



South African Reserve Bank

Prudential Authority

Ref.: 15/8/2

D4/2018

To: All banks, controlling companies, branches of foreign institutions and auditors of banks or controlling companies

Directive 4/2018 issued in terms of section 6(6) of the Banks Act 94 of 1990

Matters related to the promotion of sound corporate governance, and in particular in relation to the appointment of directors and executive officers

Executive summary

Section 1(1A) of the Banks Act, 1990 as amended by the Financial Sector Regulation Act No. 9 of 2017 states that in order to determine for the purposes of the Act whether a particular person is a fit and proper person to hold the office of a director or an executive officer of a bank or controlling company, the Prudential Authority (PA) must have regard to specific qualities, in so far as they are reasonably determinable, of the person concerned.

Effective corporate governance in banks and controlling companies is critical to the proper functioning of the banking sector and the economy as a whole.

Internationally and locally various standards or codes that deal with matters related to corporate governance, cooling-off periods and independence of directors have been developed or further updated during recent years.

In this regard, the PA issued a proposed directive on 29 March 2018 dealing with several of the aforementioned matters to promote effective corporate governance in banks and controlling companies.

All interested persons were invited to submit their comments in respect of the proposed directive by no later than 30 April 2018. The PA wishes to express its sincere appreciation for the valuable comments that have been submitted.

During the past few months the PA carefully considered all the comments submitted and had extensive discussions and engagements with various key players.

This directive serves to direct banks and controlling companies to have in place and to implement a sufficiently robust board-approved policy that appropriately deals with the matters specified herein.

1. Introduction

- 1.1 A key objective of prudential regulation and supervision of financial institutions is to achieve a stable financial system that works in the interest of financial customers and that supports balanced and sustainable economic growth.
- 1.2 In this regard effective corporate governance in banks and controlling companies is critical to the proper functioning of the banking sector and the economy as a whole.
- 1.3 As stated in the revised principles on corporate governance for banks¹, issued by the Basel Committee on Banking Supervision (Basel Committee)-
- 1.3.1 supervisors have a keen interest in sound corporate governance, as it is an essential element in the safe and sound functioning of a bank and may adversely affect the bank's risk profile if not operating effectively; and
- 1.3.2 well governed banks contribute to the maintenance of an efficient and cost-effective supervisory process, as there is less need for supervisory intervention.
- 1.4 Internationally and locally various standards or codes that deal with matters related to corporate governance, cooling-off periods and independence of directors have been developed or further updated during recent years.
- 1.5 In this regard, the PA issued a proposed directive on 29 March 2018 dealing with several of the aforementioned matters to promote effective corporate governance in banks and controlling companies.
- 1.6 All interested persons were invited to submit their comments in respect of the proposed directive by no later than 30 April 2018. The PA wishes to express its sincere appreciation for the valuable comments that have been submitted.
- 1.7 During the past few months the PA carefully considered all the comments submitted and had extensive discussions and engagements with various key players.
- 1.8 Based on the comments received and the extensive discussions held and engagements with various key players, the PA duly amended the relevant requirements originally set out in the proposed directive issued on 29 March 2018.

2. Banks Act, 1990

- 2.1 Section 1(1A) of the Banks Act, 1990 (Banks Act) as amended by the Financial Sector Regulation Act No. 9 of 2017 states that in order to determine for the purposes of the Act whether a particular person is a fit and proper person to hold the office of a director or an executive officer of a bank or controlling company, the PA must have regard to the following qualities, in so far as they are reasonably determinable, of the person concerned:
- 2.1.1 the general probity of that person;

¹ Available online at [Principles on corporate governance](#)

- 2.1.2 the competence and soundness of judgment of that person for the fulfilment of the responsibilities of the office in question; and
- 2.1.3 the diligence with which the person concerned is likely to fulfil those responsibilities.
- 2.2 Furthermore sections 60, 60B, 64, 64A, 64B and 64C of the Banks Act, among others-
 - 2.2.1 specify several responsibilities or functions of the board of directors or specified board appointed committees of the bank or controlling company; and/ or
 - 2.2.2 impose specific restrictions on the composition of the board of directors or board appointed committees of the bank or controlling company.
- 2.3 For ease of reference, the respective requirements specified in the aforementioned sections of the Banks Act are set out in Annexure A to this Directive.

