

**Revised principles on corporate governance for banks**

1. The document issued by the Basel Committee on Banking Supervision states-
  - 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 of directors (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 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; and
  - 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 or senior management, or other corrective actions.