Corporate Governance for Mortgage Companies

Corporate Governance for Mortgage Companies

- Adapted from the Basel Committee on Banking Supervision -Guidelines - Corporate Governance Principles for Banks which was issued July 2015.
- Changes were made to the original document to account for the differences between banks and non-banks.
- The author has attempted to maintain the original intentions of the Basel Committee.
- Please download the original document and retain it as a resource to enhance this presentation.

Introduction

- Effective corporate governance is critical to the proper functioning of the mortgage sector and the economy as a whole.

- The primary objective of corporate governance should be safeguarding stakeholder's interest in conformity with public interest on a sustainable basis.

- Roll video #1 Everything You Need to Know About Corp. Gov. 2:10

Introduction - Continued

- Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of the company are carried out by its board and senior management, including how they:
  - Set strategy and objectives
  - Select and Oversee Personnel
  - Operate day-to-day
  - Protect stakeholder interests
  - Align culture, activities, and behavior to operate safely and soundly in compliance with laws and regulations
  - Establish control functions

- Roll Video #2 – The Basics of Corporate Governance

Introduction - Continued

- Regulators have a keen interest in sound corporate governance as it is an essential element of safe and sound operations. Well governed companies contribute to an efficient and cost-effective supervisory process as it minimizes supervisory intervention.
- Sound corporate governance allows regulators to place reliance on the company's internal processes underscoring the importance of appropriate levels of authority, responsibility, accountability and checks and balances.
- There is an increased focus on risk and the supporting framework.

- Roll Video #3 – 3 Lines of Defense

Introduction - Continued

- Three Lines of Defense:
  - Business Line – Ownership of risk, acknowledging and managing the risk inherent in conducting its activities.
  - Risk Management – Identify, Measure, Monitor and Control and report risk on an enterprise-wide basis. This includes the compliance function.
  - Internal Audit Function – Conduct independent risk-based and general audits/reviews to assure that the governance framework, including the risk management framework, is effective and policies and procedures are in place and consistently applied.
- The board should set the “tone at the top” and oversee management’s role in fostering and maintaining a sound corporate and risk culture. They should develop a written code of ethics intended to foster a culture of honesty and accountability.

Introduction - Continued

- The implementation of these principles should be commensurate with the size, complexity, structure, economic significance, risk profile and business model of the company.

13 Principles of Governance

- Board's Overall Responsibility
- Board Qualification and Composition
- Board Structure and Practices
- Senior Management
- Governance of Group Structure
- Risk Management Function
- Risk Identification, Monitoring and Controlling
- Risk Communication
- Compliance
- Internal Audit
- Compensation
- Disclosure and Transparency
- Role of Regulators

1: Board’s Overall Responsibilities

A. Responsibilities of the Board

B. Corporate Culture and Values

C. Risk Appetite, Management and Control

D. Oversight of Senior Management

1A: Responsibilities of the Board

- The board has overall responsibility for the company, including approving and overseeing management's implementation of the strategic objectives, governance framework and corporate culture.
  - The board has ultimate responsibility for business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. **The board may delegate some of its functions, though not its responsibilities, to board committees where appropriate**.
  - The board should establish the company's organizational structure. This will enable the board and senior management to carry out their responsibilities and facilitate effective decision-making and good governance. This includes clearly laying out the key responsibilities and authorities of the board itself and of senior management and of those responsible for the risk management and control functions.

- Roll Video #4 – Strategic Planning

1A: Responsibilities of the Board - Continued

- Be actively engaged
- Oversee, approve and monitor implementation of objectives and strategy
- Establish corporate culture and values
- Oversee implementation of governance framework and periodically re-evaluate
- Establish the company's risk appetite
- Oversee adherence to risk appetite, risk policy and risk limits
- Set and oversee implementation of key policies related to capital adequacy assessment, capital and liquidity plans, compliance policies and obligations, and the internal control system
- Require a robust finance function responsible for accounting and financial data
- Approve annual financial statements and require periodic independent review

- Roll video #5 – Effective Boards: Board Composition

1A: Responsibilities of the Board – Continued

- Hire and Oversee performance of CEO, Senior Management and heads of control functions
- Oversee approach to compensation and assess alignment with risk culture and risk appetite
- Oversee the integrity, independence and effectiveness of the company's whistleblower policies and procedures
- Ensure related party transactions are reviewed to assess risk and guard against the misappropriation of resources
- Ensure an effective relationship with regulators

1B: Corporate Culture and Values

- Corporate culture is set at the top, reinforces norms for responsible and ethical behavior and is especially critical in terms of risk awareness, risk-taking behavior and risk management.

