



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)

Prudential Standard FC04 - Governance and Risk Management Requirements for Financial Conglomerates

The Prudential Authority (PA), under sections 164 and 166(1) read with sections 105, 108 and 42(b)(vi) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) hereby makes Prudential Standard FC04 – Governance and Risk Management Requirements for Financial Conglomerates, as per the Schedule below.

A handwritten signature in black ink, appearing to read 'K. Naidoo'.

Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 2021-12-10



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Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)

Prudential Standard FC04

Governance and Risk Management Requirements for Financial Conglomerates

Objectives and key requirements of Prudential Standard FC04

This Standard is made in terms of sections 164 and 166(1) read with sections 105 and 108 of the Financial Sector Regulation, 2017 (Act No. 9 of 2017) and requires the Holding Company to act within the requirements and principles of corporate governance and risk management for financial conglomerates outlined in this Standard.

It is the responsibility of the board of directors (board) of the Holding Company to ensure that the financial conglomerate meets the requirements for governance and risk management on a continuous basis.

This Standard prescribes the Prudential Authority's requirements and principles on governance and risk management for a financial conglomerate including requirements and principles with regard to board composition, board sub-committees, roles and responsibilities of the board and key persons, board performance, delegations, risk strategy, risk management, organisational structure, identification of material risks, risk aggregation, risk management policies and procedures, appointment and termination of key persons, definition of material assets, risk concentration, intragroup transactions and exposures, information flow, use of group policies and functions, fitness and propriety requirements for key persons, oversight of outsourcing arrangements, stress and scenario testing, control of off-balance sheet transactions, reporting and regulatory actions.

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1. Commencement

- 1.1 This Standard commences on 1 January 2022.

Version number	Commencement date
1	1 January 2022

2. Legislative Authority

- 2.1 This Standard is made under sections 164 and 166(1) read with sections 105 and 108 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).

3. Application

- 3.1 This Standard applies to the Holding Company as designated by the Prudential Authority in terms of section 160(1) read with section 160(2) of the FSR Act.
- 3.2 Where a requirement applies to the financial conglomerate, the requirement is imposed on the Holding Company. The Holding Company must ensure that the financial conglomerate as a whole satisfies the governance and risk

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management principles and requirements applicable to the financial conglomerate, unless otherwise specified in this Standard.

- 3.3 This Standard applies in addition to the financial sector laws which are applicable to specific financial institutions within a financial conglomerate.
- 3.4 Key persons of the Holding Company are responsible for those functions at a financial conglomerate level.

4. Definitions and interpretation

- 4.1 The terms used in this Standard, unless indicated otherwise, are defined in the FSR Act and financial sector laws, and have the same meaning in this Standard.

‘appropriate’ means proportionate to the nature, size and complexity of the financial conglomerate or where stipulated, to any member of the financial conglomerate;

‘associate’-

- (a) in relation to a natural person, means-
 - (i) a close relative of that person; or
 - (ii) any person who has entered into an agreement or arrangement with the first-mentioned person, relating to the acquisition, holding or disposal of, or the exercising of voting rights in respect of, shares in juristic persons within the financial conglomerate;
- (b) in relation to a juristic person-
 - (i) which is a company, means any subsidiary or holding company of that company, any other subsidiary of that holding company and any other company of which that holding company is a subsidiary;
 - (ii) which is a close corporation registered under the Close Corporations Act, 1984 (Act No. 69 of 1984), means any member thereof as defined in section 1 of that Act;
 - (iii) which is not a company or a close corporation as contemplated in this paragraph, means another juristic person which would have been a subsidiary of the first-mentioned juristic person-
 - (aa) had such first-mentioned juristic person been a company; or
 - (bb) in the case where that other juristic person, too, is not a company, had both the first-mentioned juristic person and that other juristic person been a company;
 - (iv) means any person in accordance with whose directions or instructions the board of directors or, in the case where such juristic person is not a company, the governing body of such juristic person is accustomed to act; and
- (c) in relation to any person-
 - (i) means any juristic person of which the board of directors or, in the case where such juristic person is not a company, of which the governing body is accustomed to act in accordance with the directions or instructions of the person first-mentioned in this paragraph; and
 - (ii) includes any trust controlled or administered by that person;

