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**EASTERN CARIBBEAN CENTRAL BANK**



**GUIDELINES ON CORPORATE GOVERNANCE  
FOR INSTITUTIONS LICENSED  
TO CONDUCT BANKING BUSINESS UNDER THE BANKING ACT**

**April 2006**

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## **Banking Prudential Guidelines No.2 of 2006**

The Eastern Caribbean Central Bank, in exercise of the powers conferred on it by section 36 of the Banking Act<sup>1</sup> makes the following Prudential Guidelines -

### **INTRODUCTION**

#### **I Overview**

- a) Corporate governance refers to the processes, structures and information used for directing and overseeing the management of an institution. This encompasses the relationships and mechanisms utilised for achieving accountability between an institution's board of directors, management, shareholders and other stakeholders. Corporate governance also defines the structure through which the division of power and responsibility in the organisation is determined and developed. Effective corporate governance is an essential element in the safe and sound functioning of a financial institution.
- b) The ECCB recognises that corporate governance processes will vary from institution to institution. However, each institution is expected to create a governance framework that promotes high standards of professional conduct, prudent and diligent discharge of duties, and ensures compliance with applicable laws, regulations and guidelines.
- c) The ECCB has established these guidelines to facilitate the development of adequate corporate governance structures by institutions. In addition, subject to the requirements of

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<sup>1</sup> Anguilla Banking Act No. 9 of 2005;  
Antigua and Barbuda Banking Act No. 14 of 2005;  
Dominica Banking Act No. 16 of 2005;  
Grenada Banking Act No. 19 of 2005;  
Montserrat Banking Act No. 2 of 2005;  
Saint Christopher and Nevis Banking Act No. 4 of 2004;  
Saint Lucia – Not yet passed;  
Saint Vincent and The Grenadines – Not yet passed.

these guidelines, where applicable institutions should also incorporate the [Corporate Governance Principles for Caribbean Countries](#)<sup>2</sup> within their structure.

## II Interpretation

"**Affiliate**" has the meaning assigned to it in the Banking Act.

"**Auditor**" has the meaning assigned to it in the Banking Act.

"**Banking Act**" means the Banking Act in force in that territory.

"**Board**" means the board of directors of an institution, which is the body ultimately responsible for the management of that institution.

"**Conflict of Interest**" means a real or apparent incompatibility between an entity's private interests and its public or fiduciary duties.

"**Cross-Directorship**" refers to a director or a senior manager of an institution, who is also part of the board or senior management of another institution, or has such significant links or involvement with the other institution that the director or senior manager could be considered associated with the other institution.

"**Executive Director**" means a director who participates directly in the management of the institution.

"**Immediate Family**" refers to any person or persons who can be expected to influence or be influenced by that individual. This generally includes:

- (a) A spouse, domestic partner or child

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<sup>2</sup> Draft Corporate Governance Principles for Caribbean Countries have already been formulated by the Caribbean Technical Working Group on Corporate Governance (CTWG) and can be found at the following web address: <http://www.ecseonline.com/pdf/communique%20for%20CCGF.pdf>.

- (b) Any person living in a common household;
- (c) A grandparent, parent, brother or sister;
- (d) The spouse or domestic partner of a child, parent, brother or sister

**“Independent Director”** means a non-executive director who is free of any business or other relationships that would materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of his unfettered decision making pertaining to the institution.