  - Business should be conducted in a legal ethical manner
  - Promote employee ownership for operating within risk appetite and limits
  - Communicate corporate values, standards, and related policies throughout the company
  - Confirm awareness of penalties for straying from policy

1B: Corporate Culture and Values - Continued

- Code of Ethics should define acceptable and unacceptable behaviors
  - Should explicitly disallow all illegal activity
  - Should make clear that employees are to conduct themselves ethically and perform their duties with care and diligence while complying with laws, regulations and policies.

1B: Corporate Culture and Values - Continued

- Corporate values should indicate the critical importance of timely and frank discussion and escalation of problems up the chain of command
  - Establish and communicate a whistleblower policy to communicate confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices.
  - The board must have oversight of the whistleblower policy mechanism and ensure senior management addresses legitimate issues.
  - The board must accept responsibility for assuring that staff is protected from any type of reprisal.
  - The board must establish a process establishing how and by whom legitimate material concerns are investigated by an objective independent party and how they are addressed.

1C: Risk Appetite, Management and Control

- The board is responsible for overseeing a strong risk governance framework. An effective framework includes a strong risk culture, a well developed RAS (Risk Appetite Statement), and well defined responsibilities for risk management and control functions.
- Risk governance framework should outline actions to be taken when risk limits are breached. Including disciplinary actions, escalation procedures and board notification.

- Roll Video #6 – Developing and Articulating Your Bank’s Risk Appetite, Statements and KRIs.

1C: Risk Appetite, Management and Control - Continued

- The RAS should:
  - Include qualitative and quantitative considerations
  - Clearly identify the risks the company is willing to assume
  - Clearly identify the boundaries within which the business will operate
  - Communicate the risk appetite effectively through the company
    - Daily operational decision-making
    - Methodology for raising risks issues and strategic concerns across the company.
- Development of an effective RAS requires board leadership and management involvement.

1C: Risk Appetite, Management and Control - Continued

- Successful implementation of the RAS is dependent upon effective interactions between the board, senior management, risk management and operating functions, including the Chief Financial Officer (CFO).
- The risk governance framework should include well defined organizational responsibilities for risk management(i.e. the three lines of defense)

1C: Risk Appetite, Management and Control - Continued

- Business Units are the first line of defense
  - Take risks and are responsible for ongoing management of the risks
  - Identify, assess and report risk according to risk appetite and P&P
- Independent Risk Management Function is the second line of defense
  - Responsible for overseeing the company's risk-taking activities and assessing risks and issues independently from the business line
  - Promote importance of management in identifying and assessing risk critically
  - Finance function responsible for ensuring that performance is accurately captured and reported to the board, management and business lines

1C: Risk Appetite, Management and Control - Continued

- Independent Risk Management Function is the second line of defense
  - Includes an independent and effective compliance function which should:
    - Routinely monitor compliance with laws, corporate governance rules, regulations, codes and policies the company is subject to
    - Communicate board approved compliance policies to all staff
    - Assess and report on adherence to policy at all levels
    - Assess and report on how company is managing compliance risk
    - Have sufficient authority, stature, independence, resources and access to the board

1C: Risk Appetite, Management and Control - Continued

- Internal Audit is the third line of defense
  - Independent and Effective
  - Independent review and objective assurance regarding the quality and effectiveness of the company's:
    - internal control system
    - First line of defense
    - Second line of defense
    - Risk governance framework
  - Internal Auditors must be:
    - Competent
    - Independent from the development or implementation of risk management at any level

1C: Risk Appetite, Management and Control - Continued

- The board should ensure that the risk management, compliance and internal audit functions are properly positioned, staffed and resourced and carry out their responsibilities independently, objectively and effectively
- In the board's oversight of the risk governance framework, the board should regularly review key policies and controls with senior management and with the heads of the risk management, compliance and internal audit functions to identify and address significant risks and issues as well as determine areas that need improvement.

