

CONSULTATION PAPER

P009-2018

April 2018

Proposed Guidelines on Individual Accountability and Conduct

MAS

Monetary Authority of Singapore

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1 Preface

1.1 Financial institutions (“FIs”) play critical roles in safeguarding the interests of their customers, ensuring that markets operate in a fair, orderly, and transparent manner, and protecting the integrity of the financial system. FIs are responsible for establishing and maintaining standards of proper conduct in their business and interaction with customers and other stakeholders. Collectively, FIs should establish industry norms of desirable behaviour and ethical business standards, to ensure that consumer protection, market conduct, and risk management objectives are met.

1.2 The manner in which an FI conducts its business and deals with customers and other stakeholders is ultimately shaped by the attitude and behaviour of its Board, senior management, and employees at all levels of the organisation. The Monetary Authority of Singapore (“MAS”) is proposing to introduce Guidelines on Individual Accountability and Conduct (the “Guidelines”), to reinforce FIs’ responsibilities in three key areas:

- (i) promoting the individual accountability of senior managers;
- (ii) strengthening the oversight of employees in material risk functions (“MRFs”); and
- (iii) embedding standards of proper conduct among all employees.

1.3 The Guidelines set out five outcomes which FIs are expected to work towards through implementing appropriate policies and processes to address MAS’ expectations underpinning each outcome.

1.4 MAS also sets out how the Guidelines are positioned in its three-pronged approach towards fostering sound culture and conduct in the financial sector. Ultimately, good culture is fundamental to a trusted and ethical financial eco-system that inspires confidence in consumers of FIs’ products and services, and upholds fair, orderly, and efficient markets.

1.5 MAS invites comments from FIs and other interested parties on the Guidelines.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.6 Please submit written comments by 25 May 2018 to –

Markets Policy & Infrastructure Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
Fax: (65) 6220 3973
Email: mas_mcp@mas.gov.sg

1.7 Electronic submission is encouraged. Please use this [format](#) for your submission to ease our collation efforts.

2 MAS' Approach to Culture and Conduct

2.1 Globally, there has been increased focus on the manner in which FIs conduct their business, and interact with their customers and other stakeholders. Incidents of misconduct and egregious risk-taking in the financial industry have undermined public trust and confidence in FIs, with poor culture being one of the root causes.

2.2 MAS has been intensifying our regulatory and supervisory emphasis on FIs' culture and conduct, via a three-pronged approach:

(i) **Promote and Cultivate**

MAS works with industry players and stakeholders to promote a culture of trust and ethical behaviour in the financial sector. It is widely acknowledged that rules and regulations alone are insufficient in influencing behaviour. MAS strives to shift the industry away from mechanistic compliance with rules and a box-ticking mentality, and elevate the industry beyond doing what is permitted or legal to doing what is right and ethical. MAS thus engages FIs and their Board and senior management in regular dialogues, to cultivate mindshare and awareness, understand operational challenges, and facilitate sharing of good practices. MAS also collaborates with industry associations to promulgate good market practices, and issues guidance to clarify our expectations of FIs where appropriate.