**“Institution”** means a financial institution licensed to conduct banking business under the Banking Act.

**“Non-Executive Director”** means a director who does not participate directly in the management of the institution.

**“Participating Governments”** has the meaning assigned to it in the ECCB Agreement Act.

**“Related Party”** in relation to an institution means-

- (a) The directors and staff of the institution;
- (b) An affiliate of the institution;
- (c) Any director, partner, senior officer or guarantor of an affiliate of the institution, or their immediate family;
- (d) Any entity in which a director or senior officer of the institution assumes the role of director, partner, officer or guarantor;
- (e) The auditor and senior officers of the institution’s audit firm;
- (f) A significant shareholder of the institution, a significant shareholder’s senior officers, partner or immediate family member or an entity that a significant shareholder controls or is controlled by;
- (g) A director or senior officer of an entity that controls or is controlled by the institution and includes their partners or immediate family members;

- (h) Any person who maintains a trust on behalf of the institution or its affiliate and includes any director, partner, senior officer or guarantor of the trust or their immediate family;
- (i) A person or class of persons identified under section 16(1)(a) or section 16(1)(c) of the Banking Act<sup>3</sup>;
- (j) A person or class of persons who has been designated by the ECCB as a related party because of their past or present interest in or relationship with the institution, being such that it can be reasonably expected that this related party can influence the decision of the institution regarding a transaction.

**“Self-dealing”** means any transaction with a related party, that is not on terms and conditions that are the same or similar to that offered to a non-related party and which could generate a lesser return to the institution than with a non-related party.

**“Senior Management”** or **“Senior Officer”** of an institution means:

- (a) The chief executive officer, deputy chief executive officer, chief operating officer, chief financial officer, internal auditor, company secretary, or manager of a significant business unit of the institution; or
- (b) A person with similar responsibilities or with a position similar to that identified in item (a); or
- (c) Any person who can make a policy decision.

**“Significant Shareholder”** has the meaning assigned to it in the Banking Act.

**“Transaction”** means a transfer of benefits, resources, obligations, or the provision of services, regardless of whether a price is charged.

### **III Application**

- a) These guidelines apply to all institutions licensed under the Banking Act. They set out the minimum standards that the ECCB expects licensees to adopt in respect of their corporate governance and are based on best practices, relevant laws and governance

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<sup>3</sup> There may be a variation in the numbering in the Banking Acts of the individual ECCU territories. The Banking Act, 2005 of Anguilla refers to section 15(1)(a) and 15(1)(c), respectively.

codes. These guidelines are not intended to be prescriptive, but rather to serve as an advisory to boards of directors and to the management of institutions licensed under the Banking Act.

- b) Where an institution's board of directors has chosen alternative corporate governance standards, the board will be required to demonstrate to the ECCB that the alternative standards adopted, have at least an equivalent effect of ensuring sound corporate governance. Institutions that are part of larger international financial groups are encouraged to take advantage of the availability of group structured governance processes that are in keeping with the basic principles articulated in these guidelines.

#### **IV COMMENCEMENT**

These guidelines shall cause into effect on 15 May 2006.

# **GUIDELINES**

## ***SECTION 1 - RESPONSIBILITIES OF THE BOARD OF DIRECTORS***

### **1.1 Implementing Sound Governance Practices**

**Objective:** *The development of adequate policies and controls, and the establishment of an adequate corporate structure to implement these policies and controls.*

An assessment of the board's effectiveness should be based on the quality and scope of the governance processes and how effectively these are implemented and maintained. The board's effectiveness would be influenced by its ability to implement and maintain a sound corporate governance system that ensures:

- 1.1.1 Competent management through a comprehensive framework that clearly outlines levels of responsibility and accountability throughout the organisation.
- 1.1.2 Integrity in the conduct of management.
- 1.1.3 Integrity in financial reporting.
- 1.1.4 Timely review of key executive and board members remuneration, and a formal and transparent board nomination process.
- 1.1.5 That the institution's operations are conducted prudently and within the framework of relevant laws, regulations and guidelines and that a reasonable balance is struck between the institution's objectives, risk management and control functions.
- 1.1.6 That controls are in place to protect the assets of the institution.
- 1.1.7 That the interests of shareholders, employees, customers and other stakeholders are considered when creating and implementing policy.

- 1.1.8 That consideration is given to the amount of time that proposed board appointees are able to devote to their duties as a director.
- 1.1.9 That the performance of the board, its committees and individual directors are reviewed and evaluated periodically, to determine whether there is a need to make changes or supplement the complement of directors.