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'auditor' has the same meaning as 'registered auditor' as defined in the Auditing Profession Act, 2005 (Act No. 26 of 2005);

'board' means board of directors of the Holding Company unless indicated otherwise;

'executive officer', in relation to any institution-

- (a) that is not a bank, includes any manager, the compliance officer, the secretary of the company and any director who is also an employee of such an institution;
- (b) that is a bank, includes any employee who is a director or who is in charge of a risk management function of the bank, the compliance officer, secretary of the company or any manager of the bank who is responsible, or reports, directly to the Chief Executive Officer of the bank;

'financial sector law' has the same meaning as provided for under section 1 of the FSR Act;

'Holding Company' means the holding company of the financial conglomerate as designated by the Prudential Authority in terms of section 160(1) read with section 160(2) of the FSR Act;

'ICAAP' means the Internal Capital Adequacy Assessment Process and is a requirement under Pillar 2 of the Basel II framework as well as in terms of regulation 39(16) of the Regulations relating to Banks, issued under the Banks Act, 1990 (Act No. 94 of 1990);

'material' insofar as it relates to financial conglomerate should be read in terms of the significance of the impact on the financial conglomerate and eligible financial institutions within the financial conglomerate;

'material provider of funding' means any person directly or indirectly providing funding to the Holding Company, which in aggregate is equal to or exceeds five (5) per cent of the aggregate amount of total liabilities of the Holding Company;

'member of the financial conglomerate' refers to a company that has been scoped into the financial conglomerate but excludes the Holding Company;

'ORSA' means the Own Risk and Solvency Assessment and is a requirement under Prudential Standard GOI 3 – Own Risk and Solvency Assessment for Insurers made under the Insurance Act, 2017 (Act No. 18 of 2017);

'other outsourcing arrangements' means an arrangement between the Holding Company and another person for the provision of:

- (a) a function that a financial sector law requires to be performed or requires to be performed in a particular way or by a particular person; or
- (b) a function that is integral to the nature of a financial product or financial service that the Holding Company provides; but does not include –
 - (i) a contract of employment between the holding company and a person referred to in paragraphs (a) or (b) of the definition of staff member; or
 - (ii) an arrangement between the Holding Company and a person for the person to act as a representative of the holding company;

'senior manager' means -

- (a) the Chief Executive Officer or the person who is in charge of the Holding Company or members of the financial conglomerate; or
- (b) a person, other than a director or a head of a control function of the Holding Company -
 - (i) who makes or participates in making decisions that-

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- (aa) affect the whole or a substantial part of the business of the financial conglomerate; or
- (bb) have the capacity to significantly affect the financial standing of the financial conglomerate; or
- (ii) who oversees the enforcement of policies and the implementation of strategies approved, or adopted, by the board,

and “senior management” has a corresponding meaning;

‘significant provider of equity or other sources of capital’ means any person directly or indirectly providing equity or other sources of capital to any member of the financial conglomerate or the Holding Company which in aggregate is equal to or exceeds five (5) per cent of the aggregate amount of total qualifying capital and reserve funds of any member of the financial conglomerate or the Holding Company;

‘special outsourcing arrangement’ means an arrangement between the holding company and another person for the provision to the holding company of a control function’ but does not include –

- (a) a contract of employment between the holding company and a person referred to in paragraph (a) or (b) of the definition of staff member; or
- (b) an arrangement between the holding company and a person for the person to act as a representative of the holding company;

‘substantial shareholder’ 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 any member of the financial conglomerate or the Holding Company that are exercisable by such person together with the voting rights attached to the shares of any member of the financial conglomerate or the Holding 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 of any member of the financial conglomerate or the Holding Company, as the case may be;

‘unregulated entity’ means a juristic person not regulated by the Prudential Authority; and

‘wider group’ must be read as a reference to juristic persons that are within the group of companies, but which have not been designated by the Prudential Authority as part of the financial conglomerate.