3. Regulations relating to Banks

- 3.1 Regulation 41 of the Regulations relating to Banks (the Regulations) also sets out requirements related to the composition of the board of directors of the bank or controlling company.
- 3.2 For ease of reference, the relevant requirements specified in regulation 41 of the Regulations are set out in Annexure B to this Directive.
- 3.3 In order to duly discharge the responsibilities related to the appointment of suitably qualified persons, assigned to the PA in terms of the Banks Act, regulation 42 of the Regulations requires that a duly completed statement and declaration in the form of a form BA 020, as prescribed in regulation 53 of the Regulations, has to be submitted to the PA by the chairperson of the board, or the chairperson's duly appointed representative, or, in the case of a new bank, by the auditor, in respect of-
 - 3.3.1 every person who for the first time accepts an appointment as a director or an executive officer of a bank or a controlling company, at least 30 days prior to the appointment becoming effective; and
 - 3.3.2 every person who previously served as a director or executive officer of a bank or controlling company but subsequently resigned as such and is being reappointed as a director or executive officer of a bank or controlling company after a period of more than twelve months since the date of resignation, at least 30 days prior to the appointment becoming effective; and
 - 3.3.3 any serving director or executive officer of a bank or controlling company, at the request of the PA, in terms of section 1(1A)(c) of the Banks Act.

4. Core principles for effective banking supervision

- 4.1 On 14 September 2012 the Basel Committee issued enhancements to the Core Principles for effective banking supervision (Core Principles).²
- 4.2 The Core Principles are the *de facto* minimum standard for sound prudential regulation and supervision of banks and banking systems.
- 4.3 Given the fundamental deficiencies in banks' corporate governance that were exposed during the global financial crisis, a new Core Principle on corporate governance (Core Principle 14) has been added to the set of Core Principles.
- 4.4 For ease of reference, some of the relevant key requirements specified in Core Principle 14 are set out in Annexure C to this Directive.

5. Revised principles on corporate governance for banks

- 5.1 On 8 July 2015, the Basel Committee issued revised principles on corporate governance for banks.³
- 5.2 For ease of reference, some of the relevant key matters or requirements specified in the revised principles on corporate governance for banks are set out in Annexure D to this Directive.

6. Comparative Corporate Governance report issued by the OECD

- 6.1 During 2017 the Organisation for Economic Co-operation and Development (OECD) published the OECD Corporate Governance Factbook,⁴ which-
- 6.1.1 provides the first comparative report on corporate governance across all OECD, G20 and Financial Stability Board member jurisdictions; and
- 6.1.2 covers 47 different jurisdictions hosting 95% of all publicly traded corporations in the world as measured by market value.
- 6.2 For ease of reference, some of the relevant key findings contained in the OECD Corporate Governance Factbook are set out in Annexure E to this Directive.

7. Corporate governance codes, principles and practices in South Africa

- 7.1 The King IV Report on Corporate Governance was issued in 2016.⁵
- 7.2 The King IV Report sets out 17 overarching governance principles, including matters related to the composition of the board of directors and non-executive and independent non-executive directors.
- 7.3 For ease of reference, some of the relevant key governance related principles contained in the King IV Report are set out in Annexure F to this Directive.

² Available online at [Enhanced Core Principles](#)

³ Available online at [Principles on corporate governance](#)

⁴ Available online at: [OECD Corporate Governance Factbook](#)

⁵ Available online at: [King IV](#).