## **1.2 Adequate Board Structure**

**Objective:** *To ensure that the board has adequate manpower and expertise to provide adequate oversight of the institution.*

- 1.2.1 The size of the board should be dictated by the nature of the institution, including its scale of business, and the complexity and diversity of its activities. Changes to the board's composition should be managed without undue disruption.
- 1.2.2 Collectively, members of the board should demonstrate a broad range of complementary skills and expertise, industry and regulatory knowledge and diversity of perspectives to build a capable, responsive and effective board.

## **1.3 Strategic Planning**

**Objective:** *To ensure that the organisation's vision and purposes are clearly defined, and that goals are set to achieve its objectives.*

- 1.3.1 The board must approve the strategic plan of the institution with appropriate measurable benchmarks. The strategic planning process should include the establishment of corporate values and the effective oversight of the implementation of these values. Corporate values should address corruption and self-dealing, the management of conflicts of interest, and the establishment of ethical standards and policies that are in the best interest of the institution.
- 1.3.2 The board must set limits for the various activities and risks undertaken within the institution. Where possible, authorisation of these limits should be tied to the seniority of an

officer, a particular office or a group of individuals responsible or knowledgeable in the area.

1.3.3 The board must approve the budget of the institution.

1.3.4 The board must ensure that the strategic plan conforms with applicable laws, regulations, guidelines and internal policies.

## **1.4 Establishing Committees of the Board**

**Objective:** *To effectively allocate tasks and responsibilities at the board level*

1.4.1 Committees of the board should be established with clearly defined objectives, authorities, responsibilities and tenure. These committees should be required to report regularly to the full board.

1.4.2 By resolution, the board should establish the mandate and the scope of authority of each committee. Each committee of the board should conduct an annual evaluation of its own effectiveness. In the evaluation, each committee should compare its performance with the requirements of its written mandate. The board should review each committee's evaluation.

1.4.3 To reinforce the independence of the board, the inclusion of management on these committees should be the exception rather than the rule. From time to time, management may be invited to attend the meetings as needed to provide operational inputs.

## **1.5 Board Meetings and Information**

**Objectives:** *To ensure sourcing and dissemination of relevant information at the board level.*

Board meetings serve as key fora where executives and directors share information and deliberate on the institution's performance, plans and policies. Frequent meetings allow for better communication between management and directors. All directors are expected to attend and actively participate in all meetings of the board. The same is expected of directors assigned to committees or subcommittees of the board. The following should be instituted with respect to board meetings:

- 1.5.1 Frequency of meetings should be dictated by the nature of operations and size of the institution. However, board meetings should be held at least quarterly.
- 1.5.2 The chairperson of the board should have primary responsibility for setting the agenda of board meetings and ensuring that information is made available to the members. All relevant information including, the agenda, board minutes and papers, should be forwarded to all directors before the meeting, with sufficient time to facilitate adequate review.
- 1.5.3 The chairperson of the board should decide on the adequacy of information and give instructions to management to ensure that the board's information needs are met. In addition to the information (strategic plan and budget comparison) to assess the quantitative performance of the institution, the board should also receive information on the observance of prudential norms, customer satisfaction, service quality, market share, market reaction, etc.
- 1.5.4 The chairperson of the board should ensure that clear and complete minutes of board meetings are maintained and circulated to members, and that the minutes accurately and adequately reflect the deliberations, decisions and actions taken at these meetings.

## **1.6 Independent Functioning of the Board**

**Objective:** *To promote segregation between the formulation and the execution of policy for control purposes.*

- 1.6.1 The ability of the board to function independently of management is central to effective corporate governance. The board must demonstrate its ability to act independently of management.
- 1.6.2 The board should implement appropriate structures and procedures to achieve and maintain its independence. The structures and procedures implemented should allow for the clear division of responsibilities between the board and management to facilitate a balance of power and authority.
- 1.6.3 Separate persons should hold the posts of chairman and chief executive officer.
- 1.6.4 The board should include no more than two *executive* directors to facilitate accountability and transparency.