(ii) **Monitor and Assess**

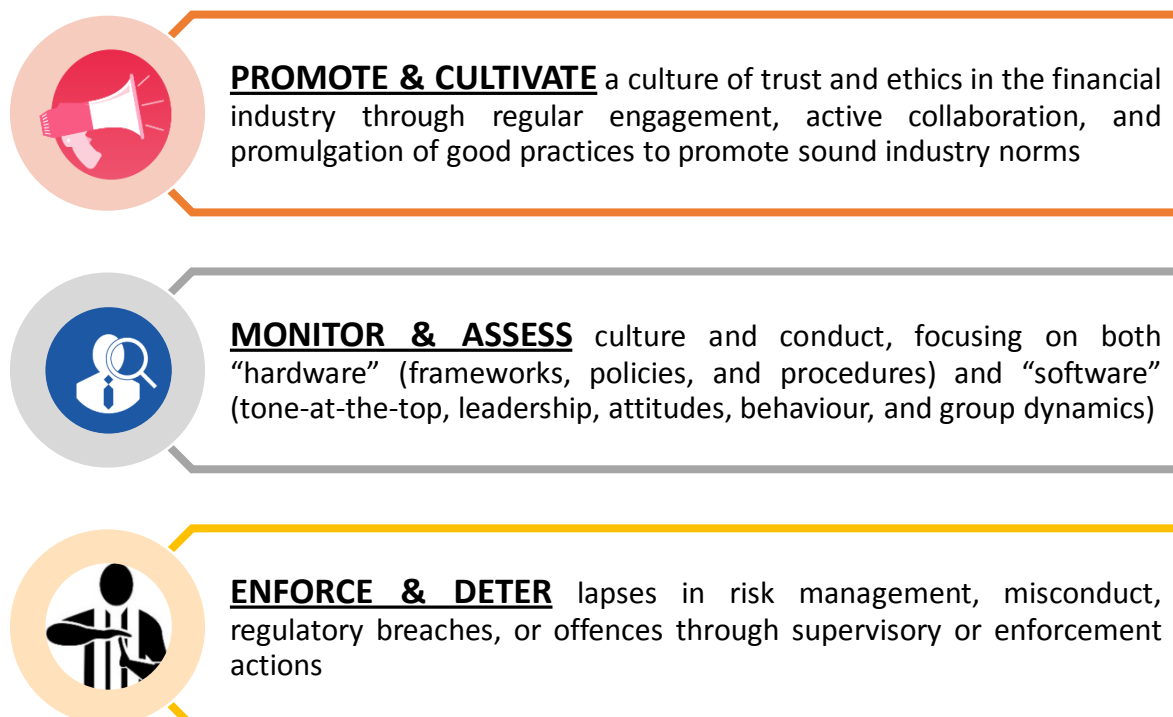
MAS monitors and assesses FIs' culture and conduct as part of our supervision. This has been an important aspect of our pre-emptive and anticipatory supervision, as timely identification and diagnosis of weak culture and poor ethics can mitigate the impact and risks of downstream control deficiencies and misconduct. Hence, in our supervisory assessments, MAS goes beyond an FI's frameworks, policies, and procedures (i.e. the "hardware"), to also focus on the values, attitudes, and behaviour of the FI's Board, senior management, and employees (i.e. the "software"). MAS evaluates whether an FI has a supportive culture that incentivises the right behaviour, and looks out for potential red flags such as whether risk and control functions have been sufficiently empowered, and whether incentive structures bring about ethical behaviour and responsible risk-taking. MAS also leverages data analytics to perform on-going surveillance of FIs' practices.

(iii) **Enforce and Deter**

MAS takes supervisory or enforcement actions against FIs and individuals where lapses in risk management, misconduct, regulatory breaches, or offences have occurred. MAS can exercise a wide range of actions, including issuing warning or reprimand letters, imposing supervisory conditions, directing an FI to remove its director or executive officer, compounding an offence, revoking an FI's licence, imposing civil penalties, or referring cases to the Attorney's General Chambers for criminal prosecution. The actions taken must be commensurate with the severity and nature of the misconduct or breach, and be sufficiently adequate to achieve effective deterrence.

2.3 The three-pronged approach recognises that good culture is driven by internal leadership and self-discipline within the FIs, as well as effective supervisory efforts by the regulator. It also emphasises that FIs, their Boards, senior management, and employees, as well as MAS, are collective stakeholders in the culture and conduct agenda.

Figure 1: MAS' three-pronged approach on culture and conduct



3 Guidelines on Individual Accountability and Conduct

3.1 The first prong of MAS' approach to culture and conduct encapsulates the objective of providing guidance on expected standards of conduct to elevate FIs' practices. This forms the premise on which MAS is proposing to issue a new set of Guidelines on Individual Accountability and Conduct (the "Guidelines").

3.2 The Board and senior management have important roles in establishing the strategy, risk appetite, and organisational culture of an FI. They are entrusted to be the custodians of effective governance, which is a pre-requisite for robust oversight and management of the FI's business and risks. The Board and senior management are also responsible for ensuring that the appropriate policies and processes are in place to embed risk ownership at all levels of the organisation, and encourage behaviour that is in line with the organisation's desired culture.

3.3 Major jurisdictions, including the United Kingdom ("UK"), Hong Kong, and Australia, have introduced regulatory regimes aimed at strengthening the individual accountability of directors and senior managers, and raising standards of conduct across the financial industry¹. The Financial Stability Board ("FSB") has also published a toolkit on measures to strengthen governance frameworks and mitigate misconduct risks, including in the area of individual accountability².

3.4 MAS has in place existing legislation and guidelines³ that address many elements of the accountability and conduct regimes of other jurisdictions. The proposed Guidelines

¹ These include the UK's Senior Managers and Certification Regime and Conduct Rules, Hong Kong Securities and Futures Commission's Managers-in-Charge Regime, and Australia's Banking Executive Accountability Regime.

² The toolkit developed by the FSB Working Group on Governance Frameworks (WGGF) sets out measures that national authorities and firms can consider implementing, as appropriate to their circumstances, to mitigate misconduct risk. Apart from individual accountability, the toolkit also addresses cultural drivers of misconduct and the issue of rolling bad apples. The toolkit can be accessed at the following link: <http://www.fsb.org/2018/04/fsb-publishes-toolkit-to-mitigate-misconduct-risk/>.