8. Directive

8.1 Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks and controlling companies are hereby directed to have in place and to implement a sufficiently robust board-approved policy that, as a minimum-

8.1.1 satisfactorily protects and promotes the principle of board independence;

In particular, the policy must clearly specify-

8.1.1.1 that the chairperson of the Board must be an independent non-executive director, provided that-

a) the policy shall also make adequate provision for cases when the chairperson may become non-independent for some reason for a period of time or is conflicted on a specific matter, such as, for example, by making provision for the appointment of a lead independent director;

b) only in exceptional cases, and at the sole discretion of the PA, and after due consideration of factors such as the adequacy of mechanisms in place to strengthen the independence of the board and adequate provision for an additional channel of communication for board members when the chairperson may be conflicted, and/ or the appointment of a lead independent director, and such other factors regarded as material by the PA, the PA may approve in writing, subject to such conditions as may be specified in writing by the PA, the appointment of a non-independent non-executive director to serve as the chairperson of the Board for such a period of time as may be specified in writing by the PA;

8.1.1.2 that the respective chairpersons of all the relevant Board sub-committees of the bank or controlling company required to be established in terms of the relevant provisions of the Banks Act, 1990, and the Companies Act, 2008, must be independent non-executive directors, provided that-

a) the policy shall also make adequate provision for cases when the chairperson of the relevant Board sub-committee may become non-independent for some reason for a period of time or is conflicted on a specific matter, such as, for example, by making provision for the appointment of a lead independent director;

b) only in exceptional cases, and at the sole discretion of the PA, and after due consideration of factors such as the adequacy of mechanisms in place to strengthen the independence of the Board sub-committee and adequate provision for an additional channel of communication for board members when the chairperson of the relevant Board sub-committee may be conflicted, and/ or the appointment of a lead independent director, and such other factors regarded as material by the PA, the PA may approve in writing, subject to such conditions as may be specified in writing by the PA, the appointment of a non-independent non-executive director to serve as the chairperson of the Board sub-committee for such a period of time as may be specified in writing by the PA;

8.1.1.3 that no person who-

- a) has been an executive director;
- b) has been the Chief Executive Officer (CEO);
- c) has been an executive officer, as defined in the Banks Act;
- d) has been the designated external auditor directly or indirectly responsible for performing the statutory audit, or a key member of the external audit team directly or indirectly responsible for performing the statutory audit; or
- e) has been the curator,

of the bank or controlling company at any time during the preceding twelve months can be appointed as a non-executive director of the bank or controlling company, provided that-

- i) in exceptional cases, based on the sole discretion of the PA, and after due consideration of factors such as proportionality, the systemic importance or interconnectedness of the relevant bank or controlling company within the domestic financial system, or such other factors regarded as material in relation to the person or institution under consideration, the PA may approve the appointment of any of the aforementioned persons to serve as a non-executive director of the bank or controlling company, after such a period shorter than twelve months as may be specified in writing by the PA;
- ii) for the purposes of this Directive, unless specifically otherwise stated, executive manager, executive management or senior executive management shall have the same meaning as executive officer, as defined in the Banks Act;

8.1.2 includes objective and baseline tests setting out circumstances that deem a director not to be independent.

In this regard, as a minimum, a director is deemed not to be independent if the director, amongst other factors-

8.1.2.1 is a substantial shareholder of the bank or controlling company or an executive officer of or otherwise associated directly with a substantial shareholder of the bank or controlling company;

For the purposes of this Directive a substantial shareholder of the bank or controlling company means any person with a shareholding of which the total nominal value together with the total nominal value of shares already held by such person and by the associate or associates of such person or the voting rights in respect of the issued shares of such bank or controlling company that are exercisable by such person together with the voting rights attached to the shares of such bank or controlling company that are already held and exercisable by such person and by the associate or associates of such person, amount to more than five (5) per cent of the total nominal value or the total voting rights in respect of all the issued shares of the bank or controlling company, as the case may be.