## **1.7 Demarcation of Responsibilities between the Board and Management**

**Objective:** *To ensure that clear lines of responsibility and accountability exist within the organisation.*

- 1.7.1 The board should classify and document its own authorities and responsibilities, including those of its chairperson. It should also document the authority and responsibility of senior management, including the system of checks and balances for senior management. In addition, the board must ensure that clear lines of responsibility and accountability are established throughout the institution, and that the balance of responsibilities and accountabilities are adequately and periodically reviewed.
- 1.7.2 Whereas management is responsible for the day-to-day operation of the institution by virtue of the authority vested in it by the board, the board's primary responsibility is to provide

oversight of the institution to ensure that the interests of the company and its shareholders are served.

1.7.3 The board is responsible for approving job descriptions for all senior officers.

1.7.4 The board should always remain responsible for the overall stewardship of the institution and must be prepared to question, scrutinise and monitor, in a proactive manner, its performance, and the performance of its committees, individual directors and management.

## **1.8 Management of Risk**

*Objective: To ensure that the risks undertaken are understood, under control and well compensated.*

Risk management systems and practices will differ depending on the scope and size of the institution and the nature of the institution's risk exposures. However, every institution should have integrated policies that, taken together, establishes the institution's corporate philosophy on risk pertaining to its principal activities.

1.8.1 The board should ensure that the institution's policies and systems establish a prudent balance between the risks incurred and the potential returns to the institution.

1.8.2 Although management is responsible for identifying and assessing risks associated with new products and services, and should ensure that appropriate procedures and controls are implemented to manage these risks, the board should approve the introduction of all new products and services.

1.8.3 In order to facilitate its oversight, the board should establish a specialised risk management committee with the mandate to establish, implement and review the adequacy of risk management policies and systems within the institution, and to monitor their effectiveness.

## 1.9 Integrity of Internal Control and Management Information Systems

**Objectives:** *To ensure that adequate controls are in place and that information is obtained in a timely manner so that corrective action is taken where necessary.*

Implicit in the effective discharge of a board's responsibilities is the adequate functioning of well-designed internal controls and management information systems.

- 1.9.1 The board should ensure that senior management provides sound recommendations and advice on the organisational structure, objectives, strategies, plans and major policies of the institution.
- 1.9.2 The board is responsible for the integrity of data and information provided by the institution. The board should meet regularly, or as required, with the banking supervisor, or appoint a liaison board member to deal with regulatory matters. The board should ensure that the appropriate action is taken on instructions or recommendations from the regulatory or supervisory authority.
- 1.9.3 The roles of internal and external auditors are crucial in ensuring an effective control environment. As such, the board and management can enhance their effectiveness by ensuring that the internal audit function is duly recognised in the organisation and that its profile is enhanced. The board should also use, as appropriate, the services of external auditors to independently verify information received from management. It should also ensure that it receives a copy of the external auditors' management letter, together with management's action plan to deal with the deficiencies identified in the management letter and to follow up where necessary to ensure that these deficiencies are addressed. For further guidance, refer to ECCB's Guideline for selecting External Auditors of a licensed financial institution and ECCB's Guideline for the Internal Auditor of a licensed financial institution.

## **1.10 Integrity in Conducting Operations**

**Objective:** *To facilitate a high degree of integrity and fairness within the institution's operations.*

1.10.1 The board should put in place a code of conduct for employees, directors and stakeholders of the institution, setting out the institution's ethical values and standards. At a minimum, the code should deal with the improper use of confidential information, conflicts of interest, protection and use of the institution's assets (both financial and non-financial), corruption, compliance with laws and regulations, insider trading, and fit and proper criteria for directors. This code should be adequately communicated to the employees, directors and stakeholders and in the case of employees and directors, the code should be included in re-orientation programmes conducted from time to time. The code should have effective reporting and enforcement mechanisms and violations of the code should be addressed promptly and effectively.

