
CORPORATE GOVERNANCE

CONSULTATION ON GUIDELINES AND REGULATIONS

24 February 2003

INVITATION TO COMMENT

The Monetary Authority of Singapore (“MAS”) invites public comment on the proposed guidelines and regulations on corporate governance. Please submit your written comments to MAS by 24 Mar 2003. Your comments should be addressed to:

Complex Institutions Supervision Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
Attention: Corporate Governance Team

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Please note that all submissions may be made public unless you have specifically requested for confidentiality of the whole or part of your submission.

TABLE OF CONTENTS

SECTION 1: GUIDELINES ON CORPORATE GOVERNANCE

| | |
|--|----|
| What is Corporate Governance? | 6 |
| Alignment with Code of Corporate Governance | 6 |
| Definition | 7 |
| Principles of Corporate Governance | |
| Principle 1: Every Institution should be headed by an effective Board. | 9 |
| Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently from management and substantial shareholders. | 10 |
| Principle 3: The Board should set and enforce clear lines of responsibility and accountability throughout the Institution. | 11 |
| Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. | 12 |
| Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board. | 13 |
| Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis by the management. | 14 |
| Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors No director should be involved in deciding his own | |

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

| | |
|---|----|
| remuneration. | 15 |
| Principle 8: The level and composition of remuneration should be appropriate to attract, retain and motivate the directors to perform their roles and carry out their responsibilities. | 16 |
| Principle 9: The Board should establish an Audit Committee with a set of written terms of reference that clearly sets out its authority and duties. | 17 |
| Principle 10: The Board should ensure that there is an adequate risk management system and sound internal controls. | 18 |
| Principle 11: The Board should ensure that an internal audit function that is independent of the activities audited is established. | 19 |
| Principle 12: The Board should ensure that management formulates policies to ensure dealings with the public, the Institution's policyholders and claimants, depositors and other customers are conducted fairly, responsibly and professionally. | 21 |
| Principle 13: The Board should ensure that related party transactions with the Institution are made on an arm's length basis. | 21 |
| SECTION 2: DISCLOSURE | |
| Disclosure in the Annual Reports in respect of Corporate Governance for Institutions which are listed on the Singapore Exchange | 23 |
| SECTION 3: REGULATIONS ON CORPORATE GOVERNANCE | |
| Banking (Corporate Governance) Regulations 2003 | 27 |
| Insurance (Corporate Governance) Regulations 2003 | 38 |

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

THE MONETARY AUTHORITY OF SINGAPORE

24 February 2003

GUIDELINES ON CORPORATE GOVERNANCE FOR BANKS WHICH ARE INCORPORATED IN SINGAPORE AND DIRECT INSURERS WHICH ARE INCORPORATED IN SINGAPORE (“THE GUIDELINES”)

1 The Guidelines apply to all banks which are incorporated in Singapore and direct insurers which are incorporated in Singapore. They are issued to provide guidance on best practices that the bank or direct insurer should adhere to in relation to corporate governance. The Guidelines do not apply to marine mutuals. They should however be cognisant of the principles and guidance notes mentioned in the Guidelines, and ensure that a sufficient level of governance is in place.

2 These Guidelines should be read in conjunction with the provisions of the Banking Act or the Insurance Act as the case may be, the relevant Corporate Governance Regulations¹ issued pursuant to either of the Acts as well as written directions, codes and other guidelines that the Monetary Authority of Singapore (“the Authority”) may issue from time to time.

3 The Authority expects all banks and direct insurers, which are incorporated in Singapore, to:

- (a) observe the Guidelines; and
- (b) disclose any non-observance of the Guidelines, together with appropriate explanations and alternative measures taken in place of the Guidelines, in their annual reports or printed accounts.

4 The Guidelines comprise 2 Sections. Section 1 which contains 13 principles of corporate governance, applies to all banks and direct insurers, which are incorporated in Singapore. Section 2 which deals with disclosure in the annual reports, applies only to Institutions listed on the Singapore Exchange.

¹ Some of the guidelines are mandatory as they have been set out in the draft Banking (Corporate Governance) Regulations 2003 and draft Insurance (Corporate Governance) Regulations 2003.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

What is Corporate Governance?

5 Corporate governance refers to the processes and structures by which the business and affairs of an Institution are directed, managed and controlled. The board of directors is responsible for directing the management of the Institution. Besides its obligations to the shareholders, the board of directors of an Institution has a duty to act in the best interest of the Institution and to ensure that the Institution has sufficient resources to meet its obligations to other stakeholders, in particular a bank's depositors or an insurer's policyholders.

6 In an increasingly uncertain business environment as a result of globalisation and rapid changes, good corporate governance is crucial to ensure that the businesses of Institutions are managed safely and soundly. Poor governance can affect public confidence in the financial system and markets.

7 It is thus important for banks and insurers to incorporate good corporate governance in their companies. The board of directors of every Institution should be fully acquainted with the principles of sound governance and is responsible for ensuring that an adequate governance structure is in place.

Alignment with Code of Corporate Governance

8 The Guidelines are built upon the Code of Corporate Governance² ("Code") issued in 2001 by the Corporate Governance Committee, set up by the Ministry of Finance, the Authority and Attorney-General's Chambers. In line with the objectives of the Authority in safeguarding the interests of depositors and policyholders, certain principles have been enhanced and added in the Guidelines. The additions include the need for the Institutions to formulate policies that will ensure that dealing with the public and the Institution's customers are conducted fairly, responsibly and professionally, and the need for related party transactions to be on an arms-length basis. Disclosure in respect of the Institution's corporate governance practices are also required of Institutions which are listed on the Singapore Exchange.