³ These include, but are not limited to, the Banking (Corporate Governance) Regulations 2005, Insurance (Corporate Governance) Regulations 2013, Insurance (Actuaries) Regulations 2013, Securities and Futures (Corporate Governance) Regulations 2005, Securities and Futures (Licensing and Conduct of Business) Regulations 2004, Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are Incorporated in Singapore, Guidelines on Standards of Conduct for Financial Advisers and Representatives, Guidelines on Risk Management Practices, Guidelines

are intended to supplement the existing regulatory framework, focusing particularly on the measures that FIs should put in place to promote ethical behaviour and responsible risk-taking, and strengthen the accountability of senior managers for the actions of their staff and the conduct of the business under their purview.

3.5 Specifically, the Guidelines seek to promote the individual accountability of senior managers⁴, strengthen oversight of employees in MRFs, and reinforce standards of proper conduct among all employees. It sets out *five* accountability and conduct outcomes that FIs are expected to work towards:

- (i) Outcome 1: Senior managers who have responsibility for the management and conduct of functions that are core to the FI's operations are clearly identified.
- (ii) Outcome 2: Senior managers are fit and proper for their roles, and held responsible for the actions of their staff and the conduct of the business under their purview.
- (iii) Outcome 3: The FI's governance framework is supportive of and conducive to senior managers' performance of their roles and responsibilities. The FI's overall management structure and reporting relationships are clear and transparent.
- (iv) Outcome 4: Employees in MRFs⁵ are fit and proper for their roles, and subject to effective risk governance as well as the appropriate standards of conduct and incentive structure.
- (v) Outcome 5: The FI has a framework that promotes and sustains the desired conduct among all employees.

on Fit and Proper Criteria, and Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers, as applicable to the relevant FI.

⁴ For the purpose of these Guidelines, "senior managers" refer to individuals who are employed in an executive capacity by, and are principally responsible for the day-to-day management of, the FI. These include, but are not limited to, the senior managers performing core management functions (CMFs) as described in paragraph 5.3 and Annex B of this consultation paper. Where "senior management" is used, this refers to an FI's team of senior managers collectively.

⁵ Please refer to paragraph 5.15 of the consultation paper for MAS' proposed definition of employees in MRFs.

3.6 MAS recognises that fostering proper accountability and conduct goes beyond instituting rules and regulations on the obligations of FIs and individuals. Embedding and entrenching the right mindset and behaviour require commitment from the Board and senior management to set the appropriate tone at the top, and establish policies and processes that are aligned with and help to reinforce the espoused values. The outcomes-based approach is thus intended to facilitate FIs' implementation of the Guidelines in a proportionate manner, as relevant to the nature, size, and complexity of their operations. FIs have the flexibility to explore different means of achieving these outcomes, taking into account their specific organisational structure, business model, and context. In addition, the outcomes provide clear benchmarks for FIs to work towards in establishing industry norms on culture and conduct.

3.7 Consistent with the second prong of MAS' approach to culture and conduct, MAS will review the robustness of FIs' governance arrangements and measures to achieve the objectives and spirit of the Guidelines through our on-going supervisory process, including inspections, supervisory visits, and meetings with the Board, senior management, and other employees. Relevant observations will be taken into account as part of MAS' supervisory assessments of the FIs, including assessments on the effectiveness of the Board and senior management.

3.8 Finally, as set out in the third prong of MAS' approach to culture and conduct, MAS will take appropriate supervisory actions where FIs and their Board and senior management do not meet the expectations under the Guidelines, and/or demonstrate an unwillingness or inability to take remedial actions. This could include issuing warning or reprimand letters, or imposing conditions on the FI's activities, depending on the nature and severity of the deficiencies observed.

3.9 For the avoidance of doubt, these Guidelines do not supersede existing laws and regulations. Where misconduct, regulatory breaches, or offences have occurred, MAS will take the necessary enforcement action against the FI and/or the relevant director, senior manager, or employee.

3.10 The rest of the consultation paper focuses on the Guidelines. Section 3 sets out the proposed scope of application. Section 4 discusses the key considerations and guiding principles underlying the five outcomes.

4 Applicability of the Guidelines

4.1 As the underlying principles of clarity in individual responsibilities and proper conduct are applicable across the financial sector, MAS proposes to apply the Guidelines to banks, insurers, and capital markets intermediaries and infrastructures as follows:

- (i) a bank licensed under section 4(1) of the Banking Act (Cap. 19);
- (ii) a merchant bank approved under section 28(2) of the Monetary Authority of Singapore Act (Cap. 186);
- (iii) a finance company licensed under section 3(1) of the Finance Companies Act (Cap. 108);
- (iv) an insurer licensed under section 8(5) of the Insurance Act (Cap. 142) (“IA”);
- (v) a foreign insurer operating in Singapore under a foreign insurer scheme established under section 35B of the IA;
- (vi) an approved exchange under section 8(1) of the Securities and Futures Act (Cap. 289) (“SFA”);
- (vii) an approved clearing house under section 51(1)(a) of the SFA;
- (viii) an approved holding company under section 81W of the SFA;
- (ix) a holder of a capital markets services licence under section 82(1) of the SFA;
- (x) a financial adviser licensed under section 6(1) of the Financial Advisers Act (Cap. 110); and
- (xi) a trust company licensed under section 3(1) of the Trust Companies Act (Cap. 186).

