



HIGH-LEVEL CONTROLS MODULE



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MODULE	HC:	High-Level Controls
CHAPTER	HC-A:	Introduction

HC-A.1 Purpose

Executive Summary

HC-A.1.1 This Module presents requirements that have to be met by licensees with respect to:

- (a) Corporate governance principles issued by the Ministry of Industry and Commerce as “The Corporate Governance Code”; and
- (b) 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 governance principles in Bahrain, and to provide protection for investors and other 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.

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 nine 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.

HC-A.1.6 The Module also incorporates other high-level controls and policies that apply in particular to 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’.



MODULE	HC:	High-Level Controls
CHAPTER	HC-A:	Introduction

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 financing company 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 Paragraph PD-1.3.5 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 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 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 financing companies 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.



MODULE	HC:	High-Level Controls
CHAPTER	HC-A:	Introduction

HC-A.1 Purpose (continued)

Effective Date

HC-A.1.13 The contents in this Module are effective from January 2013.



MODULE	HC:	High-Level Controls
CHAPTER	HC-A:	Introduction

HC-A.2 Module History

HC-A.2.1 This Module was first issued in January 2013. 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 provided below:

Module Ref.	Change Date	Description of Changes
HC-8.2	01/2014	Amended as a result of the issuance of Module PD.
Appendix D	01/2014	Requirements moved to Module PD.
HC-1.2.12, HC-1.2.13 and HC-1.3.9	10/2014	Corrected cross reference.
HC-1.3.11	10/2014	Corrected typo.
HC-2.3.3	04/2016	Added a requirement for the licensee to have in place a board approved policy on the employment of relatives of approved persons.
HC-2.4.1A	04/2016	Added the requirement to disclose to the board on annual basis relatives of any approved persons occupying controlled functions.
HC-7.2	04/2016	Added requirements dealing with shareholders' meetings.
HC-7.2.3A	07/2017	Amended paragraph to be in line with Article (199) of the Commercial Companies law.

Superseded Requirements

HC-A.2.3 This Module supersedes the following provisions contained in circulars or other regulatory requirements:

Document Ref.	Document Subject
Volumes 1 and 2	Module HC



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 financing companies licensees, thereafter referred to in this Module as licensees.



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

HC-B.2 Subsidiaries, Affiliates and Foreign Branches

HC-B.2.1

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

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 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 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 senior managers (whom the board appoints and oversees); and
- (b) The board's fiduciary duties of care and loyalty to the 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 licensee;
- (b) Causing financial statements to be prepared which accurately disclose the licensee's financial position;
- (c) Monitoring management performance;
- (d) Convening and preparing the agenda for *shareholders 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 licensee.

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.



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

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 Paragraph 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 licensee'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 licensee;
- (c) Set performance objectives; and
- (d) Oversee major capital expenditures, divestitures and acquisitions.

HC-1.2.6

Licensees must notify the CBB in writing of all major proposed changes to the strategy and/or corporate plan of the licensee 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 licensee's compliance risk.

HC-1.2.8

When a new director is inducted, the chairman of the board, or by the 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 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.



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

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 licensee, is appropriate for the business and associated risks (see Paragraph 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 licensee is exposed in its business activities.

HC-1.2.11

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

- (a) The licensee's operations, individually and collectively are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of its activities;
- (b) The licensee'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 licensee 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 licensee's adopted governance framework, appropriate and timely action is taken to address any identified adverse deviations from the requirements of this Module.



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

HC-1.2 Role and Responsibilities (continued)

HC-1.2.12

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 Paragraphs HC-1.2.1 to HC-1.2.11.

HC-1.2.13

Wherever possible, the documents referred to in Paragraphs HC-1.2.3 to HC-1.2.11 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.



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

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 licensee 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.



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

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. Licensees 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 At least half the Board meetings of Bahraini licensees in any twelve-month period must be held in the Kingdom of Bahrain.

HC-1.3.9 All licensees 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-5.

HC-1.3.10 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-1.3.11 The board should have no more than 15 members, and should regularly review its size and composition to ensure 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 licensee's Memorandum of Association.



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

HC-1.3 Decision Making Process (continued)

HC-1.3.12 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 licensee.

HC-1.3.13 No Board member may have a directorship in two financing companies in Bahrain. Licensees may approach the CBB for exemption from this limit where the directorships concern licensees or financial institutions within the same group.

HC-1.3.14 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.



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

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 judgment. .

HC-1.4.5

At least half of a 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.

HC-1.4.9

Where the Chairmanship concerns licensees within the same group, licensees may approach the CBB for an exemption from Paragraph HC-1.4.8.



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

HC-1.4 Independence of Judgment (continued)

HC-1.4.10 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-1.4.11 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.



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

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 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 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 licensees with controllers, both controllers and other shareholders should be aware of controllers' specific responsibilities regarding their duty of loyalty to the 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 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 licensee's lawyers.



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

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 licensee's expense whenever they judge this necessary to discharge their responsibilities as directors and this must be in accordance with the licensee's policy approved by the board.

HC-1.6.2

Individual directors must also have access to the 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 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.



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

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 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.