1.10.2 The board should put in place procedures to ensure compliance with the Banking Act, and all other relevant Acts and Regulations and Guidelines. The board should also ensure that adequate systems are in place to identify, report and follow-up on deviations by an appropriate level of management.

1.10.3 Policies regarding conflicts of interest, fair treatment of customers and information sharing with stakeholders should be clearly set out.

1.10.4 Clear complaints procedures should be established to deal effectively with customer complaints.

## **1.11 Appointing and Monitoring Senior Management**

**Objective:** *To facilitate a competent team to execute the policies and plans of the board*

1.11.1 The board's appointment of competent senior management is vital given that the board delegates through management. The most important appointment is that of the chief executive officer or managing director. This should be a person with high integrity, technical competence and a proven track record in the industry. The board's approval is also crucial when appointing individuals to other senior management positions.

1.11.2 The board should set performance based compensation policies, goals and standards for senior management. The board should assess the chief executive officer's performance against the objectives that were previously established in the strategic plan.

1.11.3 The board should ensure that adequate programmes to continuously train and develop management are instituted.

1.11.4 The board should also give priority to the ongoing management of the institution by formulating an orderly succession plan.

1.11.5 The board is responsible for removing incompetent management personnel.

## **1.12 Remuneration**

**Objective:** *To facilitate fair compensation within the organisation*

1.12.1 The board should approve the compensation package to attract and retain competent senior management personnel and employees. Compensation should be established with due regard to the institution's strategic plan and objectives.

1.12.2 There should be full and clear disclosure in the financial statements of the total number of executive, non-executive and independent directors. The disclosure in the financial statements should include the collective earnings of the directorship, broken down into headings such as fees, share options, benefits, bonuses, etc.

## **1.13 Annual Review**

**Objective:** *To determine whether the board is fulfilling its own responsibilities.*

1.13.1 At least annually, the board should assess and document whether the institution's objectives are being met and whether it is fulfilling its responsibilities. The board should consider the input of management in this regard and make adjustments where necessary.

1.13.2 The board should review the performance and compensation of senior management at least annually.

1.13.3 The board should review the institution's capital adequacy considering the institution's risk tolerance, its existing risk exposures and its future plans.

## 1.14 Transparency in Governance

**Objective:** *To facilitate the adequate disclosure of information.*

- 1.14.1 The board should be satisfied that procedures are in place to ensure that the institution's disclosure obligations are met, and to ensure that the information being disseminated is true, timely and accurate.
- 1.14.2 The board should disclose its approach to corporate governance in its annual accounts. This information should be prepared, audited and disclosed in accordance with recognised standards for accounting, financial and non-financial disclosure, and audit. The institution should at a minimum meet the requirements of the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS).
- 1.14.3 The board shall ensure that an annual audit is conducted by an independent, competent and qualified auditor in accordance with Section 19 of the Banking Act<sup>4</sup>.
- 1.14.4 Channels for disseminating information should allow for fair, timely and cost-efficient access to relevant information by users.
- 1.14.5 Disclosure in the financial statements should include, but not be limited to, material information on:
- (i) The financial and operating results of the institution.
  - (ii) The institution's objectives.
  - (iii) Governance structures and policies.
  - (iv) Major share ownership and voting rights.
  - (v) Shareholding of each director in the institution.
  - (vi) Members of the board and key executives. For board members, disclosure should also include their qualifications, the shareholder(s) they represent (if any), and whether they are executive, non-executive or independent directors.
  - (vii) Foreseeable risk factors.
  - (viii) Related party transactions.

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<sup>4</sup> There may be a variation in the numbering in the Banking Acts of the individual ECCU territories.