8.1.2.2 has within the last three years been a principal of a material professional adviser or a material consultant to the bank or controlling company or another member of the banking group, such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that director is compromised by that relationship;

8.1.2.3 is a significant provider of equity or other sources of capital, or a material provider of funding, to the bank or controlling company;

For the purposes of this Directive-

a) a significant provider of equity or other sources of capital means any person directly or indirectly providing equity or other sources of capital to the bank or controlling company, as the case may be, which in aggregate is equal to or exceeds five (5) per cent of the aggregate amount of total qualifying capital and reserve funds of the bank or controlling company, as the case may be, as reported in the latest form BA 700 submitted to the PA;

b) a material provider of funding means any person directly or indirectly providing funding to the bank or controlling company, as the case may be, which in aggregate is equal to or exceeds five (5) per cent of the aggregate amount of total liabilities of the bank or controlling company, as the case may be, as reported in the bank or controlling company's latest set of audited financial statements.

8.1.2.4 is the recipient of a form of remuneration other than-

a) directors' fees; or

b) directors' remuneration,

such as by means of a share-based incentive scheme, which is contingent on the performance of the bank or controlling company.

That is, any person who receives any form of fees or remuneration that is linked to the performance of the bank or controlling company, such as a share-based incentive scheme, or that is contingent on the performance of the bank or controlling company is deemed not to be independent.

8.1.2.5 is or has within the last three years been a significant or ongoing professional adviser to or an internal auditor of the bank or controlling company, such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that person is compromised by that relationship;

8.1.2.6 is a member of the immediate family of an individual who falls within any of the aforementioned categories of persons;

8.1.2.7 has been an executive director, the Chief Executive Officer (CEO) or an executive officer of the bank or controlling company at any time during the preceding three years;


- 8.1.2.8 has served as an independent non-executive director of the bank or controlling company for a period of nine (9) years, provided that should the bank or controlling company decide to reappoint a person who already served as an independent non-executive director of the bank or controlling company for a period of nine (9) years or longer, to remain a member of the board after the aforementioned period of nine (9) years, that person shall for purposes of this Directive and any other relevant requirements related to board composition specified in the Banks Act or the Regulations, be regarded as a non-executive director of the bank or controlling company concerned, but not as an independent non-executive director of that bank or controlling company;
- 8.1.2.9 has been the designated external auditor directly or indirectly responsible for performing the statutory audit for the bank or controlling company, or a key member of the audit team directly or indirectly responsible for performing the statutory audit for the bank or controlling company, at any time during the preceding three financial years; or
- 8.1.2.10 has been the curator of the bank or controlling company at any time during the preceding three years.
- 8.1.3 ensures-
- 8.1.3.1 the board has in place a clear and rigorous process for identifying, assessing and selecting board candidates;
- 8.1.3.2 the board has in place sufficiently robust measures to promote continuity in the appointment of independent non-executive directors and other non-executive directors;
- 8.1.3.3 the bank or controlling company's selection process includes reviewing whether the board candidate possesses the required knowledge, proportionate skills, experience and, particularly in the case of non-executive directors, independence of mind given his/her responsibilities on the board and in the light of the bank or controlling company's business and risk profile;
- 8.1.3.4 the board includes a sufficient number of independent directors, that is, as stated hereinbefore, persons who are independent in conduct, character and judgement, and has no relationship with the bank or controlling company, their related entities, substantial shareholders or officers that could interfere, or be reasonably perceived to interfere, with the exercise of the directors' independent business judgement in the best interests of the bank or controlling company;
- 8.1.3.5 the composition of the board facilitates effective oversight on an ongoing basis;
- 8.1.3.6 appropriate and ongoing training for directors;
- 8.1.3.7 ongoing assessment of the effectiveness of individual board members;
- 8.1.3.8 that during any relevant required cooling-off period the relevant person does not hold any position or is not associated with the bank or controlling company in a manner that would cause bias in decision-making, when judged from the perspective of a reasonable and informed third party;

