



South African Reserve Bank

From the Office of
the Registrar of Banks

Confidential

2007-04-16

Banks Act Circular 3/2007

To all banks and branches of foreign banks

Meetings with boards of directors to be held during the 2007 calendar year

Executive summary

This circular serves to inform all reporting banks of the flavour-of-the-year topics for meetings with the boards of directors of banks to be held during 2007

1. Introduction

In order to assist this Office to discharge its responsibilities, the scope of the meetings with banks' boards of directors to be held during the 2007 calendar year has been broadened to include discussions on the following:

- 1.1 Maintenance of a board directorship continuity programme
- 1.2 Board members' involvement in the implementation of the revised Capital Framework (Basel II)

2. Format of the meetings with banks' boards of directors

All banks will be required to make a presentation on the above flavour-of-the-year topics at the meetings with boards of directors.

At least one month prior to the date of the meetings with a bank's board of directors, this Office will provide each institution with a detailed agenda incorporating the above flavour-of-the-year topics.

Owing to the complexity and greater number of issues to be discussed during the meeting, it is important that sufficient time be allocated in order for all matters to be discussed comprehensively. Accordingly, in contrast to previous years, this Office will shorten its presentation to a maximum time of half an hour, thereby allowing one and a half hours for the above two topics to be presented.

3. Maintenance of a board directorship continuity programme

Utilising the format outlined below, the chairperson of the board of directors will be required to give a presentation on the maintenance of a board directorship continuity programme. The presentation should address the process followed to select, appoint, induct, develop and remove board members as and when necessary, including but not limited to the following criteria:

- 3.1 An overview of the process followed to assess the skills, experience and other qualities required for the effective functioning of the board.
- 3.2 An overview of the process followed in the selection and ongoing assessment of directors, including:
 - 3.2.1 An assessment of whether directors possess the knowledge and skills that may reasonably be expected of directors.
 - 3.2.2 An assessment of whether non-executive directors have sufficient time available to properly carry out their duties and responsibilities to the bank, and exercise the utmost good faith, honesty and integrity in all their dealings with or on behalf of the bank. This should include a matrix disclosing: (i) all other memberships of each director (ii) the name of the entity(ies) which he/she serves (iii) the number of meetings each entity holds per annum which he/she is required to attend, and (iv) the extent of time that is required of the director to prepare for such meetings.
- 3.3 An overview of the process followed in the induction of directors, including the following:
 - 3.3.1 Updating directors on the relevant laws and regulations;
 - 3.3.2 the induction on their fiduciary duties and responsibilities; and
 - 3.3.3 formal orientation programmes to familiarise incoming directors with the bank's operations.
- 3.4 An overview of the process followed in the evaluation of directors' performance to assess whether directors:
 - 3.4.1 act *bona fide* for the benefit of the bank;
 - 3.4.2 avoid conflicts between the bank's interest and their own interests;
 - 3.4.3 exercise sufficient care in carrying out their functions in relation to the bank;
 - 3.4.4 are fit and proper persons to hold such appointments;
 - 3.4.5 are diligent in discharging their duties;
 - 3.4.6 have acquired a broad knowledge of the bank; and
 - 3.4.7 regularly attend all meetings and meaningfully contribute to such meetings.

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- 3.5 An overview of the process that has been put in place to assess the following:
 - 3.5.1 Skills level and level of efficiency of each director and the recording of the shortfall of the foregoing.
 - 3.5.2 The actions implemented to address identified shortfalls of skill and knowledge in order to achieve the desired level of competency.
 - 3.5.3 Monitoring and follow-up of corrective actions implemented to address identified shortfalls of skill and knowledge.
- 3.6 An overview of the process followed to ensure:
 - 3.6.1 Periodic replacement of non-executive directors.
 - 3.6.2 A formal succession plan of the board and executive officers.
- 3.7 An overview of the process followed in determining whether the services of a director should be terminated.
- 4. Board members' involvement in the implementation of the revised Capital Framework (Basel II)**
 - 4.1 In order to determine the directors' involvement in the implementation of the revised Capital Framework (Basel II), the chairperson of the board risk committee will be required to give a presentation on the following:
 - 4.1.1 Processes and programmes followed by the board to apprise itself of the broader issues pertaining to Basel II.
 - 4.1.2 Critical interventions and decisions by the board on the Basel II implementation process.
 - 4.1.3 Progress made with the implementation of Basel II, including but not limited to critical areas identified that require further action.

5. Acknowledgement of receipt

Two additional copies of this circular are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt duly completed and signed by both the chief executive of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



E M Kruger
Registrar of Banks

The previous circular issued was Banks Act Circular 2/2007 dated 3 April 2007.