² The Code can be found at www.ccdg.gov.sg.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Definition

9 In the Guidelines,

“appointed actuary” means the actuary appointed by an insurer pursuant to section 31 of the Insurance Act (Cap 142);

“associate” has the same meaning as in section 15B (4)(c) of the Banking Act (Cap. 19)

“bank” has the same meaning as in section 2(1) of the Banking Act;

“Board” means board of directors;

“corporation” has the same meaning as in section 4(1) of the Companies Act (Cap. 50);

“direct insurer” has the same meaning as in section 2(1) of the Insurance Act;

“independent director”, in relation to a bank which is incorporated in Singapore has the same meaning as in regulation 3(1) of the Banking (Corporate Governance) Regulations 2003

“independent director” in relation to a direct insurer which is incorporated in Singapore, has the same meaning as in regulation 3(1) of the Insurance (Corporate Governance) Regulations 2003;

“Institution” means any bank or any direct insurer, which is incorporated in Singapore;

“Principal Officer” has the same meaning as in section 31 of the Insurance Act;

“Significant institution” means: -

- (a) any bank which is incorporated in Singapore; or
- (b) any direct insurer, not being a marine mutual, which is incorporated in Singapore and which has in its Singapore Insurance Fund and Offshore Insurance Fund, total assets of:-
 - (i) in the case of an insurer carrying on life business, S\$5 billion;

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- (ii) in the case of an insurer carrying on general business, S\$500 million;
as specified in Part I of Form 1 in the First Schedule to the Insurance (Accounts and Statements) Regulations (Rg. 2) and lodged by the direct insurer for the accounting period in the preceding year.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

**PRINCIPLES AND GUIDANCE NOTES
OF CORPORATE GOVERNANCE****Board Matters****Board's Conduct of its Affairs****Principle 1: Every Institution should be headed by an effective Board.**

The Board plays a critical role in the successful operation of the Institution. While the Board may delegate day-to-day management of the Institution to the management and their officers, the Board should bear responsibility for ensuring sound and prudent policies and practices. Besides the objective of maximising shareholders' value, the Board also has a responsibility towards the Institution's depositors or policyholders to safeguard their interests through its oversight of the management of the Institution.

Guidance Notes

- 1.1 The Board should establish corporate values for the Institution to ensure the professional conduct of the business. These values should emphasise, among others, integrity, honesty and proper conduct when dealing with situations where there are conflicts of interest, both in internal dealings and external transactions. The Board should establish policies to strengthen the Institution's values.
- 1.2 The Board should establish long-term strategic objectives for the Institution, including those that ensure that the Institution's financial obligations to its depositors or policyholders are fully met. These objectives should take into account the Institution's risk appetite and its risk management capabilities. The Board should also set out the means of attaining these objectives and procedures for monitoring and evaluating their progress towards these objectives.
- 1.3 The Board should meet regularly and as warranted by particular circumstances, as deemed appropriate by the Board members. The Board should ensure that it has due notice of issues to be discussed and all relevant information to enable it to properly consider the issues.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- 1.4 Institutions should adopt internal guidelines setting forth matters that require the Board's approval.
- 1.5 Every director should receive appropriate training on how to discharge his duties when he is first appointed to the Board. This should include a familiarisation programme on the Institution's business and risk profile, governance practices, internal controls and risk management processes. The programme should also include a briefing on the duties and responsibilities as a director. Directors should also be cognisant of relevant laws and regulations applicable to the Institution.
- 1.6 The Board should ensure that the Institution complies with the relevant Acts and Regulations, as well as Notices, Circulars, Guidelines and other Directives issued by the Authority.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently from management and substantial shareholders.

The likelihood that the Board as a whole, acts in the best interests of the Institution independently of management and other interests is enhanced when there is a strong independent element on the Board that has a significant influence on its decision-making.

Guidance Notes

- 2.1 Independent directors should make up at least *one-third* of the Board³.
- 2.2 The Board should examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective

³ In the draft Banking (Corporate Governance) Regulations 2003 and the draft Insurance (Corporate Governance) Regulations 2003, which will apply to Significant Institutions (except that the provisions on Audit Committee in the Insurance (Corporate Governance) Regulations will apply to all direct insurers incorporated in Singapore), the board of directors shall comprise a majority of independent directors.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

decision-making. In doing so, the Board should take into account the scope and nature of the operations of the Institution.

- 2.3 The Board should be comprised of directors who as a group, provide core competencies such as accounting and finance, business or management experience, industry knowledge, strategic planning and risk management experience. In aggregate, the members of the Board should also have sufficient experience and knowledge of the financial sector in general and the banking or insurance industries as the case may be, in particular, to carry out their responsibilities.

Maintaining clear lines of responsibility between the Board and the management

Principle 3: The Board should set and enforce clear lines of responsibility and accountability throughout the Institution.

An effective and accountable Board should have clear and defined roles for the Board and the Institution's management. The Board is chiefly responsible for charting corporate strategy, monitoring managerial performance and maximising returns for shareholders, while preventing conflicts of interest and balancing competing demands on the Institution. On the other hand, management has the general executive responsibility for the conduct of business and affairs of the Institution. Management is responsible for creating an accountability hierarchy for the staff, but should be cognisant of the fact that they are ultimately accountable to the Board for the performance of the Institution.

The job functions of a Chairman and a Chief Executive Officer ("CEO") in the case of a bank or a Principal Officer ("PO"), in the case of an insurer, are distinct. The Chairman is entrusted with running the Board while the CEO/PO, on the other hand, is appointed by and accountable to the Board and is tasked to run the Institution and implement the policies and strategies adopted by the Board.

Guidance Notes

- 3.1 The Board should define its own role and that of management, discuss and approve the organisational structure of the Institution and appoint the management of the Institution.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- 3.2 Having determined its own role, the Board should then set out clearly, the role, responsibilities, accountability and reporting relationships of management and have these properly documented. The delegation of authority from the Board to management should be formal and clear.
- 3.3 The Chairman of the Board should be separate from and independent of the CEO. This would ensure an appropriate balance of power and a greater capacity of the Board for independent decision-making. This separation of roles provides the needed checks and balances to preserve the integrity in the decision-making process.
- 3.4 Separate sets of duties and responsibilities should be drawn out for the Chairman and CEO/PO.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

The process of appointing directors is of critical importance to an Institution. The process should provide sufficient checks and balances to ensure that nominations of new directors are made in the best interests of the Institution.

Guidance Notes

- 4.1 Institutions should establish a Nominating Committee ("NC") to make recommendations to the Board on all Board appointments. A majority of the NC members, including the Chairman, should be independent directors. The NC should have written terms of reference that describe the responsibilities of its members.
- 4.2 The NC should determine the criteria to be applied in identifying candidates and reviewing nominations. When reviewing nominations, the candidate should be a fit and proper candidate and be the best and most qualified candidate nominated for the office, taking into account the candidate's contribution and performance, including his track record, age, experience, capabilities and other relevant factors as

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

determined by the NC (e.g. attendance, preparedness, participation and candour).