4.2 For locally-incorporated banks and insurers, MAS proposes to apply the Guidelines on a group basis⁶. This is in line with MAS' approach towards consolidated supervision, and our expectation that effective governance arrangements, including proper accountability and conduct, are consistently embedded across all entities within a group. The implications of applying the Guidelines on a group basis are elaborated upon under each outcome in Section 5 below, where relevant.

Question 1. MAS seeks comments on (i) the proposed scope of application of the Guidelines, and (ii) whether there are operational challenges or practical difficulties in applying the Guidelines on a group basis for locally-incorporated banks and insurers.

5 Proposed Outcomes and Considerations

Outcome 1: Senior managers who have responsibility for the management and conduct of functions that are core to the FI's operations are clearly identified.

5.1 The Chief Executive Officer ("CEO") and the senior management team across the business, risk management, control, and support functions, are responsible for managing the FI's affairs. These include the FI's day-to-day operations and conduct of business, compliance with the applicable laws and regulations, and safety and soundness.

5.2 Clarity in individual responsibilities and the FI's overall management structure ensures that senior managers are held to account for matters under their purview. This is fundamental to an effective governance framework, and facilitates greater transparency

⁶ For locally-incorporated banks and insurers that are headquartered in Singapore, this refers to the group including the holding company in Singapore, as well as local and overseas subsidiaries and branches, where applicable. For locally-incorporated subsidiaries of foreign banks and insurers, this refers to the local operations in Singapore and downstream subsidiaries and branches in Singapore and overseas, where applicable.

in the management and decision-making processes of the FI. Conversely, if an FI is unable to clearly articulate these roles and reporting relationships, this could be telling of senior managers' poor understanding of their roles, or of the FI being too large or complex for senior managers to exercise effective oversight.

5.3 MAS proposes that FIs should clearly identify senior managers who have responsibility for functions that are core to the management of the FI's affairs, including but not limited to the Core Management Functions ("CMFs") set out in Annex B. FIs should review how each CMF applies in the context of their operations in Singapore and, for locally-incorporated banks and insurers, across the group, and identify the senior managers who have actual decision-making authority and oversight of each function. Seniority within the organisation should also be taken into account in the identification of senior managers. Apart from the CEO who is directly accountable to the Board or Head Office, senior managers should in general have direct reporting lines to the CEO and, where relevant to the performance of that function, to the Board or Head Office as appropriate⁷.

5.4 FIs may, in certain circumstances, determine that more than one senior manager have responsibility for a certain function⁸. In such cases, FIs should ensure that the underlying principle of proper accountability is met, with clarity in each senior manager's scope of authority and reporting lines. Likewise, where the activities of a function have been outsourced, FIs should identify the senior manager who has responsibility for making decisions on and overseeing the outsourced function, and reporting directly to the CEO and Board or Head Office, as applicable, on the activities of that function.

5.5 FIs may designate senior managers who are based in Singapore or overseas. MAS recognises that it may be impractical for FIs to base all their senior managers in Singapore, or designate only employees who are based in Singapore as senior managers under the Guidelines if, in substance, these local employees do not have the relevant mandates or decision-making authority. This is particularly the case for foreign FIs operating in Singapore. Holding an employee in Singapore accountable for decisions that are

⁷ For example, the Head of Internal Audit (paragraph 1(m) of Annex B) should have a direct reporting line to the Board Audit Committee or the FI's Head Office, as applicable.

⁸ For example, a decision on on-boarding politically exposed persons as clients, or retaining customers with higher money laundering or terrorism financing risks, would normally involve the Head of the relevant Business Function (paragraph 1(h) of Annex B) and the Heads of Compliance and/or Financial Crime Prevention (paragraphs 1(k) and 1(l), respectively, of Annex B).

effectively taken overseas, or vice versa, is neither appropriate nor in line with the objectives and spirit of Outcome 1. FIs have to ensure that the identification of each senior manager reflects where actual oversight responsibilities and decision-making authority reside in practice, regardless of his or her physical location.