1D: Oversight of Senior Management

- The board should provide oversight of senior management. It should hold members of senior management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the board's performance expectations. This includes adhering to the company's values, risk appetite and risk culture, under all circumstances

- Roll Video #7 – Relationship between the Board and the CEO

1D: Oversight of Senior Management - Continued

- The board should:
  - monitor that senior management's actions are consistent with the strategy and policies approved by the board, including the risk appetite
  - meet regularly with senior management
  - question and critically review explanations and information provided by senior management
  - set appropriate performance and salary standards for senior management consistent with the strategic plan and the company's financial soundness
  - assess senior management's collective knowledge and expertise given the nature of the business and the company's risk profile
  - Institute succession plans regarding key positions

2: Board Qualifications and Composition

Board members should be and remain qualified, individually and collectively, for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the company.

A. Board Composition

B. Board Member Selection and Qualifications

2A: Board Composition

- Board composition should facilitate effective oversight and must therefore have a sufficient number of independent directors
- The board should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the company.

2A: Board Composition

- The following should be considered in assessing the suitability of the board:
  - board members should have a range of knowledge and experience in relevant areas and have varied backgrounds to promote diversity of views. Relevant areas of competence may include, but are not limited to capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance and management skills
  - They should have a reasonable understanding of local and regional economic and market forces and of the legal and regulatory environment
  - Board members' attitude should facilitate communication, collaboration and critical debate in the decision-making process

- Roll video #8 – How to Approach Board Composition
- Roll video #8a – Ralph Nader RE: Boeing BoD

2B: Board Member Selection and Qualifications

- Should have a clear and rigorous process for identifying, assessing and selecting board candidates
- Selection process should include assessing whether candidates:
  - Possess knowledge, skills, experience, and independence of mind
  - Have a record of integrity and good reputation
  - Have sufficient time to fully carry out their responsibilities
  - Have the ability to promote smooth interaction between board members
  - Have any significant conflicts of interest arising from other individuals, prior positions, or relationships with other members of the board or management

2B: Board Member Selection and Qualifications

- Should have a process for removing board members for cause
- Should have a nominating committee composed of sufficient independent board members to identify and nominate candidates
- Should have a program for training new directors and providing on-going training to existing directors
- Shareholder elected directors may require additional efforts to assure they understand their responsibilities.

3: Board Structure and Practices

The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness

A. Organization and Assessment of the Board
B. Role of the Chair
C. Board Committees
D. Audit Committee
E. Risk Committee

3: Board Structure and Practices

F. Compensation Committee
G. Other Board Committees
H. Conflicts of Interest

3A: Organization and Assessment of the Board

- The board should organize itself in terms of leadership, size, and use of committees so as to effectively carry out its oversight role and other responsibilities
- The board should maintain and periodically update by-laws setting out its organizational structure, rights, responsibilities and key activities
- The board should carry out regular self assessments regarding:
  - Structure, size and composition
  - Suitability of each director
  - Effectiveness of governance practices and procedures

3A: Organization and Assessment of the Board

- The board should maintain appropriate records (e.g. meeting minutes or summaries of matters reviewed, recommendations made. decisions taken and dissenting opinions) of its deliberations and decisions.

3B: Role of the Chair

- Chair plays a crucial role in the proper functioning of the board
  - Provides leadership
  - Responsible for effective overall functioning
  - Should possess requisite experience, competence and personal qualities
  - Should ensure board decisions are made on a sound well informed basis
  - Should encourage and promote critical discussion while facilitating expression of dissenting views
  - Should dedicate sufficient time to discharging his/her responsiblities

3C: Board Committees

- The board may create committees to deal with specific issues.
- Number of committees is commensurate with size, complexity and risk profile
- Committees should have charters setting out their mandate, scope and working procedures
- Committee chairs should be independent non-executive directors
- Committees should have minutes recording their actions

3D: Audit Committee

- An Audit Committee should:
  - Required for mid- to large-size companies
  - Separate from other committees
  - Chaired by an independent director, not Board Chair or other committee chair
  - Made up of independent, non-executive, directors
  - Include members who have experience in audit practices, accounting, and financial reporting
  - Should be the direct report for internal auditors and whistleblowers raising issues related to financial matters
  - It is imperative to prevent management from controlling the internal audit function