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

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 licensee's actions, or a Risk Committee to identify and minimize specific risks of the 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 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 fulfill their mandates. For larger licensees 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 licensee. The establishment of committees should not mean that the role of the Board is diminished, or that the Board becomes fragmented.



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CHAPTER	HC-1:	The Board

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 board 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 licensee.



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

HC-2.2 Personal Accountability

HC-2.2.1 Licensees 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 Rulebook of the licensed exchange, 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 CBB (as amended from time to time). The Board sets the 'tone at the top' of a licensee, 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 member of the board must understand that under the Company Law he is personally accountable to the licensee and the shareholders if he violates his legal duty of loyalty to the licensee, and that he can be personally sued by the 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 licensee, 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. The licensee's approved persons and staff must be informed of and be required to fulfill their fiduciary responsibilities to the licensee's stakeholders.

HC-2.2.4

An internal code of conduct is separate from the business strategy of a licensee. A code of conduct should outline the practices that approved persons and staff should follow in performing their duties. Licensees 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 licensee, 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
CHAPTER	HC-2:	Approved Persons Loyalty

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 licensee's assets;
- (d) How the licensee deals with *disputes and complaints* from clients and monitors compliance with the code; and
- (e) *Confidentiality.* Disclosure of client or licensee 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 licensee 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 licensee;
- (c) Have a proper understanding of, and competence to deal with the affairs and products of the licensee and devote sufficient time to their responsibilities; and
- (d) To independently assess and question the policies, processes and procedures of the licensee, 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 licensee for his personal needs as though it was his own property, not to disclose confidential information of the licensee or use it for his personal profit, not to take business opportunities of the licensee for himself, not to compete in business with the licensee, and to serve the licensee's interest in any transactions with a licensee in which he has a personal interest.



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

HC-2.2 Personal Accountability (continued)

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 licensee if:

- (a) He himself; or
- (b) A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or
- (c) Another licensee 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 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 licensee;
- (b) Not demand or accept substantial gifts from the licensee for himself or connected persons;
- (c) Not misuse the licensee's assets;
- (d) Not use the licensee's privileged information or take advantage of business opportunities to which the 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.

HC-2.3.3

Licensees must have in place a board approved policy on the employment of relatives of approved persons and a summary of such policy must be disclosed in the annual report of the licensee.



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. Board members must 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 licensee, a manager, or other form of significant participation) to the Board (or the Nominations or Audit Committees) on an annual basis.

HC-2.4.1A

The chief executive/general manager of the licensee must disclose to the board of directors on an annual basis relatives of any approved persons occupying controlled functions within the licensee.

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 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 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.



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

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.



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

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 licensee's accounting and financial practices;
- (b) Review the integrity of the 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 licensee's compliance with legal requirements;
- (d) Recommend the appointment, compensation and oversight of the 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 licensee'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 licensee's operations and performance and the effectiveness of internal controls;
- (b) Make use of self-assessments, stress/scenario tests, and/or independent judgments 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 licensee 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 licensee, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.

HC-3.2.3

The 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.



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

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 licensee's CEO and chief financial officer must state in writing to the audit committee and the board as a whole that the licensee's interim and annual financial statements present a true and fair view, in all material respects, of the 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 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 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 should include only independent directors or, alternatively, only non-executive directors of whom a majority should be independent directors and the chairman should be an independent director. This is consistent with international best practice and it recognises that the Nominating Committee should exercise judgment free from personal career conflicts of interest.



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

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, as applicable, 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 licensee; and
 - (ii) The candidate and other directors of the 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:

- (a) Meetings with senior management, internal and external auditors and legal counsel;
- (b) Visits to the licensee's facilities; and
- (c) Presentations regarding strategic plans, significant financial, accounting and risk management issues and compliance programs.

HC-4.5.2

All continuing directors must be invited to attend orientation meetings and all directors must continually educate themselves as to the 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 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 licensee must remunerate approved persons fairly and responsibly.



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

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 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 licensee;
- (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.



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

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 licensee successfully, but the 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 independent directors and 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.



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

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 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 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.



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

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 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.



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

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 licensee's name, representing the licensee's interests in concluding transactions on the licensee's behalf and giving instructions to other senior managers and licensee employees;
- (b) The chief financial officer must be responsible and accountable for:
 - (i) The complete, timely, reliable and accurate preparation of the licensee's financial statements, in accordance with the accounting standards and policies of the licensee (see also HC-3.4.1); and
 - (ii) Presenting the board with a balanced and understandable assessment of the 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 licensee's operations. This would include a review of the accuracy and reliability of the licensee's accounting records and financial reports as well as a review of the adequacy and effectiveness of the 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 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.



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

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.



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

HC-6.4 Compliance

HC-6.4.1

The CBB expects licensees to carry out a review of their compliance with the principles in this Module on a regular basis.



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

HC-7.1 Principle

HC-7.1.1

The 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 allow shareholders 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 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 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).



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

HC-7.2 Conduct of Shareholders' Meetings (continued)

HC-7.2.3 The 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-7.2.3A Licensees must provide to the CBB, for its review and comment, at least 5 business days prior to communicating with the shareholders or publishing in the press, the draft agenda for any shareholders' meetings referred to in Paragraph HC-7.2.3C.