## ***SECTION 2 - AUDIT AND/OR COMPLIANCE COMMITTEE***

**Objective:** *An Audit or Compliance Committee should be established to provide oversight of the institution's operations and ensure compliance within and by the institution.*

The audit or compliance committee's size needs to be proportionate to its duties and its terms of reference will necessarily vary according to the size, complexity and risk profile of the institution. This committee should be comprised principally of non-executive directors and should include members who have some financial expertise and a sound understanding of the industry in which the institution operates. The audit and/or compliance committee has a crucial role in monitoring and strengthening the institution's control environment and should:

- 2.1 Review the annual financial statements of the institution before they are approved by the board and oversee the bank's financial disclosure obligations;
- 2.2 Oversee the performance of the external and internal audit functions with regard to effectiveness, objectivity and independence;
- 2.3 Monitor management's reporting on internal controls and their responses to internal and external audit reports/letters. While it is management's responsibility to design and implement an effective system of internal control, the audit or compliance committee must ensure that management discharges this responsibility;
- 2.4 Recommend the retention or dismissal of the external auditors;
- 2.5 Ensure that consultants are not subsequently hired as auditors within a three year period;
- 2.6 Discuss the external auditor's engagement and management letters before they are presented to the entire board and follow-up on issues raised in the management letter.
- 2.7 Promote transparency and encourage confidence in the institution's financial reporting;

- 2.8 Establish a code of conduct and ensure that the board of directors, management, staff and stakeholders of the institution meet the requirements of the code of conduct;
- 2.9 Ensure that all data and information provided by the institution are accurate and timely;
- 2.10 Oversee senior management's activities to ensure that the organisation is in compliance with all laws, regulations, guidelines, regulatory and supervisory requirements, accepted business practices and ethical standards;
- 2.11 Ensure that directors maintain the fit and proper requirements as determined by the Banking Act;
- 2.12 Review all proposed transactions that are material as outlined in section 5 of the guidelines on related party transactions;
- 2.13 Review and approve all new financial products, where this duty is not being carried out by the board;
- 2.14 Submit reports and recommend corrective action to the board where there is non-compliance with any of the above items.
- 2.15 Have unfettered access to management. Have access to the auditors (external and internal) without management present and have the right to seek explanations and additional information from management and the auditors where required.

## ***SECTION 3 - DIRECTORS***

### **3.1 Qualifications of Directors**

**Objective:** *To ensure that directors are competent to discharge their duties.*

3.1.1 Directors must meet the fit and proper criteria for directors as required in section 26 of the Banking Act<sup>5</sup>.

3.1.2 Members of the board should possess expertise and experience relevant to the principal issues that the institution faces, including, but not limited to, internal controls, capital management, banking risks and corporate planning.

### **3.2 Duties of Directors**

**Objective:** *To identify a director's key responsibilities to the board and the organisation in general.*

All directors of a financial institution have a duty to the financial institution to:

3.2.1 Perform their functions with diligence and care, and with a degree of competence as can reasonably be expected from persons holding that position.

3.2.2 Review key risks in the institution's operations and supervise the management of those risks.

3.2.3 Independently assess the institution's policies, processes and procedures, to identify and initiate management action on issues requiring improvement.

3.2.4 Disclose any potential conflicts of interest as required by the Banking Act.

3.2.5 Recognise and guard against conflicts of interest in dealings with the institution.

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<sup>5</sup> There may be a variation in the numbering in the Banking Acts of the individual ECCU territories.

- 3.2.6 Develop, at least, a basic knowledge of the institution's operations, relevant laws, regulations, guidelines, other regulatory requirements, and the customs and practices that govern that institution.
- 3.2.7 Develop the relevant knowledge and skills to perform effectively on any board committee assigned.
- 3.2.8 Exercise independence in decision-making and problem solving, and act as much as is reasonably possible on a fully informed basis.
- 3.2.9 Devote sufficient time to their responsibilities and act only within the scope of their authority.

