee meetings, and his constructive involvement in discussions and decision making;
- (d) Reviewing the board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the board; and
- (e) Recommendations for new Directors to replace long-standing members or those members whose contribution to the bank or its committees (such as the audit committee) is not adequate.

### HC-1.9.3

While the evaluation is a responsibility of the entire board, it should be organised and assisted by an internal board committee and, when appropriate, with the help of external experts.

### HC-1.9.4

The board should report to the shareholders, at each annual shareholder meeting, that evaluations have been done and report its findings.



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Approved Persons Loyalty

## HC-2.1 Principle

HC-2.1.1 The approved persons must have full loyalty to the conventional bank licensee.





<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-2:</b>	<b>Approved Persons Loyalty</b>

## HC-2.2 Personal Accountability

HC-2.2.1 Banks are subject to a wide variety of laws, regulations and codes of best practice that directly affect the conduct of business. Such laws involve the Bahraini Stock Exchange Law, the Labour Law, the Commercial Companies Law, occupational health and safety, even environment and pollution laws, as well as the Law, codes of conduct and regulations of the Central Bank. The Board sets the ‘tone at the top’ of a bank, and has a responsibility to oversee compliance with these various requirements. The Board should ensure that the staff conduct their affairs with a high degree of integrity, taking note of applicable laws, codes and regulations.

### *Corporate Ethics, Conflicts of Interest and Code of Conduct*

HC-2.2.2 Each approved person must understand that under the Company Law he is personally accountable to the conventional bank licensee and the shareholders if he violates his legal duty of loyalty to the conventional bank licensee, and that he can be personally sued by the conventional bank licensee or the shareholders for such violations.

HC-2.2.3 The Board must establish corporate standards for approved persons and employees. This requirement should be met by way of a documented and published code of conduct or similar document. These standards must be communicated throughout the bank, so that the approved persons and staff understand the importance of conducting business based on good corporate governance values and understand their accountabilities to the various stakeholders of the licensee. Banks’ approved persons and staff must be informed of and be required to fulfil their fiduciary responsibilities to the bank’s stakeholders.

HC-2.2.4 An internal code of conduct is separate from the business strategy of a bank. A code of conduct should outline the practices that approved persons and staff should follow in performing their duties. Banks may wish to use procedures and policies to complement their codes of conduct. The suggested contents of a code of conduct are covered below:

- (a) *Commitment by the Board and management to the code.* The code of conduct should be linked to the objectives of the bank, and its responsibilities and undertakings to customers, shareholders, staff and the wider community (see HC-2.2.3 and HC-2.2.4). The code should give examples or expectations of honesty, integrity, leadership and professionalism;



MODULE	HC:	High-Level Controls
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## HC-2.2 Personal Accountability (continued)

- (b) *Commitment to the law and best practice standards.* This commitment would include commitments to following accounting standards, industry best practice (such as ensuring that information to clients is clear, fair, and not misleading), transparency, and rules concerning potential conflicts of interest (see HC-2.3);
- (c) *Employment practices.* This would include rules concerning health and safety of employees, training, policies on the acceptance and giving of business courtesies, prohibition on the offering and acceptance of bribes, and potential misuse of conventional bank licensee's assets;
- (d) How the conventional bank licensee deals with *disputes and complaints* from clients and monitors compliance with the code; and
- (e) *Confidentiality.* Disclosure of client or bank information should be prohibited, except where disclosure is required by law (see HC-1.2.10 b).

HC-2.2.5 The Central Bank expects that the Board and its members individually and collectively:

- (a) Act with honesty, integrity and in good faith, with due diligence and care, with a view to the best interest of the bank and its shareholders and other stakeholders (see Paragraphs HC-2.2.2 to HC-2.2.4);
- (b) Act within the scope of their responsibilities (which should be clearly defined – see HC-1.2.9 and HC-1.2.11 and not participate in the day-to-day management of the bank;
- (c) Have a proper understanding of, and competence to deal with the affairs and products of the bank and devote sufficient time to their responsibilities; and
- (d) To independently assess and question the policies, processes and procedures of the bank, with the intent to identify and initiate management action on issues requiring improvement. (*i.e. to act as checks and balances on management*).