5.6 In identifying senior managers, FIs should ensure that all material aspects of their operations⁹, including but not limited to the CMFs, are subject to the appropriate management oversight. For locally-incorporated banks and insurers, material aspects of their operations will, in line with the application of these Guidelines on a group basis, normally include significant subsidiaries and branches of the group, whether located in Singapore or overseas. For example, the CEO of a significant overseas subsidiary should be identified as the Head of a Business Function¹⁰.

5.7 For the avoidance of doubt, directors are considered senior managers under the Guidelines, only to the extent that they are employed in the capacity of an executive function within the FI. For such executive directors, the Guidelines address the issue of accountability specifically as regard to their role as senior managers concerned with or taking part in the day-to-day management of the FI's affairs. The roles and responsibilities of directors are separately set out in other existing legislation and guidelines, as applicable to the relevant FI¹¹.

Question 2. MAS seeks comments on Outcome 1, and whether there are operational challenges or practical difficulties in identifying senior managers with responsibility

⁹ FIs may consider various metrics in identifying functions which are material to their business. These may include, but are not limited to, the relative size of a function in terms of its number of employees, asset, profit or revenue contribution, capital attribution, gross premium contribution, or assets under management vis-à-vis other functions, as applicable to the FI.

¹⁰ Please refer to paragraph 1(h) of Annex B for the definition of the Head of Business Function.

¹¹ These include the various Acts specified under paragraph 4.1 of this consultation paper, the Banking (Corporate Governance) Regulations 2005, Insurance (Corporate Governance) Regulations 2013, Securities and Futures (Corporate Governance) Regulations 2005, Securities and Futures (Licensing and Conduct of Business) Regulations 2004, Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are Incorporated in Singapore, Guidelines on Risk Management Practices, and Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers, as applicable to the relevant FI.

over the FI's operations in Singapore and, for locally-incorporated banks and insurers, the group.

Question 3. MAS seeks comments on whether the proposed CMFs in Annex B are generally representative of the senior management functions in FIs, or if there are other CMFs which should be specified to reflect the nature, position of influence, and/or seniority of the function.

Outcome 2: Senior managers are fit and proper for their roles, and held responsible for the actions of their staff and the conduct of the business under their purview.

Outcome 3: The FI's governance framework is supportive of and conducive to senior managers' performance of their roles and responsibilities. The FI's overall management structure and reporting relationships are clear and transparent.

5.8 FIs are required to seek MAS' approval for the appointment of their CEOs and other senior managers, such as the Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO"), as relevant to FIs under the applicable legislation. In seeking approval, FIs have to demonstrate that the senior manager is fit and proper for the role.

5.9 The Guidelines on Risk Management Practices¹² further set out the expectation for the Board to establish fit and proper standards in appointing senior managers, and ensure an adequate succession plan to promote smooth management transition. The Board should also approve the FI's organisational structure, and ensure that adequate corporate governance frameworks and systems are in place.

¹² Please refer to <http://www.mas.gov.sg/Regulations-and-Financial-Stability/Regulatory-and-Supervisory-Framework/Risk-Management.aspx>.

5.10 Regardless of whether senior management appointments are subject to regulatory approval, FIs are responsible for conducting the necessary due diligence prior to appointing senior managers. In addition, FIs should establish the appropriate governance policies and processes to promote proper accountability, and facilitate senior managers' performance of their roles and responsibilities in an effective manner. MAS proposes to reinforce our expectation for FIs to ensure senior managers' fitness and propriety, and provide additional guidance on measures to strengthen their individual accountability.

5.11 Specifically, MAS proposes that the Board or Head Office, as applicable, should ensure the following:

- (i) robust standards and processes to assess the fitness and propriety of each senior manager, prior to appointment and on an on-going basis thereafter;
- (ii) clear specification of each senior manager's individual areas of responsibility and his or her appointment and responsibilities in management committees;
- (iii) appropriate delineation of the FI's overall management structure, including the reporting relationships among senior managers and management committees, between senior managers or management committees and the Board, and across entities within the group, as applicable;
- (iv) acknowledgement by each senior manager of his or her specified roles and responsibilities and reporting lines;
- (v) approval by the Board or Head Office, as applicable, of each senior manager's specified roles and responsibilities and the FI's overall management structure;
- (vi) documentation of each senior manager's specified roles and responsibilities and the FI's overall management structure, including timely updates where there have been material changes;
- (vii) appropriate incentive, escalation, and consequence management frameworks that hold senior managers accountable for the effective performance of their specified roles and responsibilities, including the actions of their staff and the conduct of the business under their purview; and

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- (viii) a succession plan that is regularly reviewed and updated, including the identification of potential candidates in the pipeline and appropriate handover policies and procedures to facilitate smooth transition in the senior management team.