- 4.3 The NC is also charged with determining annually whether or not a director is an independent director.
- 4.4 All directors who intend to continue as a director of the Institution should be re-nominated and re-elected at regular intervals and at least once every three years.
- 4.5 When a director serves on multiple boards, he or she should ensure that sufficient time and attention is given to the affairs of each of the Institution he or she serves. The NC should decide whether or not such a director is able to and has been adequately carrying out his or her duties as director of the Institution. Internal guidelines should be adopted that address the competing time commitments that are faced when directors serve on multiple boards.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The performance of the Board would be measured by the extent to which the Institution's objectives have been met. An assessment of the Board's performance should include both the performance of the entire Board and also the role and involvement of individual Board members.

Guidance Notes

- 5.1 The Board should develop objective performance criteria. Such performance criteria should address how the Board has enhanced the value of the Institution, taking into account depositors' or policyholders' interests. The performance criteria should also include the use of other qualitative measures such as the setting of strategic directions and achievement of strategic objectives, quality of risk management and adequacy of internal controls. These performance criteria should not be changed from year to year, and where

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.

- 5.2 The Board should implement a process for assessing regularly, the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. There should be in place an enforceable mechanism to replace ineffective directors.

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis by the management.

Board members need access to accurate, timely, comprehensive and well-focused information to participate in a meaningful way as directors. Although directors should be diligent in keeping themselves abreast of generally available information relevant to the oversight of the Institution, a major source of information about the activities of the Institution should be provided by the management.

The Board should regularly review the material it receives from management and hold management accountable for lapses in providing it with timely and accurate information.

Guidance Notes

- 6.1 The Board should have separate and independent access to the Institution's senior management. While management has an obligation to supply the Board with complete and adequate information in a timely manner, reliance purely on what is volunteered by management is unlikely to be enough in all circumstances and further enquiries would be required if the particular director is to fulfill his or her duties properly.
- 6.2 Information provided should include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts, monthly internal financial statements and information on all risks facing the business,

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

e.g., credit, market, liquidity, legal and operational risks. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained by the management.

- 6.3 The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Institution's expense.
- 6.4 The management should provide all members of the Board with a balanced and understandable management accounts of the Institution's performance, position and prospects on a monthly basis to enable the Board to discharge its responsibilities.

Remuneration Matters**Procedures for Developing Remuneration Policies**

Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Board should establish a broad framework for directors' remuneration. Remuneration practices should provide incentives that will act in the best long-term interests of the Institution, and aid in managing risk prudently as well as achieving other business objectives, without compromising the on-going viability, solvency and reputation of the Institution.

Guidance Notes

- 7.1 To minimize the risk of any potential conflict of interest, the Board should set up a remuneration committee ("RC") comprising of a majority of independent directors.
- 7.2 The RC should be chaired by an independent director and have at least one member who is knowledgeable in the field of executive compensation, failing which the RC should have access to expert advice inside and/or outside the Institution.
- 7.3 The RC should recommend to the Board a framework of remuneration for the Board and key executives, and determine

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

specific remuneration packages for each executive director and the CEO or PO (or executive of equivalent rank). The RC's recommendations should be made in consultation with the chairman of the Board and submitted for endorsement by the entire Board. The RC should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, and benefits in kind.

Level and Composition of Remuneration

Principle 8: The level and composition of remuneration should be appropriate to attract, retain and motivate the directors to perform their roles and carry out their responsibilities.

The RC should recommend the remuneration policies of the Institution to the Board for its approval. The RC should seek to ensure that the remuneration policies are in line with the Institution's strategic objectives and corporate values, and do not give rise to conflicts between the objectives of the Institution and the interests of individuals. For example, the salary scale should not be set in such a way that it encourages excessive risk taking and over-emphasises short-term performance.

Guidance Notes

- 8.1 In setting remuneration packages, the RC should be aware of pay and employment conditions within the industry and in comparable companies. The remuneration packages should take into account the Institution's relative performance and the performance of individual directors.
- 8.2 The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests with those of shareholders and link rewards to corporate and individual performance. There should be appropriate and meaningful measures for the purpose of assessing executive directors' performance.
- 8.3 The remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of such directors. Independent

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

directors should not be over-compensated to the extent that their independence may be compromised. The Board may, if it considers necessary, consult experts on the remuneration of non-executive directors. The Board should recommend the remuneration of the non-executive directors for approval at the Annual General Meeting.

- 8.4 In the case of directors' service contracts, there should be a fixed appointment period for all directors, after which they are subject to re-election. In any case, service contracts should not have onerous removal clauses; neither should they be excessively long. The RC should consider the amount of compensation to be paid to the director in the event of early termination of the directors' contracts of service. The committee should aim to be fair and avoid rewarding poor performance.

Audit**Audit Committee**

Principle 9: The Board should establish an Audit Committee with a set of written terms of reference that clearly sets out its authority and duties.

The Audit Committee ("AC") plays an important role in establishing, maintaining and developing the control systems and compliance culture within the Institution. It provides independent oversight of the Institution's financial reporting and internal controls. It should work closely with the internal and external auditors to provide a system of checks and balances within the Institution. As the AC oversees the internal audit function and evaluates the external audit function, it is therefore imperative that the AC should also be independent.

Guidance Notes

- 9.1 The AC should be comprised of only non-executive directors. The majority of the AC, including the chairman of the AC, should be comprised of independent directors. To avoid conflict of interests, members of the AC should not be part of the executive committee or any management committee that takes part in the management of the Institution.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- 9.2 The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members should have accounting or related financial management expertise or experience.
- 9.3 The AC should have express authority to investigate any matter within its terms of reference, full access to and the co-operation of management, full discretion to invite any director or executive officer to attend its meetings and reasonable resources to enable it to discharge its functions properly.
- 9.4 The duties of the AC should include keeping under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditors. The AC should review the independence of the external auditors annually. Where the auditors also provide a substantial volume of non-audit services to the Institution, the AC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- 9.5 The AC should meet with the external auditors, internal auditors and appointed actuary, where applicable, without the presence of the Institution's management, at least annually.

Risk Management and Internal Controls

Principle 10: The Board should ensure that there is an adequate risk management system and sound internal controls

An effective Board should have a sound understanding of the nature of the Institution's business activities and associated risks. It should ensure that management has established adequate risk management system to identify, monitor, control and report those risks. The risk management system should be supported by a system of sound internal controls.

Guidance Notes

- 10.1 Sound internal controls and risk management processes play a key role in the fulfillment of the Institution's business objectives. The AC should ensure that a review of the effectiveness of the Institution's

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

material internal controls, including financial, operational and compliance controls, and management of business risks, such as credit, market, liquidity, legal and operational risks, is conducted at least annually.