### **3.3 Determination of Directors' Independence**

**Objective:** *To facilitate a greater degree of unbiased policymaking within the organisation.*

Institutions should strive to maintain at least a 20 per cent ratio of independent directors to non-independent directors on the board. The board should review factors influencing a director's independence at the time that person is proposed for election or re-election. During this deliberative process, the board should consider the nature, extent and materiality of the director's relationship with the institution.

In the determination of a director's independence, consideration should be given to whether the person:

- 3.3.1 Was employed by the institution within the last five years; or
- 3.3.2 Within the last five years, had a material relationship with the institution either directly, or as an advisor, partner, shareholder, director or senior employee of a body that has or had such a relationship with the institution; or

- 3.3.3 Received or receives additional remuneration from the institution apart from a director's fee, participates in the institution's share option or a performance-related pay scheme, or is a member of the institution's pension scheme, or receives other forms of deferred compensation not contingent upon continued service; or
- 3.3.4 Represents a significant shareholder on the board; or
- 3.3.5 Has served on the board for more than ten years.

#### **3.4 Orientation of Directors**

**Objective:** *To facilitate directors' continuous adjustment to the changing business environment.*

- 3.4.1 Institutions should establish an orientation programme for new directors as well as periodic refresher programmes for the existing directors. The orientation should focus on the responsibilities and legal obligations of a director and the board as a whole.
- 3.4.2 The orientation programme should include a review of the institution's financial condition, risk management processes, audit and compliance functions and codes of conduct.
- 3.4.3 The orientation programme should also include a discussion on the nature of the institution's business, prevailing conditions in the banking industry, corporate strategy and shareholder expectations.
- 3.4.4 There should be a forum or avenues for directors to discuss issues with experts.

## ***SECTION 4 - RESPONSIBILITIES OF SENIOR MANAGEMENT***

**Objective:** *To identify senior management's responsibilities in the corporate governance process.*

The bank's senior management is responsible for the day-to-day operations of the institution and serves as a link between the board and staff, and vice versa. The senior management should be responsible for:

- 4.1 Implementing the bank's strategic plan;
- 4.2 Keeping directors adequately informed of the performance of the institution through reports, including financial and management reports, and reports prepared by internal auditors, external auditors and the compliance officer;
- 4.3 Advising the board on the appropriate organisational structure;
- 4.4 Implementing and maintaining risk management and control systems appropriate to the scale, nature and complexity of the institution, including policies and procedures;
- 4.5 Delineating and documenting the areas of responsibility for each staff member. Reporting lines must be clear and appropriate in the context of the scale, nature and complexity of the bank;
- 4.6 Communicating the bank's strategic direction, reporting lines and risk tolerances throughout the organisation; and
- 4.7 Overseeing management information systems to enable the delivery of timely and accurate information.

## ***SECTION 5 - RELATIONSHIP WITH SUPERVISORY BODY***

**Objective:** *To facilitate open communication between the board of directors and the Eastern Caribbean Central Bank.*

5.1 Based on the annual review considered under Section 1.13 of the guidelines, the board and management should be able to demonstrate to the ECCB:

- (i) The overall effectiveness of their policies to protect the interests of depositors, creditors, shareholders and other stakeholders.
- (ii) Their ability to effectively identify, measure, manage and control significant business activities and the risks associated with those activities.
- (iii) That the institution's control environment is appropriate and effective, taking into account the institution's unique character, approach to governance, management and communications style, organisational structure, resource availability, procedures and controls and the conduct of its staff.
- (iv) That the institution can address effectively, risk and control issues raised through internal and external audit, relevant supervisory authorities and other sources.
- (v) That changes to significant policies and procedures are appropriately reviewed and approved.
- (vi) That the institution's internal controls provide reasonable assurance of the integrity and reliability of its records.
- (vii) That internal controls are based on documented policies and procedures and are implemented by trained personnel whose duties have been segregated appropriately, and that adherence to established internal controls is continuously monitored.
- (viii) That the management information systems and accounting records are complete, accurate and current.
- (ix) That management and staff maintain high corporate values and ethical standards, that are based on the institution's established code of conduct.