5.12 The specification of senior managers' roles and responsibilities and the FI's overall management structure form key components of an FI's internal governance framework. FIs should determine the most effective method of maintaining these information, in a manner that accurately and comprehensively reflects their governance arrangements. MAS does not intend to require regulatory submissions from FIs on the roles and responsibilities of senior managers. As part of on-going supervision, MAS will engage FIs on the rigour of their screening and hiring processes, and review the effectiveness of FIs' governance frameworks, including the relevant policies, systems, and documentation, as well as senior managers' understanding of their areas of responsibility.

5.13 The emphasis on individual accountability does not absolve the collective accountability of management committees and vice versa. A key objective of forming management committees is to leverage the diverse views and expertise of individual members in coming to a collective decision on the FI's affairs. This should be reinforced, rather than displaced, by a strong culture of individual accountability.

5.14 In setting up management committees, FIs should establish a formal mandate and articulate the terms of reference and reporting lines for each committee. Individual senior managers constituting the committee are expected to have a robust understanding of the matters under their purview, and how these interact with the FI's business and risks. Accordingly, it is the responsibility of each senior manager to determine the issues that ought to be raised at the relevant committee meeting and make constructive contributions to the discussion, so as to facilitate more informed decision-making by the committee collectively.

Question 4. MAS seeks comments on Outcomes 2 and 3, including the guidance set out in paragraph 5.11.

Outcome 4: Employees in MRFs are fit and proper for their roles, and subject to effective risk governance as well as the appropriate standards of conduct and incentive structure.

5.15 MAS proposes to define employees in MRFs as employees whose decisions or activities could materially impact an FI's risk profile. These include but are not limited to employees in executive, business, risk management, control, or support functions who, while not senior managers, are vested with material decision-making authority or mandates which may lead to significant impact on the FIs' safety and soundness, or cause harm to a significant segment of the FIs' customers or other stakeholders. MRFs will thus include front, middle, and back office functions, as applicable to the FI, as well as any other employee with supervisory capacity over such functions. Given the nature of their roles, it is appropriate for FIs to subject such employees to more stringent oversight and higher conduct standards than employees in non-MRFs.

5.16 MAS considers that this principles-based definition of MRFs is appropriate given the varying activities, risk profile, and complexity of FIs. The proposed definition seeks to facilitate proportionate application by FIs, in a manner applicable to FIs' business models and commensurate with the nature of their business and risks. FIs are responsible for critically assessing and identifying the employees performing MRFs, and subjecting them to the necessary oversight. MAS, in its on-going supervision, will engage FIs and assess the appropriateness of their identification of MRFs in achieving Outcome 4.

5.17 MAS proposes that the Board and senior management should ensure that the appropriate standards and processes are in place to:

- (i) identify employees in MRFs, including establishing the relevant criteria for identifying such employees;
- (ii) assess the fitness and propriety of employees in MRFs, prior to their appointment and on an on-going basis thereafter, taking into account the specific nature and risk implications of their roles;
- (iii) facilitate effective risk governance, including:

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- a. subjecting employees in MRFs to the appropriate mandates, decision-making authority, risk limits, and supervisory oversight as relevant to the type(s) of activities which they undertake; and
 - b. according the necessary stature and authority to employees in MRFs where such employees perform risk management or control functions; and
- (iv) subject employees in MRFs to:
- a. standards of proper conduct in relation to the type(s) of activities they undertake;
 - b. continuing training on the competencies required for their role, risk implications of their activities, and standards of proper conduct; and
 - c. an appropriate incentive structure, including on performance evaluation, compensation, and promotion, that is aligned with the nature and time horizon of risks, and effective in encouraging behaviour that is consistent with the desired conduct outcomes.

Question 5. MAS seeks comments on Outcome 4, including the guidance set out in paragraph 5.17.

Outcome 5: The FI has a framework that promotes and sustains the desired conduct among all employees.

5.18 The manner in which an FI conducts business and interacts with customers and other stakeholders is driven by the values, attitude, and behaviour of its employees at all levels. In particular, the Board and senior management have a critical role in defining, and taking steps to actively and consistently embed, the conduct standards that they would

expect of all employees. The tone from the top, and the extent to which this is reinforced by the policies, systems, and processes of the FI, have a significant impact on the effectiveness with which the desired conduct standards are cascaded down and embedded throughout the organisation.

