

South African Reserve Bank
From the Office of
the Registrar of Banks

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

Guidance Note 5/2016 issued in terms of section 6(5) of the Banks Act 94 of 1990

Corporate governance principles for banks

Executive summary

The purpose of this guidance note is to bring to the attention of banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') (i) the latest supervisory guidance issued by the Basel Committee on Banking Supervision (BCBS) on corporate governance principles for banks; and (ii) the fact that this Office, as part of its supervisory review and evaluation process, will review the progress made by banks to incorporate the principles and guidance set out in the aforesaid document issued by the BCBS into their policies, processes and practices.

1. Background

- 1.1 Section 60B of the Banks Act 94 of 1990 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.
- 1.2 In this regard, regulation 39 of the Regulations relating to Banks (the Regulations) requires banks to establish and maintain a process of sound corporate governance that (i) is consistent with the nature, complexity and risk inherent in the bank's on- and off-balance-sheet activities; and (ii) responds to changes in the bank's environment and conditions. This process includes the maintenance of effective risk and capital management by banks. In order to achieve the objective of maintaining effective risk and capital management, banks should have in place relevant risk management processes, practices, procedures and board-approved policies.

1.3 In terms of the provisions of regulation 38(4) of the Regulations, when this Office is of the opinion that, for example, a bank's policies, processes and procedures relating to its risk assessment, compensation or remuneration are inadequate, this Office may require the bank to, inter alia, (i) strengthen its risk management policies, processes or procedures; (ii) duly align its compensation or remuneration policies, processes or procedures with its relevant exposure to risk; or (iii) if deemed necessary, maintain additional capital, calculated in such a manner and subject to such conditions as may be specified in writing by this Office.

2. Documents issued by the Basel Committee on Banking Supervision relating to corporate governance principles for banks

2.1 In July 2015, the BCBS released a document relating to guidance on corporate governance principles for banks and supervisors, namely *Guidelines: Corporate governance principles for banks*.¹ The document sets out, and provides guidance on, the principles for sound corporate governance and is applicable to all banks.

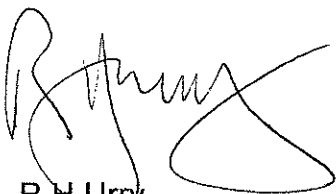
2.2 This Office is currently in the process of updating its regulatory and supervisory framework to remain up to date with the latest international best practices, including the latest developments regarding corporate governance.

2.3 As part of its supervisory review and evaluation process, this Office will review the progress made by banks to incorporate the principles and guidance set out in the aforesaid document issued by the BCBS into their policies, processes and practices.

2.4 Banks are accordingly requested to assess their current policies, processes and practices against the principles contained in the aforesaid document, taking into account the nature, size, complexity and risk profile of their activities. Banks should accordingly also develop a plan to remedy any deficiencies identified during the aforesaid assessments.

3. Acknowledgement of receipt

3.1 Two additional copies of this guidance note are enclosed for use by your institution's independent 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 this Office at the earliest convenience of the aforementioned signatories.



R H Urry
Deputy Registrar of Banks

The previous guidance note issued was Guidance Note 4/2016, dated 6 April 2016.

¹ Available at <http://www.bis.org/bcbs/publ/d328.pdf>.