- 4.2 The ‘Objectives and key requirements of Prudential Standard FC04’ that are italicised in the preamble of this Standard must not be used in the interpretation of any paragraph of this Standard.

5. Roles and responsibilities

- 5.1 The board is responsible for ensuring that the financial conglomerate complies with the principles and requirements of this Standard, including establishing the financial conglomerate’s overall risk appetite and ensuring the financial conglomerate has effective governance and systems for risk management and internal controls in place to address the key risks to which the financial conglomerate is exposed.
- 5.2 The key persons responsible for risk management, compliance and actuarial functions of the financial conglomerate are responsible for providing input and expressing an opinion to the board and/or board sub-committees about the

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operations, efficiency and effectiveness of the components of the systems for risk management and internal controls of the financial conglomerate, relevant to their respective areas of responsibility.

- 5.3 The financial conglomerate's internal audit function must regularly review the systems for risk management and internal controls and key person of the internal audit function must provide independent assurance to the board and/or board sub-committees that the systems for risk management and internal controls within the financial conglomerate are effective.
- 5.4 The auditor/(s) of the Holding Company must provide assurance to the financial conglomerate and the Prudential Authority, if requested, that the financial conglomerate complies with the requirements of this Standard. The auditor/(s) must report to the board and the Prudential Authority without undue delay on any matters identified during the performance of its responsibilities that are contrary to this Standard or a part thereof.

6. Principles underlying governance and risk management for financial conglomerates

- 6.1 The emergence of financial conglomerates is a key feature of the evolution of financial systems and the increased integration between the business of banking, insurance and securities services. The participation in multiple financial sectors may introduce risks into the financial system that may not be adequately addressed in existing regulatory and supervisory frameworks.
- 6.2 Prudential regulation of providers of financial products and securities services is subject to three (3) levels of regulation and supervision, namely solo-entity, group and financial conglomerate regulation and supervision. Financial conglomerate regulation and supervision endeavours to capture the activities at the level of the Holding Company, where solo-entity and group supervision do not adequately capture the risks.
- 6.3 The Governance and Risk Management Standard focuses on the following principles:
- (a) an effective and robust governance framework for the financial conglomerate;
 - (b) the sufficient and appropriate composition of the board;
 - (c) the roles and responsibilities of the chairperson of the board and the lead independent director to provide leadership to the board;
 - (d) the role and responsibilities of the board to understand the business of the financial conglomerate and to consider the risks that may adversely impact the financial conglomerate;
 - (e) the role of the board sub-committees to support the board by providing specific expertise;
 - (f) adequate powers and resources of the board to perform its function;
 - (g) the role and responsibilities of senior management to support the governance and risk management framework of the financial conglomerate;
 - (h) addressing conflicts of interest within the financial conglomerate;
 - (i) the adoption of a transparent organisational structure;
 - (j) a risk management strategy that focuses and addresses all sources of risk that may impact on the financial soundness of the financial conglomerate;

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- (k) the development and implementation of an appropriate risk management framework for the financial conglomerate;
- (l) the identification and management of material risks;
- (m) the development of an appropriate information flow framework and internal control environments;
- (n) the conducting of appropriate stress- and scenario-testing exercises;
- (o) the prudent aggregation of risks and risk data reporting;
- (p) the identification and management of risk concentration and intragroup transactions and exposures;
- (q) the adoption of board-approved policies on risk management;
- (r) the importance of the control functions to support governance and risk management;
- (s) the adoption of appropriate controls around off-balance sheet transactions;
- (t) the prudent use of group policies and functions;
- (u) the prudent oversight over outsourcing arrangements; and
- (v) the development and implementation of fitness and propriety requirements for key persons and approval by the Prudential Authority of key persons.