### HC-2.2.6

The duty of loyalty (mentioned in Paragraph HC-2.2.2 above) includes a duty not to use property of the conventional bank licensee for his personal needs as though it was his own property, not to disclose confidential information of the conventional bank licensee or use it for his personal profit, not to take business opportunities of the conventional bank licensee for himself, not to compete in business with the conventional bank licensee, and to serve the conventional bank licensee's interest in any transactions with a company in which he has a personal interest.

### HC-2.2.6A

In reference to Paragraph HC-2.2.6, for greater certainty, approved persons are not allowed to take any benefits from any projects or investments which are managed by the conventional bank licensee or promoted to its customers or potential customers except for board related remuneration (declared as per Paragraph HC-2.4.1) linked to their fiduciary duties to the investors of the project/investment. This Rule applies to approved persons appointed as members of the board of special purpose vehicles or other operating companies set up by the conventional bank licensee for projects or investments.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-2:</b>	<b>Approved Persons Loyalty</b>

## HC-2.2 Personal Accountability (continued)

HC-2.2.6B The reference to benefits in Paragraph HC-2.2.6A includes commission, fees, shares, consideration in kind, or other remuneration or incentives in respect of the performance of the project or investment.

HC-2.2.7

For purposes of Paragraph HC-2.2.6, an approved person should be considered to have a “personal interest” in a transaction with a company if:

- (a) He himself; or
- (b) A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or
- (c) Another company of which he is a director or controller,

is a party to the transaction or has a material financial interest in the transaction. (Transactions and interests which are de minimis in value should not be included.)



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Approved Persons Loyalty

### HC-2.3 Avoidance of Conflicts of Interest

**HC-2.3.1** Each approved person must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the conventional bank licensee.

**HC-2.3.2** The Board must establish and disseminate to its members and management, policies and procedures for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies. Rules concerning connected party transactions and potential conflicts of interest may be dealt with in the Code of Conduct (see HC-2.2.4). In particular, the CBB requires that any decisions to enter into transactions, under which approved persons would have conflicts of interest that are material, should be formally and unanimously approved by the full Board. Best practice would dictate that an approved person must:

- (a) Not enter into competition with the bank;
- (b) Not demand or accept substantial gifts from the bank for himself or connected persons;
- (c) Not misuse the bank's assets;
- (d) Not use the conventional bank licensee's privileged information or take advantage of business opportunities to which the conventional bank licensee is entitled, for himself or his associates; and
- (e) Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Approved Persons Loyalty

## HC-2.4 Disclosure of Conflicts of Interest

### HC-2.4.1

Each approved person must inform the entire board of (potential) conflicts of interest in their activities with, and commitments to other organisations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. The approved persons must understand that any approval of a conflicted transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision. In any case, all approved persons must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Nominations or Audit Committees) on an annual basis.

### HC-2.4.2

The board should establish formal procedures for:

- (a) Periodic disclosure and updating of information by each approved person on his actual and potential conflicts of interest; and
- (b) Advance approval by directors or shareholders who do not have an interest in the transactions in which a conventional bank licensee's approved person has a personal interest. The board should require such advance approval in every case.



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Approved Persons Loyalty

## HC-2.5 Disclosure of Conflicts of Interest to Shareholders

### HC-2.5.1

The conventional bank licensee must disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and must disclose to its shareholders any authorisation of a conflict of interest contract or transaction in accordance with the Company Law.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Audit Committee and Financial Statements Certification</b>

### **HC-3.1 Principle**

#### **HC-3.1.1**

The Board must have rigorous controls for financial audit and reporting, internal control, and compliance with law.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Audit Committee and Financial Statements Certification</b>

## HC-3.2 Audit Committee

### HC-3.2.1

The board must establish an audit committee of at least three directors of which the majority must be independent including the Chairman. The committee must:

- (a) Review the conventional bank licensee's accounting and financial practices;
- (b) Review the integrity of the conventional bank licensee's financial and internal controls and financial statements (particularly with reference to information passed to the Board - see HC-1.2.10). The information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Audit Committee;
- (c) Review the conventional bank licensee's compliance with legal requirements;
- (d) Recommend the appointment, compensation and oversight of the conventional bank licensee's external auditor; and
- (e) Recommend the appointment of the internal auditor.