- 8.1.4 clearly specifies-
- 8.1.4.1 the maximum number and/or type of boards a non-executive director may serve on, based on and duly taking into consideration each relevant director's circumstances, and the nature, scale and complexity of the respective directorships, in order to ensure the person is able to devote sufficient time to duly discharge his/her responsibilities as a director of the bank or controlling company;
- 8.1.4.2 that-
- a) every independent director has to at the first meeting of the Board in which he/she participates as a director and thereafter at the first meeting of the Board in every financial year or whenever there is any change in the circumstances which may affect his/her status as an independent director, give a declaration that he/she meets the board-specified criteria of independence; and
 - b) the relevant contents of the aforementioned declaration made by the director must be duly assessed and appropriately verified by the bank or controlling company, as the case may be, as part of its own internal governance process;
- 8.1.4.3 sufficiently robust criteria to ensure that the bank or controlling company appoints only "fit-and-proper" persons-
- a) to serve as directors or executive officers of the bank or controlling company concerned;
 - b) with the necessary knowledge, proportionate skills, experience and soundness of judgement to establish and maintain an adequate and effective process of corporate governance, that is consistent with the nature, complexity and risks inherent in the activities and the business of the bank or controlling company concerned.
- 8.1.4.4 an appropriate minimum required cooling-off period for other types of appointment of persons to serve as directors or executive officers of the bank or controlling company concerned, such as, for example, the appointment of a person who currently or previously served as-
- a) an executive director;
 - b) the Chief Executive Officer (CEO);
 - c) the chairperson of the Board; or
 - d) the curator,
- of any other bank or controlling company;
- 8.1.5 prevents any potential conflict of interest between the business interests of the bank or controlling company and the personal interests of directors or executive officers of the bank or controlling company.

- 8.2 To the extent that-
- 8.2.1 the board-approved policy of the bank or controlling company currently in place does not comply with any of the relevant requirements set out in paragraph 8.1 above, the board of directors of that bank or controlling company, as the case may be, shall ensure that the relevant policy is appropriately amended, approved and implemented to fully comply with the relevant requirements set out in this Directive, within six (6) months following the issuance of this Directive;
- 8.2.2 the composition of the board of directors of a bank or controlling company does not comply with the relevant requirements set out in this Directive, the board of directors of that bank or controlling company, as the case may be, shall ensure that the composition of the board of directors of that bank or controlling company, as the case may be, fully complies with the relevant requirements set out in this Directive, within eighteen (18) months following the issuance of this Directive;
- 8.2.3 any position held by a member of the board of directors of a bank or controlling company, as the case may be, does not comply with the relevant requirements set out in this Directive, the board of directors of that bank or controlling company, as the case may be, shall ensure that an appropriately qualified person who meets the relevant requirements set out in this Directive is appointed to that position, within eighteen (18) months following the issuance of this Directive.
- 8.3 The PA shall, as part of its supervisory review and evaluation processes, assess a bank and controlling company's corporate governance policies, processes and practices, and their implementation, to ensure that-
- 8.3.1 the bank or controlling company has in place sufficiently robust corporate governance policies, processes and practices, commensurate with its risk profile and systemic importance;
- 8.3.2 the board-approved policy of the bank or controlling company, the composition of the board of directors and the positions held by members of the board of directors fully comply with the relevant requirements set out in this Directive.
- 8.4 The PA shall require banks and controlling companies to correct any identified deficiencies within such period as may be directed in writing by the PA.
- 8.5 The provisions of this Directive do not apply to the board of directors of a foreign institution conducting the business of a bank in the Republic under an authorization envisaged in section 18A of the Banks Act.

9. Acknowledgement of receipt

- 9.1 Kindly ensure that a copy of this Directive is made available to your institution's external auditors. The attached acknowledgement of receipt duly completed and signed by both the chief executive officer of the institution and the said auditors should be returned to the PA at the earliest convenience of the aforementioned signatories.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 3/10/2018

Encl. 6

The previous directive issued was Directive 3/2018 dated 5 September 2018.