- 10.2 The Board should comment on the adequacy of the Institution's internal controls and risk management processes in the annual report or printed accounts.
- 10.3 Depending on the scale, nature and complexity of its business, the Board should establish a separate risk management function responsible for monitoring and managing the risks that the Institution faces. The organisation and responsibilities of a risk management function should be documented. A risk management function should have adequate resources and be staffed by an appropriate number of experienced and qualified staff who are sufficiently independent to perform their duties objectively. A risk management function should have appropriate reporting lines, independent of business lines.

Internal Audit

Principle 11: The Board should ensure that an internal audit function that is independent of the activities audited is established.

The primary role of the internal auditor is to objectively review and evaluate the Institution's activities to maintain or improve the efficiency and effectiveness of its risk management, internal controls, and corporate governance. Internal auditors must understand the Institution's strategic direction, objectives, products, services, and processes. They should communicate their findings to the Board or its AC and management.

Guidance Notes

- 11.1 The Internal Auditor's primary line of reporting should be to the chairman of the AC. The Internal Auditor should have unfettered access to the Board or its AC.
- 11.2 The scope of the Internal Auditor's remit should be clear and appropriate for the risks of the Institution, including those risks arising from proposed new lines of business or products.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- 11.3 There should be a process for discussion of internal audit reports with the business or support areas under review. Issues raised in internal audit reports should be clear and prioritised for action. Reports should be timely and distributed to the appropriate management personnel.
- 11.4 There should be processes for ensuring recommendations raised in internal audit reports are dealt with in a timely manner. Outstanding exceptions or recommendations should be closely monitored.
- 11.5 The AC should at least annually, review the adequacy of the internal audit function. The Internal Auditor's responsibilities include, but are not limited to, the following duties:
- (a) Evaluate the reliability, adequacy, and effectiveness of the Institution 's internal controls and risk management processes.
 - (b) Ensure that the Institution's internal controls result in prompt and accurate recording of transactions and proper safeguarding of assets.
 - (c) Determine whether the Institution complies with laws and regulations and adheres to established policies, and whether management is taking the appropriate steps to address control deficiencies.
- 11.6 The AC should ensure that the internal audit function has adequate resources and has appropriate standing within the Institution.
- 11.7 The AC should approve the appointment, resignation or dismissal of the head of internal audit.
- 11.8 The Internal Auditor should at least meet the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Fair Dealings

Principle 12: The Board should ensure that management formulates policies to ensure dealings with the public, the Institution's policyholders and claimants, depositors and other customers are conducted fairly, responsibly and professionally.

Institutions owe a duty to depositors and policyholders. As custodians of public funds, it is incumbent upon Institutions to ensure that their dealings with the public are conducted fairly, responsibly and professionally.

Guidance Notes

12.1 The Board should direct management in formulating policies in the areas of avoidance of unfair practices, misrepresentation through false and misleading statements, and misconduct of the staff or its distributors. In particular for insurers, such policies should also be made for the insurer's distribution channels and claims adjudication.

12.2 There should be clear complaint-handling procedures in place to ensure that all complaints are dealt with professionally, fairly, promptly and diligently. These complaint-handling procedures should be clearly communicated to customers.

Related Party Transactions

Principle 13: The Board should ensure that related party transactions with the Institution are made on an arm's length basis.

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions include transactions with, associates and director and director-related entities.

Director-related entities include: -

- corporations that are majority-owned by the directors or their family members;

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- corporations in which the directors or their family members control the composition of the board of directors;
- associates of the directors; and
- any individual, corporation or firm guaranteed by the directors.

Guidance Notes

- 13.1 The Institution should establish policies and procedures on related party transactions. The policies and procedures should include the definition of relatedness, limits applied, terms of transactions and the authorities and procedures for approving and monitoring these transactions.
- 13.2 Directors, management and other influential parties (e.g. shareholders) should not seek to override the established control processes of the Institution to accommodate associates and individuals. The AC should review all related party transactions and keep the Board informed of such transactions.
- 13.3 Related party transactions should be monitored with particular care and appropriate steps taken to control or mitigate the risks of connected lending. The terms and conditions of such credits should not be more favourable than credit granted to non-related obligors under similar circumstances.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Disclosure in the Annual Reports in respect of Corporate Governance for Institutions which are listed on the Singapore Exchange

Institutions which are listed on the Singapore Exchange, are expected to disclose the following information in their annual reports:

1 In relation to Board Matters

- (a) The number of Board meetings held in the reported financial year, as well as the attendance of every Board member at those meetings and meetings of Board committees, including the NC, RC and AC.
- (b) Key information regarding directors, such as academic and professional qualifications, shareholding in the Institution and its subsidiaries, board committees served on (as a member or chairman), date of first appointment as a director, date of last re-election as a director, directorships or chairmanships both present and those held in the preceding three years in other listed companies and other major appointments.
- (c) The names of directors that are considered by the NC to be independent. The names of the directors submitted for election or re-election should also be accompanied by such details and information to enable shareholders to make informed decisions.
- (d) With reference to Principle 1, Guidance Notes 1.4 “Institutions should adopt internal guidelines setting forth matters that require Board approval”, the type of material transactions that require the Board’s approval under those guidelines should be disclosed.
- (e) The performance criteria used to assess the effectiveness of the Board as a whole and the contribution by each director.

2 In relation to the NC

- (a) The names of the members of the NC, details of the NC’s activities, the number of NC meetings held in that financial year, and the attendance of individual directors at such meetings.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- (b) The NC's criteria applied in identifying candidates and reviewing nominations for Board appointments.

3 In relation to the RC and Remuneration

- (a) The names of the members of the RC, details of the Committee's activities, the number of Committee meetings held in that financial year, and the attendance of individual directors at such meetings.
- (b) The names of directors earning remuneration in bands of S\$250,000. Within each band, there will be a breakdown (in percentage terms) of each director's remuneration, earned through base or fixed salary, variable or performance-related income or bonuses, benefits in kind, and stock options granted and other long-term incentives.
- (c) The same details of the remuneration, as in paragraph 3(b), for employees who are immediate family members⁴ of a director or the CEO, and whose remuneration exceeds S\$150,000 during the year. This may be done without naming the specific employee, save that there must be clear indication as to which director or the CEO the employee is related to.
- (d) Details of employee share schemes to enable their shareholders to assess the benefits and potential cost to the Institution. The important terms of the share schemes, including the potential size of grants, methodology of valuing stock options, exercise price of options that were granted as well as outstanding, whether the exercise price was at the market price or otherwise on the date of grant, market price on the date of exercise, the vesting schedule, and the justifications for the terms adopted, should be disclosed. Share options granted as at the end of each financial year should also be disclosed.