### HC-3.2.2

In its review of the systems and controls framework in Paragraph HC-3.2.1, the audit committee must:

- (a) Make effective use of the work of external and internal auditors. The audit committee must ensure the integrity of the bank's accounting and financial reporting systems through regular independent review (by internal and external audit). Audit findings must be used as an independent check on the information received from management about the bank's operations and performance and the effectiveness of internal controls; and
- (b) Make use of self-assessments, stress/scenario tests, and/or independent judgements made by external advisors. The Board should appoint supporting committees, and engage senior management to assist the audit committee in the oversight of risk management; and





MODULE	HC:	High-Level Controls
CHAPTER	HC-3:	Audit Committee and Financial Statements Certification

## HC-3.2 Audit Committee (continued)

- (c) Ensure that senior management have put in place appropriate systems of control for the business of the bank and the information needs of the Board; in particular, there must be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of the bank, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.

### HC-3.2.3

The conventional bank licensee must set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.

### HC-3.2.4

The CEO must not be a member of the audit committee.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Audit Committee and Financial Statements Certification</b>

### **HC-3.3 Audit Committee Charter**

#### **HC-3.3.1**

The audit committee must adopt a written charter which shall, at a minimum, state the duties outlined in Paragraph HC-3.2.1 and the other matters included in Appendix A to this Module.

#### **HC-3.3.2**

A majority of the audit committee must have the financial literacy qualifications stated in Appendix A.

#### HC-3.3.3

The board should adopt a “whistleblower” program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the program, concerns may be communicated directly to any audit committee member or, alternatively, to an identified officer or employee who will report directly to the Audit Committee on this point.



MODULE	HC:	High-Level Controls
CHAPTER	HC-3:	Audit Committee and Financial Statements Certification

## HC-3.4 CEO and CFO Certification of Financial Statements

### HC-3.4.1

To encourage management accountability for the financial statements required by the directors, the conventional bank licensee's CEO and chief financial officer must state in writing to the audit committee and the board as a whole that the conventional bank licensee's interim and annual financial statements present a true and fair view, in all material respects, of the conventional bank licensee's financial condition and results of operations in accordance with applicable accounting standards.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.1 Principle

### HC-4.1.1

The conventional bank licensee must have rigorous and transparent procedures for appointment, training and evaluation of the Board.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.2 Nominating Committee

### HC-4.2.1

The board must establish a Nominating Committee of at least three directors which must:

- (a) Identify persons qualified to become members of the board of directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the conventional bank licensee considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee in accordance with Paragraph HC-3.2.1 above; and
- (b) Make recommendations to the whole board of directors including recommendations of candidates for board membership to be included by the board of directors on the agenda for the next annual shareholder meeting.

### HC-4.2.2

The committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. This is consistent with international best practice and it recognises that the Nominating Committee must exercise judgment free from personal career conflicts of interest.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-4:</b>	<b>Appointment, Training and Evaluation of the Board</b>

### **HC-4.3 Nominating Committee Charter**

#### **HC-4.3.1**

The Nominating Committee must adopt a formal written charter which must, at a minimum, state the duties outlined in Paragraph HC-4.2.1 and the other matters included in Appendix B to this Module.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.4 Board Nominations to Shareholders

### HC-4.4.1

Each proposal by the board to the shareholders for election or reelection of a director must be accompanied by a recommendation from the board, a summary of the advice of the Nominating Committee, and the following specific information:

- (a) The term to be served, which may not exceed three years (but there need not be a limit on reelection for further terms);
- (b) Biographical details and professional qualifications;
- (c) In the case of an independent director, a statement that the board has determined that the criteria of independent director have been met;
- (d) Any other directorships held;
- (e) Particulars of other positions which involve significant time commitments, and
- (f) Details of relationships between:
  - (i) The candidate and the conventional bank licensee, and
  - (ii) The candidate and other directors of the conventional bank licensee.