HC-7.2.3B Licensees must ensure that any agenda items to be discussed or presented during the course of meetings which require the CBB's prior approval, have received the necessary approval, prior to the meeting taking place.

HC-7.2.3C The licensee must invite a representative of the CBB to attend any shareholders' meetings (i.e. ordinary and extraordinary general assembly) taking place. The invitation must be provided to the CBB at least 5 business days prior to the meeting taking place.

HC-7.2.3D Within a maximum of 15 calendar days of any shareholders' meetings referred to in Paragraph HC-7.2.3C, the licensee must provide to the CBB a copy of the minutes of the meeting.

HC-7.2.4 A licensee should maintain a website. The 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 licensee may also consider establishing an electronic means for shareholders' communications including appointment of proxies. For confidential information, the 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 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 shareholders to help in evaluating the 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 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 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 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 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 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 licensee's website or held at the licensee's premises on behalf of the shareholders.

HC-8.2.2

[This Paragraph was deleted in January 2014]

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 licensee are fair, transparent, comprehensive and timely and reflect the character of the licensee and the nature, complexity and risks inherent in the licensee's business activities. Disclosure policies must be reviewed for compliance with the CBB's disclosure requirements (see Chapter PD-1).



MODULE	HC:	High-Level Controls
CHAPTER	HC-9:	Shari'a Compliant Business

HC-9.1 Principle

HC-9.1.1

Companies which refer to themselves as “Islamic” must follow the principles of Islamic Shari'a.



MODULE	HC:	High-Level Controls
CHAPTER	HC-9:	Islamic Firm Licensees

HC-9.2 Governance and Disclosure per Shari'a Principles

HC-9.2.1

Licensees which are guided by the principles of Islamic Shari'a have additional responsibilities to their stakeholders. Licensees which refer to themselves as "Islamic" are subject to additional governance requirements and disclosures to provide assurance to stakeholders that they are following Shari'a Principles. In ensuring compliance with Shari'a principles, each licensee must establish a Shari'a Supervisory Board consisting of at least three Shari'a scholars.

HC-9.2.2 In addition to its duties outlined in Chapter HC-3 and Appendix A, the Audit Committee shall communicate and co-ordinate with the licensee's Corporate Governance Committee and the Shari'a Supervisory Board ("SSB") (where applicable) to ensure that information on compliance with Islamic Shari'a rules and principles is reported in a timely manner.

HC-9.2.3 The Board shall set up a Corporate Governance Committee (see also Paragraph HC-1.8.2). In this case, the Committee shall comprise at least three members to co-ordinate and integrate the implementation of the governance policy framework.

HC-9.2.4 The Corporate Governance Committee established under Chapter HC-9 shall comprise at a minimum of:

- (a) An independent director to chair the Corporate Governance Committee. The Chairman of the Corporate Governance Committee should not only possess the relevant skills, such as the ability to read and understand financial statements, but should also be able to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the Audit Committee;
- (b) A Shari'a scholar who is an SSB member for the purpose of leading the Corporate Governance Committee on Shari'a-related governance issues (if any), and also to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the SSB; and
- (c) An independent director who can offer different skills to the committee, such as legal expertise and business proficiency, which are considered particularly relevant by the Board of directors for cultivating a good corporate governance culture, and deemed "fit and proper" by the CBB.

HC-9.2.5 The Corporate Governance Committee shall be empowered to:

- (a) Oversee and monitor the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB; and
- (b) Provide the Board of directors with reports and recommendations based on its findings in the exercise of its functions.



MODULE	HC: High-Level Controls
CHAPTER	Appendix A : Audit Committee

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 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 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 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 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 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;
 - (ii) Obtaining from the external auditor a written report listing any relationships between the external auditor and the licensee or with any other person or entity that may compromise the auditor's independence;



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CHAPTER	Appendix A : Audit Committee

Appendix A Audit Committee (continued)

- (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 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 licensee's internal auditing and compliance personnel and procedures and its internal controls and compliance procedures, risk management systems, and any changes in those;
- (g) Oversee the licensee's compliance with legal and regulatory requirements, codes and business practices, and ensure that the licensee communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form;
- (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 licensee'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 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 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.

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



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CHAPTER	Appendix A : Audit Committee

Appendix A Audit 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, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the board or management. The 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.



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CHAPTER	Appendix B : Nominating Committee

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 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.



MODULE	HC: High-Level Controls
CHAPTER	Appendix B : Nominating Committee

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 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.



MODULE	HC: High-Level Controls
CHAPTER	Appendix C : Remuneration Committee

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 licensee's corporate goals, agreed strategy, objectives and business plans and may consider the licensee's performance and shareholder return relative to comparable licensees, the value of awards to CEOs at comparable 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 licensee shall provide appropriate funding for the compensation of any such persons.



MODULE	HC: High-Level Controls
CHAPTER	Appendix C : Remuneration Committee

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.



MODULE	HC: High-Level Controls
CHAPTER	Appendix D : Corporate Governance Disclosure to Shareholders

Appendix D [The requirements of this Appendix were moved to Module PD in January 2014]