4 In relation to the AC

- (a) Confirmation from the AC that the AC has received the requisite disclosures from the external auditors evidencing the auditors' independence and if it has considered whether the financial, business and professional relationships between the external auditors and the

⁴ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Institution are compatible with maintaining the independence of the external auditors.

- (b) The names of the members of the AC, details of the AC's activities, the number of AC meetings held in that year, and the attendance of individual directors at such meetings.
- (c) Confirmation from the AC on whether or not, with respect to the prior financial year,
 - i) Management has reviewed the audited financials with the AC, including having a discussion with the AC of the quality of the accounting treatment as applied and significant judgments affecting the Institution's financials;
 - ii) The external auditors have discussed with the AC their judgment of the quality of the above accounting treatment;
 - iii) The members of the AC have discussed among themselves, without the presence of management or external auditors, the information disclosed in (i) and (ii);
 - iv) The AC, in reliance on review and discussions with Management and external auditors, believes that the Institution's financials are fairly presented in conformity with general accepted accounting principles in all material aspects.

5 In relation to Related Party Transactions⁵

- (a) Policies on related party transactions in their annual reports including but not limited to, the definition of relatedness, limits applied, terms of transactions and the authorities and procedures for approving and monitoring these transactions.
- (b) Related party transactions, in particular, aggregate credit facilities⁶ outstanding as at the end of the financial year to directors⁷ and director-

⁵ The disclosures required in this section are not intended to supercede any existing accounting or other regulatory disclosures in relation to Related Party Transactions (RPT). Banks should continue to observe the disclosure requirements in relation to RPT as promulgated under the existing accounting standard or the Companies Act.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

related entities in the following manner (specific directors and their related entities do not have to be named) :-

i) Directors and their related entities

The aggregate credit facilities to directors and their related entities. This will include directors' personal loans and loans to: -

- corporations that are majority-owned by the directors or family members;
- corporations in which the directors or family members control the composition of the board of directors;
- associates of the directors; and
- any individual, corporations or firm guaranteed by the directors.

ii) Corporations where the Institution's directors serve as directors on their boards

This refers to the Institution's aggregate lending to corporations, other than those mentioned in part (i) above and other than the Institution's associates, in which the Institution's directors also serve as directors.

(c) Aggregate credit facilities outstanding as at the end of the reporting financial year, to the Institution's associates engaged in financial and non-financial activities.

(d) Aggregate credit facilities or funding received from the Institution's associates, that are outstanding as at the end of the reporting financial year.

(e) For paragraph 5(b) and (c), the following should also be disclosed:-

- i) components of the reported figures, which would include all forms of credit exposure arising from on- and off-balance sheet items including contingent liabilities;
- ii) Classification of "sub-standard ", "doubtful " and "loss ", and the provision for loan losses associated with each loan grade;
- iii) Amount of loans written-off.

⁶ "Credit facilities" has the same meaning as defined in section 2(1) of the Banking Act.

⁷ This refers to lending of all lending entities in the group to directors of the Institution and its Institution-holding company

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

DISCLAIMER: This version of the Regulations is in draft form and subject to change. It is also subject to review by the Attorney-General's Chambers.

No. S 000 –

**BANKING ACT
(CHAPTER 19)**

BANKING (CORPORATE GOVERNANCE) REGULATIONS 2003

In exercise of the powers conferred by section 78 of the Banking Act, the Monetary Authority of Singapore hereby makes the following Regulations:-

Citation and Commencement

1 These Regulations may be cited as the Banking (Corporate Governance) Regulations 2003 and shall come into operation on [date].

General Definitions

2 In these Regulations, unless the context otherwise requires –

“affiliate”, in relation to a substantial shareholder, means any company in which the substantial shareholder has a major stake, other than:

- (i) the bank incorporated in Singapore and companies in which the bank has a major stake;
- (ii) where the bank is the subsidiary of another bank incorporated in Singapore (hereinafter referred to as “parent bank”), the parent bank and companies in which the parent bank has a major stake; or
- (iii) where the bank is the subsidiary of a financial holding company, the financial holding company and companies in which the financial holding company has a major stake;

"chief executive officer", in relation to a bank incorporated in Singapore, means a person who is responsible under the immediate authority of the directors of the bank for the conduct of the business of the bank;

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

“executive director” means a director who is concurrently an executive officer;

"executive officer" means any person who is employed by a company and is concerned or takes part in the management of the company on a day-to-day basis;

“financial year” has the same meaning as in section 4(1) of the Companies Act (Cap. 50);

“major stake” has the following meaning:

- (i) in relation to a bank, the same meaning set out in section 32(7) of the Act;
- (ii) in relation to a substantial shareholder or financial holding company, any company in which the substantial shareholder or financial holding company, as the case may be, has:
 - (a) beneficial interest exceeding 10% in the share capital;
 - (b) control over more than 10% of the voting power; or
 - (c) any interest, where the directors of the company are accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder or financial holding company, or where the substantial shareholder or financial holding company is in a position to determine the policy of the company;

“subsidiary” has the same meaning as in section 5 of the Companies Act;

"substantial shareholder" has the same meaning as in section 81 of the Companies Act;

"wholly-owned subsidiary" has the same meaning as in section 5B of the Companies Act.

Definition Of “Independent Director”

3(1) In these Regulations, "independent director" means a director:

- (a) who is not a substantial shareholder and is not connected to a substantial shareholder of the bank incorporated in Singapore;
- (b) who is not in any of the relationships set out in paragraph (5); and

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- (c) who has no other relationship with the bank incorporated in Singapore or with any of its related companies or officers that could interfere, or be reasonably seen to interfere, with the exercise of the director's independent business judgment with regard to the interest of the bank incorporated in Singapore.

(2) Notwithstanding paragraph (1)(a), a director of a bank incorporated in Singapore which is the subsidiary of another bank incorporated in Singapore (referred to in this paragraph as the “parent bank”) or of a financial holding company shall be regarded to have met the requirements of that paragraph if he is not a substantial shareholder of the subsidiary, parent bank or financial holding company, and is not connected to a substantial shareholder of the parent bank or financial holding company, as the case may be.