### HC-4.4.2

The chairman of the board should confirm to shareholders when proposing reelection of a director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Serving more than six years is relevant to the determination of a non-executive director's independence.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.5 Induction and Training of Directors

### HC-4.5.1

The chairman of the board must ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of his term. The induction must include meetings with senior management, visits to the conventional bank licensee's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel.

### HC-4.5.2

All continuing directors must be invited to attend orientation meetings and all directors must continually educate themselves as to the conventional bank licensee's business and corporate governance.

### HC-4.5.3

Management, in consultation with the chairman of the board, should hold programs and presentations to directors respecting the conventional bank licensee's business and industry, which may include periodic attendance at conferences and management meetings. The Nominating Committee shall oversee directors' corporate governance educational activities.





MODULE	HC:	High-Level Controls
CHAPTER	HC-5:	Remuneration of Approved Persons

## HC-5.1 Principle

**HC-5.1.1** The conventional bank licensee must remunerate approved persons fairly and responsibly.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-5:</b>	<b>Remuneration of Approved Persons</b>

## HC-5.2 Remuneration Committee

### HC-5.2.1

The Board must establish a remuneration committee of at least three directors which must:

- (a) Review the conventional bank licensee's remuneration policies for the approved persons, which must be approved by the shareholders and be consistent with the corporate values and strategy of the bank;
- (b) Make recommendations regarding remuneration policies and amounts for approved persons to the whole board, taking account of total remuneration including salaries, fees, expenses and employee benefits; and
- (c) Recommend Board member remuneration based on their attendance and performance.

HC-5.2.2 The committee may be merged with the nominating committee.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-5:</b>	<b>Remuneration of Approved Persons</b>

### HC-5.3 Remuneration Committee Charter

**HC-5.3.1** The committee must adopt a written charter which must, at a minimum, state the duties in Paragraph HC-5.2.1 and other matters in Appendix C of this Module.

HC-5.3.2 The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognises that the remuneration committee must exercise judgment free from personal career conflicts of interest.



MODULE	HC:	High-Level Controls
CHAPTER	HC-5:	Remuneration of Approved Persons

#### HC-5.4 Standard for all Remuneration

##### HC-5.4.1

Remuneration of approved persons must be sufficient enough to attract, retain and motivate persons of the quality needed to run the conventional bank licensee successfully, but the conventional bank licensee must avoid paying more than is necessary for that purpose.



MODULE	HC:	High-Level Controls
CHAPTER	HC-5:	Remuneration of Approved Persons

## HC-5.5 Non-Executive Directors' Remuneration

### HC-5.5.1

Remuneration of non-executive directors must not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-5:</b>	<b>Remuneration of Approved Persons</b>

## HC-5.6 Senior Management's Remuneration

**HC-5.6.1** Remuneration of senior management must be structured so that a portion of the total is linked to the conventional bank licensee's and individual's performance and aligns their interests with the interests of the shareholders.

HC-5.6.2 Such rewards may include grants of shares, share options and other deferred stock-related incentive schemes, bonuses, and pension benefits which are not based on salary.

**HC-5.6.3** If a senior manager is also a director, his remuneration as a senior manager must take into account compensation received in his capacity as a director.

**HC-5.6.4** All share incentive plans must be approved by the shareholders.

HC-5.6.5 All performance-based incentives should be awarded under written objective performance standards which have been approved by the board and are designed to enhance shareholder and the conventional bank licensee's value, and under which shares should not vest and options should not be exercisable within less than two years of the date of award of the incentive.