3D: Audit Committee - Continued

- Audit Committee is responsible for:
  - Framing policy on internal audit and financial reporting
  - Overseeing the financial reporting process
  - Provide oversight of internal and external auditors
  - Approving/recommending choice of external auditor
  - Reviewing the audit scope and schedule
  - Receiving key audit reports and assuring management takes corrective action
  - Overseeing establishment of accounting policies
  - Reviewing 3rd party opinions on risk governance framework and internal control system

- Roll Video #9 Audit Committee Chairs: Tips for Effective Audit Committees

3E: Risk Committee

- Risk Committee should:
  - Be required for mid- to large-size companies
  - Should be distinct form all other committees
  - Have a chair that is an independent director
  - Include a majority of members who are independent
  - Include members experienced in risk management issues and practices
  - Discuss risk strategies and risk appetite and make recommendations
  - Review risk policies at least annually
  - Oversee that management has P&P in place to assure adherence to risk policies

3E: Risk Committee - Continued

- The risk committee is responsible for :
  - Advising board on current and future risk appetite
  - Overseeing management implementation of the RAS
  - Reporting on state of risk culture
  - Overseeing the Chief Risk Officer (CRO)
  - Overseeing strategies for capital and liquidity management
  - Overseeing risks such as credit, market, operational and reputational
  - Evaluating regular reporting from CRO and relevant functions
  - Communicating and coordinating effectively with the audit committee
  - Evaluating the need to adjust the risk governance framework

- Roll Video #9a What should the top priorities of a Risk Oversight Committee be?

3F: Compensation Committee

- Required for larger companies
- Oversees the remuneration system's design and operation
- Committee should be made up of independent directors
- Ensures that payment plans are appropriate and reflective of the culture, risk appetite, performance and control environment.
- Compensation plans should not indirectly encourage inappropriate behavior on the part of management

- Roll Video #10 - ENRON

3G: Other Board Committees

- The board should establish other committees as it deems necessary
- These could include:
  - Nomination/human resources/governance committees
  - Ethics/compliance committees – These are recommended at all mid- to large-size companies
  - All committees should essentially be made up of non-executive directors
  - Directors should be selected on the basis skills and experience

3H: Conflicts of Interest

- The board should establish P&P to identify conflicts of interest which should include:
- Director's duty to avoid conflicts of interest or the appearance of such
- Examples of where potential conflicts can arise
- Rigorous review and approval process to engage in certain activities
- Director's duty to disclose matters that may result in a conflict
- Director's responsibility to abstain form voting on a conflicted issue
- Rules regarding related party transactions
- Rules regarding non-compliance

3H: Conflicts of Interest - Continued

- Board should establish a process for disclosing conflicts of interest with regulators as required by law or regulation

Board should maintain records of actions taken to deal with any conflicts of interest that may have arisen

- Roll Video #11 – Board Member-Conflicts of Interest

4: Senior Management

Under the direction and oversight of the board, senior management should carry out and manage the company's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.

- Senior management is the core group of individuals that are accountable to the board for the sound and prudent day-to-day management of the company
- Board policies should promote effective management by providing clarity on the role, authority and responsibility of the senior managers
- Senior management may also be referred to as Executive Management

4: Senior Management - Continued

- Senior managers should have:
  - The necessary experience, competencies and integrity to manage the company
  - Periodic training to remain current on their particular function
  - Provide adequate supervision and ensure activities reflect board direction
  - Ability to delegate duties while implementing a system of accountability and transparency
  - Ability to "set the tone" for the company in accordance with the board's appetite for risk

4: Senior Management - Continued

- Senior management should implement:
  - Business strategies
  - Risk management systems
  - Risk culture
  - Processes and controls for managing risks
  - Compliance and Audit functions
  - Internal Controls
  - Independent risk management, compliance and audit functions
  - Processes to avoid interfering in the exercise of duties in the risk management, compliance and audit functions

4: Senior Management - Continued

- Senior management reports to the board
- Provides the board with the information it needs to carry out its responsibilities
  - Changes in business or risk strategy/risk appetite
  - Company financial condition and performance reports
  - Breaches of risk limits or compliance rules
  - Internal control failures
  - Legal and regulatory concerns
  - Issues raised through the whistleblower program