5.2 In order to effectively carry out the above responsibilities, the board must:

- (i) Understand the regulatory environment within which it and its subsidiaries operate;
- (ii) Be informed of the results of examinations conducted by the Eastern Caribbean Central Bank and other regulators where applicable;
- (iii) Require appropriate follow-up on remedial actions, recommendations or deficiencies identified by the regulators, including following up with senior management to

determine if the weaknesses found are an indication that similar problems may exist elsewhere in the organisation;

- (iv) Consider the findings of regulators in its ongoing evaluation of senior management, recognising that primary responsibility for identifying weaknesses rests with the board and senior management; and
- (v) Be open to sharing with regulators information relevant to the regulators' oversight of the institution.

## ***SECTION 6 - GOVERNANCE OF SUBSIDIARIES AND HOLDING COMPANIES***

**Objective:** *To encourage adequate oversight of a company affiliated to a financial institution.*

- 6.1 The board should be aware of all material risks and other issues that may ultimately affect the institution. As some of these risks may originate in subsidiaries, the parent board must be able to exercise adequate oversight over the activities of the subsidiary to control these risks.
- 6.2 The corporate governance responsibilities of boards of subsidiary financial institutions are the same as those of the board of a regulated parent financial institution. The corporate governance responsibilities of a regulated holding company board is the same as those of a regulated financial institution.
- 6.3 The board of a parent or holding company of a financial institution should determine what board structures for its subsidiaries would best contribute to an effective chain of oversight. This section does not suggest that the boards of subsidiary institutions should replicate all corporate governance activities of parent boards or that parent boards should assume responsibility for the performance of specific duties of subsidiary boards.
- 6.4 A parent financial institution should pay special attention to the performance, composition and activities of subsidiary boards, especially where:
- i) The activities of a subsidiary are significantly different or independent from the core business of the parent;
  - ii) Additional expertise is required to provide oversight of the subsidiary's activities;
  - iii) There is potential for conflicts of interest between the various stakeholders of the parent company and the subsidiary;
  - iv) There is a need for close oversight of some activities of the subsidiary that, although the activity may not be material by some measure, it might give rise to material reputational, legal or regulatory risks for the financial institution as a whole; or
  - v) The subsidiary operates in a jurisdiction that has substantially different expectations of governance.

## ***SECTION 7 - SHAREHOLDERS***

**Objective:** *To facilitate more shareholder involvement in the governance of the institution.*

- 7.1 The corporate governance framework should ensure that the rights of stakeholders are respected and that where these rights are violated, there is an opportunity to obtain redress for the violation.
- 7.2 Stakeholders who participate in the corporate governance process should have access to pertinent information.
- 7.3 The corporate governance framework of an institution should ensure the equitable treatment of all shareholders, including minority shareholders.
- 7.4 Eligible shareholders should have the opportunity to participate effectively in shareholders' meetings; they should be informed of the rules, including the procedures that govern these meetings.
- 7.5 Shareholders should be furnished with sufficient information regarding the location and agenda of general meetings.
- 7.6 Opportunity should be provided for shareholders to question the board and to place items on the agenda at general meetings, subject to reasonable limitations.
- 7.7 The corporate governance framework should specify conditions for the appointment and removal of directors by shareholders.
- 7.8 The corporate governance framework should specify actions that require shareholder authorisation.
- 7.9 Shareholders should be able to vote in person or by proxy.
- 7.10 The corporate governance framework should ensure that stakeholders, including employees, have an avenue to report and/or communicate their concerns about illegal or unethical practices.

Made by the Eastern Caribbean Central Bank this 15<sup>th</sup> day of May 2006.

**K Dwight Venner**  
**Governor**