HC-5.6.6 All policies for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself and not of the grant to specific individuals of benefits under the plan.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6:</b>	<b>Management Structure</b>

**HC-6.1** Principle

**HC-6.1.1** The board must establish a clear and efficient management structure.



MODULE	HC:	High-Level Controls
CHAPTER	HC-6:	Management Structure

## HC-6.2 Establishment of Management Structure

### HC-6.2.1

The board must appoint senior management whose authority must include management and operation of current activities of the conventional bank licensee, reporting to and under the direction of the board. The senior management must include at a minimum:

- (a) A CEO;
- (b) A chief financial officer;
- (c) A corporate secretary; and
- (d) An internal auditor,

and must also include such other approved persons as the board considers appropriate.





<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6:</b>	<b>Management Structure</b>

### HC-6.3 Titles, Authorities, Duties and Reporting Responsibilities

**HC-6.3.1** The board must adopt by-laws prescribing each senior manager's title, authorities, duties, accountabilities and internal reporting responsibilities. This must be done with the advice of the Nominating Committee and in consultation with the CEO, to whom the other senior managers should normally report.

**HC-6.3.2** These provisions must include but should not be limited to the following:

- (a) The CEO must have authority to act generally in the conventional bank licensee's name, representing the conventional bank licensee's interests in concluding transactions on the conventional bank licensee's behalf and giving instructions to other senior managers and conventional bank licensee employees;
- (b) The chief financial officer must be responsible and accountable for:
  - (i) The complete, timely, reliable and accurate preparation of the conventional bank licensee's financial statements, in accordance with the accounting standards and policies of the conventional bank licensee (see also HC-3.4.1); and
  - (ii) Presenting the board with a balanced and understandable assessment of the conventional bank licensee's financial situation;
- (c) The corporate secretary's duties must include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose; and
- (d) The internal auditor's duties must include providing an independent and objective review of the efficiency of the conventional bank licensee's operations. This would include a review of the accuracy and reliability of the conventional bank licensee's accounting records and financial reports as well as a review of the adequacy and effectiveness of the conventional bank licensee's risk management, control, and governance processes.

HC-6.3.3 The board should also specify any limits which it wishes to set on the authority of the CEO or other senior managers, such as monetary maximums for transactions which they may authorise without separate board approval.

HC-6.3.4 The corporate secretary should be given general responsibility for reviewing the conventional bank licensee's procedures and advising the board directly on such matters (see Rule HC-6.3.2(c)). Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6:</b>	<b>Management Structure</b>

### **HC-6.3 Titles, Authorities, Duties and Reporting Responsibilities (continued)**

HC-6.3.5 At least annually the board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6:</b>	<b>Management Structure</b>

## HC-6.4 Compliance

HC-6.4.1 In order to promote best practice with respect to banks' internal systems and controls and international banking supervision, the CBB, in this Chapter, outlines its requirements for the compliance function of banks. The expression 'Compliance Function' in this Chapter is used to describe staff carrying out compliance duties.

HC-6.4.2 The expression 'Compliance Risk', in this Chapter refers to the risk of legal or regulatory sanctions, material or financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to its activities, rather than compliance with a bank's internal limits or procedures.

**HC-6.4.3** For further information and guidance on compliance risk and the compliance function, banks should refer to the Basel Committee publication, 'Compliance and the compliance function in banks' ([www.bis.org/publ](http://www.bis.org/publ) April 2005). The CBB expects banks to carry out a review of their compliance with the principles in this paper on a regular basis (either by way of a self-assessment or by way of a review by the internal or external audit function).



MODULE	HC:	High-Level Controls
CHAPTER	HC-7:	Communication between Board and Shareholders

## HC-7.1 Principle

### HC-7.1.1

The conventional bank licensee must communicate with shareholders, encourage their participation, and respect their rights.