7. Governance framework

- 7.1 A sound and robust governance framework is the cornerstone for prudent management and oversight in a financial conglomerate.
- 7.2 The governance framework empowers the financial conglomerate with the ability to ensure that decisions are aligned with the strategies and policies of the financial conglomerate and the interests of financial customers.
- 7.3 The Holding Company must establish a comprehensive, consistent and effective governance framework across the financial conglomerate that provides for the prudent management and oversight of the financial conglomerate and must include effective systems of corporate governance, risk management, capital management and internal controls.
- 7.4 The governance framework for a financial conglomerate must include, but is not limited to:
 - (a) policies and procedures that enable material risks stemming from within the financial conglomerate and the wider-group to be identified and appropriately managed;
 - (b) clear protocols to ensure all regulatory matters are prudently prioritised and communicated consistently and accurately to the Prudential Authority;
 - (c) catering for the prudential and legal obligations of members of the financial conglomerate and the Holding Company to be met;
 - (d) appropriately balancing any divergence in governance and risk management requirements applying between members of the financial conglomerate and the Holding Company ;
 - (e) remuneration and incentive arrangements that support sound and prudent decision-making and risk-alignment;
 - (f) policies and procedures on the manner in which the Holding Company and members of the financial conglomerate will interact with one another;

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- (g) a financial conglomerate culture that supports the governance and risk management frameworks and aligns to the strategy, norms and values of the financial conglomerate. An organisational culture that supports disclosure, whistle-blowing and open communication enables the board to maintain strong governance of the financial conglomerate; and
 - (h) policies and procedures on conflicts of interest and disclosure requirements.
- 7.5 The governance requirements applicable to a bank or bank controlling company in terms of the provisions of the Banks Act, 1990 or to an insurer or controlling company in terms of the provisions of the Insurance Act, 2017 is applicable, with the appropriate changes, to the Holding Company where the Holding Company is also licensed under the Banks Act, 1990 or the Insurance Act, 2017.

8. Board composition

- 8.1 The board must ensure that its size and composition is appropriate given the nature, size and complexity of the financial conglomerate.
- 8.2 The board must ensure that directors, senior management and key persons of the Holding Company, individually and collectively have the appropriate educational qualifications, experience or expertise, relevant skills and knowledge required for effective prudent management of the financial conglomerate.
- 8.3 The board must take steps to ensure that the directors, senior management and key persons of members of the financial conglomerate, individually and collectively have the appropriate educational qualifications, experience or expertise, relevant skills and knowledge required to prudently manage the members of the financial conglomerate and understand the possible impact of its business on the financial conglomerate and the eligible financial institutions within the financial conglomerate.
- 8.4 In ensuring the suitability of board members, senior management and key persons, the board must:
- (a) ensure that there are processes and procedures in place within the financial conglomerate to annually assess the requirements set-out in paragraphs 8.2 and 8.3; and
 - (b) ensure that there are processes in place to effectively manage instances where the persons identified in paragraphs 8.2 and 8.3 cease to be suitable.
- 8.5 The chairperson of the board must be an independent non-executive director, provided that-
- (a) the board must 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 specified matter, such as for example, the appointment of a lead independent director; and
 - (b) in exceptional cases, and at the sole discretion of the Prudential Authority, the Prudential Authority may approve, in writing and subject to such conditions as may be specified in writing by the Prudential Authority, 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 Prudential Authority, and after due consideration of factors such as-