5: Governance of Group Structure

In a holding company structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities. The board and senior management should know and understand the holding company's organizational structure and the risks that it poses. The parent company should be aware of the material risks and issues affecting the company and its subsidiaries, exercise oversight, and respecting independent legal and governance responsibilities

5: Governance of Group Structure - Continued

A. Parent Company Boards
B. Subsidiary Boards
C. Complex/Opaque Structures

5A: Parent Company Boards

- The parent company should be aware of the material risks and issues affecting the company and its subsidiaries, exercise oversight, and respecting independent legal and governance responsibilities

5A: Parent Company Boards-Continued

- Parent Company should:
  - Establish a governance framework with clearly defined roles and responsibilities
  - Define an appropriate subsidiary board and management structure
  - Assess whether governance framework includes necessary P&P
  - Assess whether the framework addresses risk across the group
  - Assure the framework addresses conflicts of interest
  - Assure that there are effective communications across the group
  - Have ability to monitor compliance across the group
  - Establish an effective internal audit function

5B: Subsidiary Boards

- Subsidiary boards and senior management are responsible for developing risk management processes for their entities
  - Support risk management at a group level
  - Have proper input into P&P from parent company
  - Responsible for assuring compliance with applicable laws and regulations

5C: Complex or Opaque Structures

- Companies create structures for legal, regulatory, and tax purposes
  - The number of such entities increases complexity and in turn makes managing risk more difficult
  - Board and senior management must assure, despite complexity, that risks are properly identified and mitigated through the risk management process.
  - Board and senior management must ensure that proper and effective P&P are in place to deal with risks
  - Board and senior management must assure that all activities and structures are subject to regular internal and external audit

6: Risk Management Function

Companies should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board

A. Role of the Chief Risk Officer

- Key activities should include:
  - Developing and Implementing an enterprise-wide Risk governance framework
    - Identifying the risks the company is exposed to
    - Measuring the level of risk present
    - Monitoring risk levels
    - Controlling risk through P&P and board reporting
    - Evaluating new products or initiatives prior to roll out

6: Risk Management Function - Continued

- Risk management function should be independent from the operations of the company and be able to challenge business units regarding risk arising from their activities
- Risk management function should be sufficiently staffed with individuals who possess the requisite skills, experience, and qualifications necessary to properly implement the risk management program
- Risk management staff should have access to training in order to maintain skills and effectiveness

6A: Role of the Chief Risk Officer

- Mortgage companies should appoint a Chief Risk Officer (CRO) with overall responsibility for the company's risk management function who is independent and has the requisite experience, knowledge and skill
- CRO is responsible for:
  - Overseeing development and implementation of risk management function
  - Supporting the board in developing the RAS and risk limits structure
  - Managing and participating in key decision making processes across the company structure

6A: Role of the Chief Risk Officer - Continued

- CRO should:
  - Have the stature, authority and skills to oversee risk management activities
  - Be independent with duties distinct from other executive functions
  - Report directly to the board or its risk committee
  - Be able to meet with the board outside the presence of executive management
- Appointment, dismissal or other changes to the CRO position should be approved by the board or its risk committee
- CRO performance, compensation and budget should be reviewed by the board or its risk committee

- Roll Video #12 - What is Enterprise Risk Management?

7: Risk Identification, Monitoring and Controlling

Risks should be identified, monitored and controlled on an ongoing company-wide and individual entity basis. The sophistication of the risk management and internal control infrastructure should keep pace with changes to the company's risk profile, to the external risk landscape and in industry practice

- Risk governance framework should include:
  - Policies and Procedures
  - Control procedures and processes

7: Risk Identification, Monitoring and Controlling - Continued

- Risk identification should:
  - Encompass all material risk
  - A risk assessment process that identifies current and emerging risks in all business units
  - Risk assessment should be conducted on an ongoing basis to capture emerging risks
  - Risk assessment should also encompass the development of new products or business initiatives
- Risk measurement should include qualitative and quantitative elements

7: Risk Identification, Monitoring and Controlling - Continued

- Internal controls should be designed to ensure that each key risk has an associated policy and control element to assure that it is being applied and works as intended
- Internal controls provide reasonable assurance that financial and management information is reliable, timely and complete
- Internal controls also assure that the company is in compliance with policies, laws and regulations
- Internal controls serve as a check on managerial and employee discretion