MODULE	HC:	High-Level Controls
CHAPTER	HC-7:	Communication between Board and Shareholders

## HC-7.2 Conduct of Shareholders' Meetings

### HC-7.2.1

The board must observe both the letter and the intent of the Company Law's requirements for shareholder meetings. Among other things:

- (a) Notices of meetings must be honest, accurate and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting;
- (b) Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend;
- (c) Notices of meetings must encourage shareholders to attend shareholder meetings and, if not possible, to participate by proxy and must refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as "yes," "no" or "abstain");
- (d) Notices must ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of directors;
- (e) The board must propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together;
- (f) In meetings where directors are to be elected or removed the board must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually;
- (g) The chairman of the meeting must encourage questions from shareholders, including questions regarding the conventional bank licensee's corporate governance guidelines;
- (h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting; and
- (i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.

### HC-7.2.2

The conventional bank licensee should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-7:</b>	<b>Communication between Board and Shareholders</b>

## HC-7.2 Conduct of Shareholders' Meetings (continued)

HC-7.2.3 The conventional bank licensee should require its external auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.

HC-7.2.4 A conventional bank licensee should maintain a website. The conventional bank licensee should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholders' meeting, and should post significant documents relating to meetings including the full text of notices and minutes. The conventional bank licensee may also consider establishing an electronic means for shareholders' communications including appointment of proxies. For confidential information, the conventional bank licensee should grant a controlled access to such information to its shareholders.

HC-7.2.5 In notices of meetings at which directors are to be elected or removed the conventional bank licensee should ensure that:

- (a) Where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes; and
- (b) The notice of the meeting should present a factual and objective view of the candidates so that shareholders may make an informed decision on any appointment to the board.



MODULE	HC: High-Level Controls
CHAPTER	HC-7: Communication between Board and Shareholders

### HC-7.3 Direct Shareholder Communication

#### HC-7.3.1

The chairman of the board (and other directors as appropriate) must maintain continuing personal contact with controllers to solicit their views and understand their concerns. The chairman must ensure that the views of shareholders are communicated to the board as a whole. The chairman must discuss governance and strategy with controllers. Given the importance of market monitoring to enforce the “comply or explain” approach of this Module, the board should encourage investors, particularly institutional investors, to help in evaluating the conventional bank licensee’s corporate governance (see also HC-1.2 and 1.3 for other duties of the Chairman).



MODULE	HC:	High-Level Controls
CHAPTER	HC-7:	Communication between Board and Shareholders

## HC-7.4      Controllers

### HC-7.4.1

In conventional bank licensees with one or more controllers, the chairman and other directors must actively encourage the controllers to make a considered use of their position and to fully respect the rights of minority shareholders (see also HC-1.2 and 1.3 for other duties of the Chairman).





MODULE	HC:	High-Level Controls
CHAPTER	HC-8:	Corporate Governance Disclosure

## HC-8.1 Principle

**HC-8.1.1** The conventional bank licensee must disclose its corporate governance.



MODULE	HC: High-Level Controls
CHAPTER	HC-8: Corporate Governance Disclosure

## HC-8.2 Disclosure under the Company Law and CBB Requirements

### HC-8.2.1

In each conventional bank licensee:

- (a) The board must adopt written corporate governance guidelines covering the matters stated in this Module and Module PD and other corporate governance matters deemed appropriate by the board. Such guidelines must include or refer to the principles and rules of Module HC;
- (b) The conventional bank licensee must publish the guidelines on its website, if it has a website;
- (c) At each annual shareholders' meeting the board must report on the conventional bank licensee's compliance with its guidelines and Module HC, and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified; and
- (d) At each annual shareholders' meeting the board must also report on further items listed in Module PD. Such information should be maintained on the conventional bank licensee's website or held at the conventional bank licensee's premises on behalf of the shareholders.

HC-8.2.2 The CBB may issue a template as a guide for a conventional bank licensee's annual meeting corporate governance discussion.

#### *Board's Responsibility for Disclosure*

### HC-8.2.3

The Board must oversee the process of disclosure and communications with internal and external stakeholders. The Board must ensure that disclosures made by the bank are fair, transparent, comprehensive and timely and reflect the character of the bank and the nature, complexity and risks inherent in the bank's business activities. Disclosure policies must be reviewed for compliance with the Central Bank's disclosure requirements (see Chapter PD-1).