Banks Act, 1990

1. Section 60 of the Banks Act states that-
 - 1.1 each director, chief executive officer and executive officer of a bank owes a fiduciary duty and a duty of care and skill to the bank of which such person is a director, chief executive officer or executive officer; and
 - 1.2 not more than 49 per cent, rounded off to the next lower integral number, of the directors of-
 - 1.2.1 a bank shall be employees of that bank or of any of its subsidiaries, or of such bank's controlling company, or of any of such controlling company's subsidiaries;
 - 1.2.2 a controlling company shall be employees of that company or of any bank in respect of which that company is registered as a controlling company.

The intention of these requirements is to ensure that the majority of the directors of a bank and a controlling company are non-executive directors.

2. In addition-
 - 2.1 section 64 of the Banks Act states that all the members of the audit committee of-
 - 2.1.1 a bank shall be persons who are not employees of the bank nor of any of its subsidiaries, its controlling company or any subsidiary of its controlling company: Provided that the chairperson of the board of directors of the bank or the controlling company shall not be appointed as a member of the audit committee;
 - 2.1.2 a controlling company shall be persons who are not employees of the controlling company nor of any of its subsidiaries, the bank in respect of which it is the controlling company or any subsidiary of that bank: Provided that the chairperson of the board of directors of the controlling company or the bank in respect of which it is the controlling company shall not be appointed as a member of the audit committee.
 - 2.2 section 64A of the Banks Act imposes a duty on the board of directors of a bank and controlling company to appoint at least three of its members, of whom at least two are non-executive directors, to form and serve on a risk and capital management committee.

The intention of these requirements is to ensure that the majority of the directors of the risk and capital management committee of a bank and a controlling company are non-executive directors.

2.3 section 64B of the Banks Act imposes a duty on the board of directors of a bank and controlling company to establish a directors' affairs committee, consisting only of non-executive directors of the bank or controlling company.

The functions of the directors' affairs committee include matters such as assisting the board of directors-

2.3.1 in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the bank or controlling company;

2.3.2 to establish and maintain a board directorship continuity programme entailing-

a) measures to ensure continuity of non-executive directors;

b) a regular review of the composition of skills, experience and other qualities required for the effectiveness of the board;

2.4 section 64C of the Banks Act imposes a duty on the board of directors of a bank or controlling company to establish a remuneration committee, consisting only of non-executive directors of the bank or controlling company.

2.5 section 60B(1) of the Banks Act imposes a duty on the board of directors and executive officers of a bank to establish and maintain an adequate and effective process of corporate governance, that is consistent with the nature, complexity and risks inherent in the activities and the business of the bank concerned.

In this regard section 60B(2) of the Banks Act states that the process of corporate governance has to be established with the objective of achieving the bank's strategic and business objectives efficiently, effectively, ethically and equitably (within acceptable risk parameters), to ensure, among other things-

2.5.1 a balance of interests of the shareholders and other interested persons who may be affected by the conduct of directors or executive officers of the bank or controlling company, within a framework of effective accountability;

2.5.2 commitment by the executive officers of the bank or controlling company to adhere to corporate behaviour that is universally recognised and accepted as correct and proper;

- 2.5.3 that mechanisms and procedures are established and maintained to minimize or avoid potential conflicts of interests between the business interests of the bank or controlling company and the personal interests of directors or executive officers of the bank or controlling company;
- 2.5.4 responsible conduct by the directors and executive officers of the bank or controlling company; and
- 2.5.5 compliance with all applicable laws and regulations.