- (3) A person is connected to a substantial shareholder if he is –
 - (a) the spouse, child, step-child, brother, sister, parent or step-parent of the substantial shareholder;
 - (b) employed by the substantial shareholder or an affiliate of the substantial shareholder;
 - (c) a non-executive director of the substantial shareholder
 - (d) a partner of the substantial shareholder in any firm; or
 - (e) accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder.

(4) In respect of appointments of directors made on or after 17 July 2004, a person is also connected to a substantial shareholder if he is a director of an affiliate of the substantial shareholder.

- (5) The relationships referred to in paragraph (1)(b) are:
 - (a) he is being employed by the bank incorporated in Singapore or by any of bank’s related corporations, or has been so employed at any time during the preceding three financial years of the bank incorporated in Singapore; and
 - (b) his spouse, child, step-child, brother, sister, parent or step-parent is being employed by the bank incorporated in Singapore or by any of its related corporations as an executive officer whose compensation is determined

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

by the Remuneration Committee of the bank incorporated in Singapore or related corporation, or if his spouse, child, step-child, brother sister, parent or step-parent has been so employed at any time during the preceding three financial years of the bank incorporated in Singapore.

- (6) For the purposes of paragraph (1)(c), the relationships include :
- (a) a director who is a substantial shareholder of, a partner in or an executive officer of, any corporation or firm carrying on business for purposes of profit to which the bank incorporated in Singapore has made, or from which the bank incorporated in Singapore has received, payments in the current or immediately preceding financial year exceeding \$200,000 in aggregate for that year; and
 - (b) a director who is receiving any compensation from the bank incorporated in Singapore or from any of the bank's related corporations, other than compensation received for his service as a director, or has received such compensation at any time during the preceding financial year of the bank incorporated in Singapore.

(7) The Nominating Committee, may determine that a director who has one or more of the relationships mentioned in paragraph (1)(c), (3)(c) or (4) is nonetheless independent, if the Nominating Committee is satisfied that the director's independent business judgment and ability to act in the interest of the bank incorporated in Singapore will not be interfered with, despite the relationships.

Board Of Directors

4(1) A bank incorporated in Singapore shall have a Board of directors comprising :

- (a) a majority of Singapore citizens or permanent residents of Singapore; and
- (b) a majority of independent directors.

(2) A bank incorporated in Singapore shall not appoint the Chairman of the Board of directors unless it obtains the prior approval of the Authority.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Committees Of The Boards Of Directors

- 5 A bank incorporated in Singapore shall have –
- (a) a Nominating Committee;
 - (b) a Remuneration Committee; and
 - (c) an Audit Committee.

Nominating Committee (“NC”)

6(1) A bank incorporated in Singapore shall have an NC comprising five members of the Board of directors of the bank, the majority of whom, including the Chairman of the NC, shall be independent directors.

(2) The Authority may, in any particular case approve a greater number of members not exceeding seven.

(3) Every member of the NC shall be appointed to hold office until the next annual general meeting following that member's appointment, and shall be eligible for re-appointment.

(4) If a member of the NC resigns, ceases to be a director or for any other reason ceases to be a member of the NC resulting in the reduction of the number of members below five, the Board of directors shall within three months of that event appoint such number of new members as may be required to make up five members.

(5) The bank incorporated in Singapore shall obtain the prior approval of the Authority for the appointment of the Chairman and other members of the NC.

Responsibilities of the Nominating Committee

7(1) The NC of a bank incorporated in Singapore shall identify candidates and review all nominations for appointments of –

- (a) directors ;
- (b) members of the remuneration committee ;
- (c) members of the audit committee ;
- (d) members of other Board committees ;

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- (e) the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer or such other officer, by whatever name called, having the powers and duties of a Chief Executive Officer, Deputy Chief Executive Officer or Chief Financial Officer.

(2) Any bank incorporated in Singapore, which is a wholly owned subsidiary of another bank incorporated in Singapore is not required to have a NC, if the NC of the second-mentioned bank performs the functions referred to in paragraph (1) for the first-mentioned bank.

(3) The NC shall determine the criteria to be applied in identifying candidates and reviewing nominations, which shall include the following:

- (a) that the requirements in regulations 4(1), 10(1) and 11(1) are complied with;
- (b) that the candidate is fit and proper for the office and is the best and most qualified candidate nominated for the office, taking into account the candidate's track record, age, experience, capabilities and other relevant factors as determined by the NC (for example attendance, preparedness, participation and candour).

Furnishing information on Nominating Committee deliberations

8(1) A bank incorporated in Singapore shall, after its NC has concluded its deliberations---

- (a) notify the Authority in writing of the particulars of the persons proposed to be appointed to the positions referred to in regulation 7(1); and
- (b) furnish to the Authority such further information as the Authority may require.

(2) A bank incorporated in Singapore shall not make the appointments referred to in regulation 7(1)(a) and (e) unless it obtains the prior approval of the Authority.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Determination of the Independence of Directors by the Nominating Committee

9 The NC shall determine annually whether or not a director is independent, using the criteria set out in regulation 3(1). If the NC determines that a director is nonetheless independent under regulation 3(7), the bank shall disclose in its annual report

- (a) the nature of the director's relationship; and
- (b) the NC's explanation of its decision as to why the director should be considered independent.

Remuneration Committee ("RC")

10(1) A bank incorporated in Singapore shall have an RC comprising at least 3 directors, the majority of whom are independent directors.

(2) In addition to such other responsibilities determined by the Board of Directors, the RC shall be responsible for recommending a framework for determining the remuneration of directors and executive officers of the bank incorporated in Singapore, and for recommending the remuneration of each executive director and the chief executive officer of the bank incorporated in Singapore.

(3) Any bank incorporated in Singapore, which is a wholly owned subsidiary of another bank incorporated in Singapore is not required to have a RC, if the RC of the second-mentioned bank is responsible for the matters referred to in paragraph (2) for the first-mentioned bank

Audit Committee (hereinafter referred to As "AC")

11 (1) A bank incorporated in Singapore shall have an AC comprising at least 3 directors, all non-executive, the majority of whom, including the chairman, shall be independent directors.

(2) The AC shall, in addition to such other responsibilities determined by the Board of directors or provided under written law, be responsible for reviewing the scope and results of audits carried out in respect of the operations of the bank

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

incorporated in Singapore, the cost effectiveness of the audits, the independence and objectivity of external auditors, and the adequacy of the internal audit function of the bank incorporated in Singapore.