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix A : Audit Committee</b>

## Appendix A Audit Committee

### *Committee Duties*

The Committee's duties shall include those stated in Paragraph HC-3.2.1.

### *Committee Membership and Qualifications*

The Committee shall have at least three members. Such members must have no conflict of interest with any other duties they have for the conventional bank licensee.

A majority of the members of the committee including the Chairman shall be independent directors.

The CEO must not be a member of this committee.

The committee members must have sufficient technical expertise to enable the committee to perform its functions effectively. Technical expertise means that members must have recent and relevant financial ability and experience, which includes:

- (a) An ability to read and understand corporate financial statements including a conventional bank licensee's balance sheet, income statement and cash flow statement and changes in shareholders' equity;
- (b) An understanding of the accounting principles which are applicable to the conventional bank licensee's financial statements;
- (c) Experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the conventional bank licensee's business;
- (d) An understanding of internal controls and procedures for financial reporting; and
- (e) An understanding of the audit committee's controls and procedures for financial reporting.

### *Committee Duties and Responsibilities*

In serving those duties, the Committee shall:

- (a) Be responsible for the selection, appointment, remuneration, oversight and termination where appropriate of the external auditor, subject to ratification by the conventional bank licensee's board and shareholders. The external auditor shall report directly to the committee;
- (b) Make a determination at least once each year of the external auditor's independence, including:
  - (i) Determining whether its performance of any non-audit services compromised its independence (the committee may establish a formal policy specifying the types of non-audit services which are permissible) and;



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix A : Audit Committee</b>

## Appendix A Audit Committee (continued)

- (ii) Obtaining from the external auditor a written report listing any relationships between the external auditor and the conventional bank licensee or with any other person or entity that may compromise the auditor's independence;
- (c) Review and discuss with the external auditor the scope and results of its audit, any difficulties the auditor encountered including any restrictions on its access to requested information and any disagreements or difficulties encountered with management;
- (d) Review and discuss with management and the external auditor each annual and each quarterly financial statements of the conventional bank licensee including judgments made in connection with the financial statements;
- (e) Review and discuss and make recommendations regarding the selection, appointment and termination where appropriate of the head of internal audit and head of compliance and the budget allocated to the internal audit and compliance function, and monitor the responsiveness of management to the committee's recommendations and findings;
- (f) Review and discuss the activities, performance and adequacy of the conventional bank licensee's internal auditing and compliance personnel and procedures and its internal controls and compliance procedures, and any risk management systems, and any changes in those;
- (g) Oversee the conventional bank licensee's compliance with legal and regulatory requirements, codes and business practices, and ensure that the bank communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form; and
- (h) Review and discuss possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters;
- (i) The committee must monitor rotation arrangements for audit engagement partners. The audit committee must monitor the performance of the external auditor and the non-audit services provided by the external auditor; and
- (j) The review and supervision of the implementation of, enforcement of and adherence to the bank's code of conduct.

### *Committee Structure and Operations*

The committee shall elect one member as its chair.

The committee shall meet at least four times a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

The committee may meet without any other director or any officer of the conventional bank licensee present. Only the committee may decide if a non-member of the committee should attend a particular meeting or a particular agenda item. Non-members who are not directors of the conventional bank licensee may attend to provide their expertise, but may not vote. It is expected that the external auditor's lead representative will be invited to attend regularly but that this shall always be subject to the committee's decision.

The committee must meet with the external auditor at least twice per year, and at least once per year in the absence of any members of executive management.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix A : Audit Committee</b>

## Appendix A Audit Committee (continued)

The committee shall report regularly to the full board on its activities.

### *Committee Resources and Authority*

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the board or management. The conventional bank licensee shall provide appropriate funding for the compensation of any such persons.