- Roll Video #13 – Operational Risk Heat Map

7: Risk Identification, Monitoring and Controlling - Continued

- Internal audits and reviews should have escalation procedures as a key element of the internal control system
- The sophistication of the risk management infrastructure should match the company's complexity and risk profile
- Companies should have accurate internal and external data to be used to identify, assess and mitigate risk, make strategic business decisions and determine the adequacy of capital and liquidity levels
- Board and senior management should be apprised of the assumptions used in risk models and analyses and potential shortcomings

- Roll Video #14 – An Overview of Internal Audit Procedures
- Roll Video #15 – Risk-based Audits

7: Risk Identification, Monitoring and Controlling - Continued

- Stress tests and scenario analyses should be used as part of qualitative and quantitative analysis:
  - Internal stress tests using reasonable assumptions covering a range of scenarios should be documented and presented to the board and management
  - Risk management function should recommend actions where appropriate
  - Test results should be incorporated into reviews of risk appetite, capital and liquidity assessment and planning processes, and budgets
  - Risk management function should communicate the results of stress tests and scenario analyses to the relevant business lines and individuals

7: Risk Identification, Monitoring and Controlling - Continued

- The company should regularly compare actual performance against expected results and make appropriate adjustments
- Risk management function should:
  - Evaluate methods to mitigate risk exposure
  - May direct reduction or hedging of risk
  - Obtain board permission to accept risk beyond stated limits temporarily or take risks that cannot be mitigated
- Outsourcing risks should be specifically addressed if the company uses outside vendors.

- Roll Video #16 – Vendor Management-6 Basic Questions

8: Risk Communication

An effective risk governance framework requires robust communication within the company about risk, both across the organization and through reporting to the board and senior management

- Strong risk culture encourages open communication about risk
- Board and senior management should be kept informed so they can make educated decisions
- Developing risks should be presented immediately for action
- Regular reporting should be accurate, concise, and meaningful
- Reporting should provide a complete picture of risk environment

9: Compliance

The board of directors is responsible for overseeing the management of compliance risk. The board should establish a compliance function and approve the policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk

- An independent compliance function must be established
- Compliance function should evaluate compliance with applicable laws, regulations and policies
- Must report directly to the board
- Must have sufficient stature, authority, independence, resources and access to the board

10: Internal Audit

The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the company

- An effective and efficient internal audit function constitutes the third line of defense in the system of internal control
- Should have sufficient stature, authority, independence, resources and access to the board

10: Internal Audit - Continued

- Effectiveness dependent upon:
  - Full access to ALL information
  - Mandate to independently assess effectiveness and efficacy of all areas
  - Mandate to adhere to national professional standards
  - Mandate to senior management to timely and effectively address issues
  - Mandate to perform periodic assessment of the risk governance framework
- Board and Management should respect and promote the independence of the internal audit function by:
  - Ensuring results are presented without management filtering
  - Providing direct access to the board

10: Internal Audit - Continued

- Having the internal audit function report directly to the board
- Having the Board, or committee, be responsible for selection, oversight, and dismissal of Internal Auditor.

11: Compensation

The company's remuneration structure should support sound corporate governance and risk management

- Compensation plans should promote good performance, convey acceptable risk-taking behavior and reinforce the company's operating and risk culture
- The board or subcommittee should review the remuneration plans, processes and outcomes at least annually
- The board, together with its compensation committee should approve the compensation of senior executives, including the CEO, CRO and head of internal audit

12: Disclosure and Transparency

The governance of the company should be adequately transparent to its shareholders, other relevant stakeholders and market participants

- The objective of transparency in the area of corporate governance is to provide these parties with the information necessary to enable them to assess the effectiveness of the board and senior management in governing the company
- Transparency may be limited to dependent upon structure
- Transparency must be provided for regulators to adequately have oversight of the business

13: Role of Regulators

Supervisors should provide guidance for and supervise corporate governance, including through comprehensive evaluations and regular interaction with boards and senior management, should require improvement and remedial action as necessary, and should share information on corporate governance with other regulators

- Supervisors should have processes in place to fully evaluate a company's corporate governance. The evaluations should include regular communication with the board of directors, senior management, those responsible for the risk, compliance and internal audit functions, and external auditors