(3) Any bank incorporated in Singapore, which is a wholly owned subsidiary of another bank incorporated in Singapore is not required to have an AC, if the AC of the second-mentioned bank is responsible for the matters referred to in paragraph (2) for the first-mentioned bank

Executive Officers

12(1) A bank incorporated in Singapore shall not, without the prior approval of the Authority, appoint any person as its executive officer while the person is concurrently:

- (a) employed by a substantial shareholder of the bank;
- (b) an executive officer of an affiliate of a substantial shareholder of the bank; or
- (c) where the bank is the subsidiary of a financial holding company, employed by a substantial shareholder of the financial holding company.

(2) This regulation shall come into operation on 17 July 2004.

Separation of the Roles of Chairman and Chief Executive Officer

13(1) A bank incorporated in Singapore shall appoint separate individuals to hold the appointments of the Chairman of the board of directors and chief executive officer.

(2) A bank incorporated in Singapore shall not be required to revoke any appointment of its Chairman or chief executive officer made before the coming into effect of these Regulations or any subsequent reappointment of such Chairman or chief executive officer in the same office, which does not comply with paragraph (1).

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Application of these Regulations to a related corporation which is a financial holding company

14(1) These Regulations, save for regulations 3(2), 7(2), 10(3), 11(3), shall apply, with the necessary modifications, to a related corporation which is a financial holding company, as if it is a bank incorporated in Singapore.

(2) Any related corporation which contravenes paragraph (1) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding [] and, in the case of a continuing offence, to a further fine not exceeding [] for every day or part thereof during which the offence continues after conviction.

Corporate governance requirements applicable to a major stake company

15(1) A company --

- (a) in which a bank incorporated in Singapore acquires or holds a major stake; and
- (b) which is a financial institution approved, licensed, registered or otherwise regulated by the Authority ,

(hereinafter referred to in this regulation as a “major stake company”) shall have a Board of directors, the majority of whom:

- (i) are not substantial shareholders of the bank and are independent of the substantial shareholders of the bank; or
- (ii) where the bank is a subsidiary of a financial holding company, are not substantial shareholders of the financial holding company and are independent of the substantial shareholders of the financial holding company

(2) A person is independent of a substantial shareholder if he is not –

- (a) the spouse, child, step-child, brother, sister, parent or step-parent of the substantial shareholder;
- (b) employed by the substantial shareholder or an affiliate of the substantial shareholder;
- (c) a non-executive director of the substantial shareholder
- (d) a partner of the substantial shareholder in any firm; or
- (e) a director of an affiliate of the substantial shareholder.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

(f) accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder.

(3) The Nominating Committee of the major stake company or, where the company does not have a Nominating Committee, the Nominating Committee of the bank which has a major stake in the company (hereinafter referred to collectively in this regulation as “Nominating Committee”) may determine that a director who has one or more of the relationships mentioned in paragraph (2)(c) or (2)(e) is nonetheless independent of the substantial shareholder, if the Nominating Committee is satisfied that the director’s independent business judgment and ability to act in the interest of the company will not be interfered with, despite the relationships.

(4) The Nominating Committee shall determine annually whether or not a director is independent of a substantial shareholder as mentioned in paragraph (1)(i) and (ii), using the criteria set out in regulation 15(2).

(5) If the Nominating Committee determines that a director is nonetheless independent of a substantial shareholder under regulation 15(3), the company shall disclose in its annual report -

- (a) the nature of the director’s relationship; and
- (c) the Nominating Committee's explanation of its decision as to why the director should be considered independent of the substantial shareholder of the bank or financial holding company, as the case may be, as mentioned in paragraph (1) (i) or (ii).

(6) A major stake company shall not, without the prior approval of the Authority, appoint any person as its executive officer while the person is concurrently:

- (a) employed by a substantial shareholder of the bank which acquires or holds a major stake in the company;
- (b) an executive officer of an affiliate of a substantial shareholder of the bank; or
- (c) where the bank is the subsidiary of a financial holding company, employed by a substantial shareholder of the financial holding company.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

(7) Any person who contravenes paragraph (1), (5) or (6) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding [] and, in the case of a continuing offence, to a further fine not exceeding [] for every day or part thereof during which the offence continues after conviction.

(8) This regulation shall come into operation on 17 July 2004.

Made this day of 2003.

KOH YONG GUAN
Managing Director,
Monetary Authority of Singapore

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

DISCLAIMER: This version of the Regulations is in draft form and subject to change. It is also subject to review by the Attorney-General's Chambers.

No. S 000 –

INSURANCE ACT
(CHAPTER 142)
INSURANCE (CORPORATE GOVERNANCE)
REGULATIONS 2003

In exercise of the powers conferred by section 64 of the Insurance Act, the Monetary Authority of Singapore hereby makes the following Regulations:

Citation and commencement

1 These Regulations may be cited as the Insurance (Corporate Governance) Regulations 2003 and shall come into operation on [date] 2003.

General Definitions

- 2 In these Regulations, unless the context otherwise requires –
- “direct insurer” has the same meaning as defined in section 2(1) of the Act ;
 - “executive director” means a director who is concurrently an executive officer;
 - “executive officer” means any person who is employed by a company and is concerned or takes part in the management of the company on a day-to-day basis;
 - “financial year” has the same meaning as in section 4(1) of the Companies Act (Cap. 50);
 - “principal officer” has the same meaning as in section 31 of the Act;
 - “related corporation” has the same meaning as in section 4(1) of the Companies Act;
 - “significant insurer” means any direct insurer, not being a marine mutual, which is incorporated in Singapore and which has in its Singapore Insurance Fund and Offshore Insurance Fund, total assets of-

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

(a) In the case of an insurer carrying on life business, \$5 billion or its equivalent in foreign currency;

(b) In the case of an insurer carrying on general business, S\$500 million or its equivalent in foreign currency

as specified in Part I of Form 1 in the First Schedule to the Insurance (Accounts and Statements) Regulations (Rg. 2) and lodged by the direct insurer for the accounting period in the preceding year;

"substantial shareholder" has the same meaning as in section 81 of the Companies Act;

"wholly-owned subsidiary" has the same meaning as in section 5B of the Companies Act.

Definition Of "Independent Director"

3(1) In these Regulations, "independent director" means a director:

- (a) who is not a substantial shareholder and is not connected to a substantial shareholder of the direct insurer incorporated in Singapore ;
- (b) who is not in any of the relationships set out in paragraph (4); and
- (c) who has no other relationship with the direct insurer incorporated in Singapore or with any of its related companies or officers that could interfere, or be reasonably seen to interfere, with the exercise of the director's independent business judgment with regard to the interest of the direct insurer incorporated in Singapore.