### *Committee Performance Evaluation*

The committee shall prepare and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report **must** be in the form of a written report provided at any regularly scheduled board meeting.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix B : Nominating Committee</b>

## Appendix B Nominating Committee

### *Committee Duties*

The committee's duties shall include those stated in Paragraph HC-4.2.1.

### *Committee Duties and Responsibilities*

In serving those duties with respect to board membership:

- (a) The committee shall make recommendations to the board from time to time as to changes the committee believes to be desirable to the size of the board or any committee of the board;
- (b) Whenever a vacancy arises (including a vacancy resulting from an increase in board size), the committee shall recommend to the board a person to fill the vacancy either through appointment by the board or through shareholder election;
- (c) In performing the above responsibilities, the committee shall consider any criteria approved by the board and such other factors as it deems appropriate. These may include judgment, specific skills, experience with other comparable businesses, the relation of a candidate's experience with that of other board members, and other factors;
- (d) The committee shall also consider all candidates for board membership recommended by the shareholders and any candidates proposed by management;
- (e) The committee shall identify board members qualified to fill vacancies on any committee of the board and recommend to the board that such person appoint the identified person(s) to such committee; and
- (f) Assuring that plans are in place for orderly succession of senior management.

In serving those purposes with respect to officers the committee shall:

- (a) Make recommendations to the board from time to time as to changes the committee believes to be desirable in the structure and job descriptions of the officers including the CEO, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters including integrity, technical and managerial competence, and experience;
- (b) Overseeing succession planning and replacing key executives when necessary, and ensuring appropriate resources are available, and minimising reliance on key individuals;
- (c) Design a plan for succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy; and
- (d) If charged with responsibility with respect to conventional bank licensee's corporate governance guidelines, the committee shall develop and recommend to the board corporate governance guidelines, and review those guidelines at least once a year.

### *Committee Structure and Operations*

The committee shall elect one member as its chair.

The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix B : Nominating Committee</b>

## **Appendix B Nominating Committee (continued)**

### ***Committee Resources and Authority***

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or search firms used to identify candidates, without seeking the approval of the board or management. The conventional bank licensee shall provide appropriate funding for the compensation of any such persons.

### ***Performance Evaluation***

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report **must** be in the form of a written report provided at any regularly scheduled board meeting.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix C : Remuneration Committee</b>

## Appendix C Remuneration Committee

### *Committee Duties*

The committee's duties shall include those stated in Paragraph HC-5.2.1.

### *Committee Duties and Responsibilities*

In serving those duties the committee shall consider, and make specific recommendations to the board on, both remuneration policy and individual remuneration packages for the CEO and other senior managers. This remuneration policy should cover at least:

- a) The following components:
  - i) Salary;
  - ii) The specific terms of performance-related plans including any stock compensation, stock options, or other deferred-benefit compensation;
  - iii) Pension plans;
  - iv) Fringe benefits such as non-salary perks; and
  - v) Termination policies including any severance payment policies; and
- b) Policy guidelines to be used for determining remuneration in individual cases, including on:
  - i) The relative importance of each component noted in a) above;
  - ii) Specific criteria to be used in evaluating a senior manager's performance.

The committee shall evaluate the CEO's and senior management's performance in light of the bank's corporate goals, agreed strategy, objectives and business plans and may consider the conventional bank licensee's performance and shareholder return relative to comparable conventional bank licensees, the value of awards to CEOs at comparable conventional bank licensees, and awards to the CEO in past years.

The committee should also be responsible for retaining and overseeing outside consultants or firms for the purpose of determining approved persons' remuneration, administering remuneration plans, or related matters.

### *Committee Structure and Operations*

The committee shall elect one member as its chair.

The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

### *Committee Resources and Authority*

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or compensation firms used to evaluate the compensation of directors, the CEO or other approved persons, without seeking the approval of the board or management. The conventional bank licensee shall provide appropriate funding for the compensation of any such persons.





<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix C : Remuneration Committee</b>

## Appendix C Remuneration Committee (continued)

### *Performance Evaluation*

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report **must** be in the form of a written report provided at any regularly scheduled board meeting.