Regulations relating to Banks

1. Regulation 41 of the Regulations relating to Banks (the Regulations) states that the chairperson of the board of directors-
 - 1.1 of a bank shall not be-
 - 1.1.1 an employee of the bank, any of the subsidiaries of the bank, the controlling company of the bank or any subsidiary of the controlling company;
 - 1.1.2 a member of the audit committee of the bank or the controlling company of the bank;
 - 1.2 of a controlling company shall not be-
 - 1.2.1 an employee of the controlling company or any bank in respect of which that company is registered as a controlling company;
 - 1.2.2 a member of the audit committee of the controlling company or any bank in respect of which that company is registered as a controlling company.

Core Principles for effective banking supervision

1. Core Principle 14 deals with various matters related to corporate governance and requires, among other things-
 - 1.1 that laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business;
 - 1.2 that the supervisor provides guidance to banks and banking groups on expectations for sound corporate governance;
 - 1.3 that the supervisor requires banks and banking groups to correct deficiencies in a timely manner; and
 - 1.4 that the supervisor has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties in a satisfactory manner.

Revised principles on corporate governance for banks

1. The document issued by the Basel Committee states as follows:
 - 1.1 Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole.
 - 1.2 Banks' safety and soundness are key to financial stability, and the manner in which they conduct their business, therefore, is central to economic health.
 - 1.3 Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management.
 - 1.4 Supervisors have a keen interest in sound corporate governance, as it is an essential element in the safe and sound functioning of a bank and may adversely affect the bank's risk profile if not operating effectively.
 - 1.5 Well governed banks contribute to the maintenance of an efficient and cost-effective supervisory process, as there is less need for supervisory intervention.
 - 1.6 One of the primary objectives of the revision to the principles on corporate governance is to explicitly reinforce the collective oversight and risk governance responsibilities of the board.
2. The revised principles on corporate governance require, among other things-
 - 2.1 that the board has to be suitable to carry out its responsibilities and has to have a composition that facilitates effective oversight. For that purpose, the board has to comprise of a sufficient number of independent directors.
 - 2.2 boards to have a clear and rigorous process for identifying, assessing and selecting board candidates. The selection process should include reviewing whether board candidates possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind given their responsibilities on the board and in the light of the bank's business and risk profile.
 - 2.3 board candidates not to have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from past or present positions held.
 - 2.4 supervisors to have at their disposal a range of tools to address governance improvement needs and governance failures. They should be able to require steps towards improvement and remedial action, and ensure accountability for the corporate governance of a bank. These tools may include the ability to compel changes in the bank's policies and practices, the composition of the board of directors or senior management, or other corrective actions.

Comparative Corporate Governance report issued by the OECD

1. As is evident from the Factbook-
 - 1.1 nearly two-thirds of the jurisdictions with a one-tier board system require or encourage the separation of the board chair and the Chief Executive Officer (CEO);
 - 1.2 the recommendation for boards to be composed of at least 50% independent directors is the most prevalent voluntary standard; and
 - 1.3 a significant variation occurs with regard to maximum tenure for independent directors. Twenty-five jurisdictions set a maximum tenure as an independent director, varying from 5 to 15 years (with the mode at 8-10 years).

King IV Report on Corporate Governance

1. Paragraph 28 under principle 7 of King IV, provides that when assessing the independence of a member of the board, a number of considerations must be taken into account, and the assessment must be based of substance over form.

In this regard-

- 1.1 paragraph 28(d) of King IV, for example, states that the assessment of the independence of a board member must take into account whether that person has been in the employ of the organisation as an executive manager during the preceding three financial years.

This means, for example, that a person who was in the employ of the executive management of a company does not ordinarily meet the independence requirement.

- 1.2 paragraph 28(e) of King IV, for example, states that the assessment of the independence of a board member must take into account whether that person has been the designated external auditor responsible for performing the statutory audit for the organisation, or a key member of the audit team of the external audit firm, during the preceding three financial years.

2. Paragraph 29 under principle 7 of King IV states that a non-executive member of the governing body may continue to serve in an independent capacity for longer than nine years if, upon an assessment by the governing body conducted every year after nine years, it is concluded that the member exercises objective judgement and there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.