(2) Notwithstanding paragraph (1)(a), a director of a direct insurer incorporated in Singapore which is the subsidiary of another direct insurer incorporated in Singapore (referred to in this paragraph as the "parent insurer") shall be regarded to have met the requirements of that paragraph if he is not a substantial shareholder of the subsidiary or parent insurer, and is not connected to a substantial shareholder of the parent insurer.

(3) A person is connected to a substantial shareholder if he is –

- (a) the spouse, child, step-child, brother, sister, parent or step-parent of the substantial shareholder;
- (b) employed by the substantial shareholder;
- (c) a non-executive director of the substantial shareholder;

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- (d) a partner of the substantial shareholder in any firm; or
 - (e) accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder.
- (4) The relationships referred to in paragraph (1)(b) are:
- (a) he is being employed by the direct insurer incorporated in Singapore or by any of direct insurer's related corporations, or has been so employed at any time during the preceding three financial years of the direct insurer incorporated in Singapore; and
 - (b) his spouse, child, step-child, brother, sister, parent or step-parent is being employed by the direct insurer incorporated in Singapore or by any of its related corporations as an executive officer whose compensation is determined by the Remuneration Committee of the direct insurer incorporated in Singapore or related corporation, or if his spouse, child, step-child, brother sister, parent or step-parent has been so employed at any time during the preceding three financial years of the direct insurer incorporated in Singapore.
- (5) For the purposes of paragraph (1)(c), the relationships include :
- (a) a director who is a substantial shareholder of, a partner in or an executive officer of, any corporation or firm carrying on business for purposes of profit to which the direct insurer incorporated in Singapore has made, or from which the direct insurer incorporated in Singapore has received, payments in the current or immediately preceding financial year exceeding \$200,000 in aggregate for that year; and
 - (b) a director who is receiving any compensation from the direct insurer incorporated in Singapore or from any of the direct insurer's related corporations, other than compensation received for his service as a director, or has received such compensation at any time during the preceding financial year of the direct insurer incorporated in Singapore.
- (6) Where the direct insurer has a Nominating Committee, the Nominating Committee, may nonetheless determine that a director who has one or more of the relationships mentioned in paragraph (1)(c) or (3)(d), is nonetheless independent, if the Nominating Committee is satisfied that the director's independent business judgment and ability to act in the interest of the direct insurer incorporated in Singapore will not be interfered with, despite the relationships.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Boards Of Directors

- 4(1) A significant insurer shall have a Board of directors comprising :
- (a) a majority of Singapore citizens or permanent residents of Singapore; and
 - (b) a majority of independent directors.
- (2) A direct insurer incorporated in Singapore shall not appoint the Chairman of the Board of directors unless it obtains the prior approval of the Authority.

Committees Of The Boards Of Directors

- 5(1) Any direct insurer, not being a marine mutual, incorporated in Singapore shall have an Audit Committee.
- (2) A significant insurer shall have –
- (a) a Nominating Committee;
 - (b) a Remuneration Committee; and
 - (c) an Audit Committee.

Nominating Committee (“NC”)

- 6(1) A significant insurer shall have an NC comprising five members of the Board of directors of the significant insurer, the majority of whom, including the Chairman of the NC, shall be independent directors.
- (2) The Authority may, in any particular case approve a greater number of members not exceeding seven.
- (3) Every member of the NC shall be appointed to hold office until the next annual general meeting following that member's appointment, and shall be eligible for re-appointment.
- (4) If a member of the NC resigns, ceases to be a director or for any other reason ceases to be a member of the NC resulting in the reduction of the number of members below five, the Board of directors shall within three months of that event appoint such number of new members as may be required to make up five members.
- (5) The significant insurer shall obtain the prior approval of the Authority for the appointment of the Chairman and other members of the NC.

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

Responsibilities of Nominating Committee

7(1) The NC of a significant insurer shall identify candidates and review all nominations for appointments of –

- (a) directors ;
- (b) members of the remuneration committee ;
- (c) members of the audit committee ;
- (d) members of other Board committees ;
- (e) the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer or such other officer, by whatever name called, having the powers and duties of a Chief Executive Officer, Deputy Chief Executive Officer or Chief Financial Officer.

(2) The NC shall determine the criteria to be applied in identifying candidates and reviewing nominations, which shall include the following:

- (a) that the requirements in regulations 4(1), 10(1) and 11(1) are complied with;
- (b) that the candidate is fit and proper for the office and is the best and most qualified candidate nominated for the office, taking into account the candidate's track record, age, experience, capabilities and other relevant factors as determined by the NC (for example attendance, preparedness, participation and candour).

Furnishing information on Nominating Committee deliberations

8(1) The significant insurer shall, after its NC has concluded its deliberations, notify the Authority in writing of the particulars of the persons proposed to be appointed to the positions referred to in regulation 7(1), and shall furnish to the Authority such further information as the Authority may require.

(2) The significant insurer shall not make the appointments referred to in regulation 7(1)(a) and (e) unless it obtains the prior approval of the Authority.

Determination of the Independence of Directors by the Nominating Committee

9 The NC shall determine annually whether or not a director is independent, using the criteria set out in regulation 3(1). If the NC determines that a director is nonetheless independent under regulation 3(6), the insurer shall disclose in its annual report or printed accounts

- (a) the nature of the director's relationship and

GUIDELINES AND REGULATIONS ON CORPORATE GOVERNANCE

- (b) the Nominating Committee's explanation of its decision as to why the director should be considered independent.

Remuneration Committee ("RC")

10(1) A significant insurer shall have an RC comprising at least 3 directors, the majority of whom are independent directors.

(2) In addition to such other responsibilities determined by the board of directors, the RC shall be responsible for recommending a framework for determining the remuneration of directors and executive officers of the significant insurer, and for recommending the remuneration of each executive director and the chief executive officer of the significant insurer.

Audit Committee ("AC")

11(1) A direct insurer shall have an AC comprising at least 3 directors, all non-executive, the majority of whom, including the chairman, shall be independent.

(2) The AC shall, in addition to such other responsibilities determined by the board of directors or provided under written law, be responsible for reviewing the scope and results of audits carried out in respect of the operations of the direct insurer incorporated in Singapore, the cost effectiveness of the audits, the independence and objectivity of external auditors, and the adequacy of the internal audit function of the direct insurer incorporated in Singapore.