5.19 MAS already has in place various policies that set out requirements and guidelines on the conduct of FIs and their employees¹³. To augment the existing regulatory regime and underscore our expectations on FIs' responsibility for fostering sound conduct standards, MAS proposes that the Board and senior management should ensure that a framework is in place which addresses the following:

- (i) the standards of conduct expected of all employees, including but not limited to standards on honesty and integrity, due care and diligence, fair dealing (treating customers fairly), management of conflicts of interest, competence and continuous development, adequate risk management, and compliance with the applicable laws and regulations;
- (ii) consistent and effective communication of the expected standards of conduct, such as through a code of conduct, on-boarding and continuous training programmes, and sharing of lessons learnt where misconduct has occurred, to ensure that employees understand and observe these standards;
- (iii) the appropriate policies, systems, and processes to enforce the expected standards of conduct, including but not limited to:
 - a. regular monitoring, reporting, and escalation to the Board and senior management on matters relating to the FI's and employees' conduct;

¹³ These include, but are not limited to, the Securities and Futures (Licensing and Conduct of Business) Regulations, Notice on Minimum Entry and Examination Requirements for Representatives of Holders of a Capital Markets Services Licence and Exempt Financial Institutions, Notice on Minimum Entry and Examination Requirements for Representatives of Licensed Financial Advisers and Exempt Financial Advisers, Notice on Market Conduct Standards for Life Insurers Providing Financial Advisory Services as Defined under the Financial Advisers Act, Notice on Market Conduct Standards for Direct Life Insurer as a Product Provider, Guidelines on Standards of Conduct for Financial Advisers and Representatives, Guidelines on Fit and Proper Criteria, Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers, and Guidelines on Risk Management Practices, among others.

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- b. an incentive structure which considers risk and control objectives, as well as feedback from human resources, compliance, risk management, internal audit, and other control or support functions as applicable to the FI, in performance evaluation, compensation, and promotion decisions;
 - c. a consequence management system, including transparent investigation and disciplinary procedures; and
 - d. a formalised whistleblowing channel, including procedures to ensure adequate protection of employees who raise concerns over the FI's policies, practices, and activities via this channel; and
- (iv) engagement strategies with key stakeholders, including depositors, policyholders, investors, corporate and institutional clients and counterparties, shareholders, and regulators, to ensure transparent and timely communication of relevant material information.

5.20 The Board and senior management should notify MAS as soon as it becomes aware of any material adverse developments. These include misconduct, lapses in risk management and controls, or breaches in legal or regulatory requirements that have the potential to cause widespread disruption to the FI's day-to-day operations, services, or activities, and/or significantly impact the FI's customers or safety and soundness. MAS should also be notified in a timely manner of any information that may have material negative impact on the fitness and propriety of senior managers or employees in MRFs.

Question 6. MAS seeks comments on Outcome 5, including the guidance set out in paragraph 5.19.

Question 7. MAS seeks comments on whether there are outcomes, apart from the proposed Outcomes 1 to 5, that are useful and relevant to be included in the Guidelines, to raise standards of accountability and conduct across the financial industry.

6 Implementation Timeline

6.1 The Guidelines are targeted to be issued in 4Q 2018.

6.2 The Guidelines serve as a means for MAS to communicate our supervisory expectations in relation to individual accountability and conduct. The outcomes-based approach is intended to give FIs flexibility in establishing the appropriate governance and conduct framework to cater to the specificities of their organisational structure and promote their desired culture, while achieving the objectives and spirit of the five outcomes. MAS will adopt a consultative approach to assessing FIs' compliance with the Guidelines in the initial phase of implementation, and continue to engage FIs on the adequacy and effectiveness of their practices through our supervision.

6.3 Proper accountability and conduct are fundamental building blocks of a trusted and ethical financial sector. FIs have a collective role in promoting sound cultural norms to guide the values, attitudes, and behaviour of employees in their interaction with customers, counterparties, and other stakeholders. MAS will continue to work in partnership with FIs to foster a culture of ethical behaviour and responsible risk-taking.

Annex A

LIST OF QUESTIONS

Question 1. MAS seeks comments on (i) the proposed scope of application of the Guidelines, and (ii) whether there are operational challenges or practical difficulties in applying the Guidelines on a group basis for locally-incorporated banks and insurers. ... 11

Question 2. MAS seeks comments on Outcome 1, and whether there are operational challenges or practical difficulties in identifying senior managers with responsibility over the FI's operations in Singapore and, for locally-incorporated banks and insurers, the group. 13

Question 3. MAS seeks comments on whether the proposed CMFs in Annex B are generally representative of the senior management functions in FIs, or if there are other CMFs which should be specified to reflect the nature, position of influence, and/or seniority of the function. 14

Question 4. MAS seeks comments on Outcomes 2 and 3, including the guidance set out in paragraph 5.11. 16

Question 5. MAS seeks comments on Outcome 4, including the guidance set out in paragraph 5.17. 18

Question 6. MAS seeks comments on Outcome 5, including the guidance set out in paragraph 5.19. 20

Question 7. MAS seeks comments on whether there are outcomes, apart from the proposed Outcomes 1 to 5, that are useful and relevant to be included in the Guidelines, to raise standards of accountability and conduct across the financial industry. 20

Annex B

CORE MANAGEMENT FUNCTIONS

1 In these Guidelines, “core management functions” include the following persons, by whatever name described –

- (a) “*chief executive officer*”, who is principally responsible for the overall management and conduct of the business of the financial institution, including its subsidiaries and branches if any, in accordance with the strategy and risk appetite approved by the Board or Head Office, as applicable;
- (b) “*chief financial officer*” or “*head of finance*”, who is principally responsible for managing the financial resources and financial reporting processes of the financial institution;
- (c) “*chief risk officer*” or “*head of risk*”, who is principally responsible for establishing and implementing the risk management framework to identify, monitor, and manage the risks of the financial institution;
- (d) “*chief operating officer*” or “*head of operations*”, who is principally responsible for managing the day-to-day operations of the financial institution;
- (e) “*chief information officer*”, “*chief technology officer*”, or “*head of information technology*”, who is principally responsible for establishing and implementing the overall information technology strategy, overseeing the day-to-day information technology operations, and managing the information technology risks of the financial institution;
- (f) “*chief information security officer*” or “*head of information security*”, who is principally responsible for establishing and implementing the information security programme of the financial institution, including but not limited to information security policies and procedures to safeguard information assets, information security controls, and the management of information security breaches;
- (g) “*chief data officer*”, who is principally responsible for establishing and implementing the policies, systems, and processes of the financial institution as regard the governance, use, and analysis of data;

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- (h) *“head of business function”*, who is principally responsible for the management and conduct of a function which undertakes risk-taking activities in relation to the business of the financial institution, including –
- (i) in relation to a bank licensed under the Banking Act, the functions involving retail banking, private banking, corporate banking, institutional banking, investment banking, and treasury, and any other material function;
 - (ii) in relation to a merchant bank approved under the MAS Act, the functions involving private banking, corporate banking, institutional banking, investment banking, and treasury, and any other material function;
 - (iii) in relation to a finance company licensed under the Finance Companies Act, the functions involving retail banking, corporate banking, and treasury, and any other material function;
 - (iv) in relation to an insurer licensed under the Insurance Act, or foreign insurer operating in Singapore under a foreign insurer scheme established under the Insurance Act, as the case may be, the functions involving agency and distribution, underwriting, marketing, and investment, and any other material function;
 - (v) in relation to an approved exchange, approved clearing house, or approved holding company under the Securities and Futures Act, as the case may be, the functions involving the creation, sale and marketing of regulated products, and membership, and any other material function;
 - (vi) in relation to a holder of a capital markets services licence under the Securities and Futures Act, the functions involving any regulated activity specified in the Second Schedule of the Securities and Futures Act, and any other material function;
 - (vii) in relation to a financial adviser licensed under the Financial Advisers Act, the functions involving any regulated activity specified in the Second Schedule of the Financial Advisers Act, and any other material function; and
 - (viii) in relation to a trust company licensed under the Trust Companies Act, the functions involving any trust business specified in the First

Schedule of the Trust Companies Act, and any other material function;

- (i) *“head of actuarial”, “appointed actuary”, or “certifying actuary”*, who, in relation to a licensed insurer or foreign insurer operating in Singapore under a foreign insurer scheme, as the case may be, is principally responsible for the actuarial function, including but not limited to the approval of premium rates, valuation of liabilities, computation of protected liabilities relating to policy owners’ protection scheme, financial condition investigation, risk management, investment, and product pricing and development of the insurer;
- (j) *“head of human resources”*, who is principally responsible for establishing and implementing the financial institution’s employment policies and processes, including on recruitment, on-boarding, continuous training, performance evaluation, compensation, promotion, consequence management, and termination;
- (k) *“head of compliance”*, who is principally responsible for managing the financial institution’s compliance with the applicable laws and regulations as well as internal policies and procedures;
- (l) *“head of financial crime prevention”*, who is principally responsible for establishing and managing the policies, systems, and processes to counter the risks of the financial institution’s involvement in money laundering, terrorism financing, weapons proliferation and sanctions evasion, bribery, and corruption, as well as for filing Suspicious Transactions Reports (STRs)¹⁴;
- (m) *“head of internal audit”*, who is principally responsible for ensuring the adequacy and effectiveness of the financial institution’s internal controls, and reporting directly to the Board Audit Committee or the financial institution’s Head Office, as appropriate, on these matters; and
- (n) *“chief regulatory officer”*, who, in relation to an approved exchange, approved clearing house, or approved holding company, as the case may

¹⁴ STRs are filed with the Suspicious Transactions Reporting Office, which is part of the Singapore Police Force’s Commercial Affairs Department.

be, is principally responsible for overseeing the regulatory functions and changes to the business rules of the approved exchange, approved clearing house, or approved holding company.