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- (i) the adequacy of mechanisms in place to strengthen the independence of the board;
 - (ii) adequate provision for an additional channel of communication for board members when the chairperson may be conflicted;
 - (iii) the appointment of a lead independent director; and
 - (iv) such other factors regarded as material by the Prudential Authority.
- 8.6 The chairpersons of the board sub-committees required to be established in terms of paragraph 10 below, and the Companies Act, 2008 (Act No. 71 of 2008), must be independent non-executive directors, provided that-
 - (a) the board must make adequate provision for cases when the chairperson of a board sub-committee may become non-independent for some reason for a period of time or is conflicted on a specified matter, such as for example, the appointment of a lead independent director; and
 - (b) in exceptional cases, and at the sole discretion of the Prudential Authority, the Prudential Authority may approve, in writing and subject to such conditions as may be specified in writing by the Prudential Authority, the appointment of a non-independent non-executive director to serve as the chairperson of a board sub-committee for such a period of time as may be specified in writing by the Prudential Authority, and after due consideration of factors such as-
 - (i) the adequacy of mechanisms in place to strengthen the independence of the board sub-committee;
 - (ii) adequate provision for an additional channel of communication for board members when the chairperson of a board-sub-committee may be conflicted;
 - (iii) the appointment of a lead independent director; and
 - (iv) such other factors regarded as material by the Prudential Authority.
- 8.7 For the purpose of this Standard, a director cannot be classified as a non-executive of the Holding Company, if in relation to the financial conglomerate, the person has at any time during the preceding twelve (12) months-
 - (a) been an executive director;
 - (b) been the Chief Executive Officer;
 - (c) been the auditor directly or indirectly responsible for performing the statutory audit, or a key member of the audit team directly or indirectly responsible for performing the statutory audit; or
 - (d) been the curator or statutory manager.
- 8.8 In exceptional cases, based on the sole discretion of the Prudential Authority, and after due consideration of factors such as proportionality, the systemic importance or interconnectedness of the financial conglomerate within the domestic financial system, or such other factors regarded as material in relation to the person or institution under consideration, the Prudential Authority may approve the appointment of any of the aforementioned persons to serve as a non-executive director of the financial conglomerate, after such a period shorter than twelve (12) months as may be specified in writing by the Prudential Authority.
- 8.9 The majority of non-executive directors on the board must be independent.
- 8.10 In terms of this Standard, an independent non-executive director shall be one that:

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- (a) is not involved in the day-to-day management of the financial conglomerate's business or has not been so involved at any time during the previous three (3) financial years;
- (b) is not a prescribed officer or full-time employee of the financial conglomerate or another related or inter-related party, or has not been such an officer or employee at any time during the previous three (3) financial years;
- (c) is not a material supplier or customer of the financial conglomerate, 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;
- (d) is not a substantial shareholder of the Holding Company or of a member of the financial conglomerate or a key person or an executive officer of or otherwise associated directly with a substantial shareholder of the Holding Company or of a member of the financial conglomerate;
- (e) has not within the last three (3) years been a principal of a material professional adviser or a material consultant to the Holding Company, 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;
- (f) is not a significant provider of equity or other sources of capital, or a material provider of funding, to the Holding Company or a member of the financial conglomerate;
- (g) is not the recipient of a form of remuneration other than -
 - (i) directors' fees; or
 - (ii) directors' remuneration, such as by means of a share-based incentive scheme, which is contingent on the performance of the Holding Company;
- (h) is or has not within the last three (3) years been a significant or ongoing professional adviser to or an internal auditor of the Holding 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;
- (i) is not a related party to an individual who falls within any of the categories of persons stipulated in sub-paragraphs (a) to (h) above;
- (j) has not been an executive director, the Chief Executive Officer or an executive officer of the Holding Company at any time during the preceding three (3) years;
- (k) has not served as an independent non-executive director of the Holding Company for a period of nine (9) years, provided that should the Holding Company decide to reappoint a person who already served as an independent non-executive director of the Holding 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 Standard be regarded as a non-executive director of the Holding Company concerned, but not as an independent non-executive director of the Holding Company;

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- (l) has not been the auditor directly or indirectly responsible for performing the statutory audit of the Holding Company, or a key member of the audit team directly or indirectly responsible for performing the statutory audit for the Holding Company, at any time during the preceding three (3) financial years;
- (m) has not been involved in any business or other relationship (contractual or statutory), which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner; and
- (n) has not been the curator/statutory manager of the Holding Company at any time during the preceding three (3) years.

9. The role and responsibilities of the chairperson of the board and the lead independent director

9.1 The chairperson of the board must:

- (a) provide leadership to the board in respect of the proper and effective functioning of the board as a collective;
- (b) ensure that adequate time is allocated for discussion of board matters, especially discussions of a strategic nature; and
- (c) promote a culture of openness and debate among directors, senior management and heads of control functions.

9.2 Where appointed, the functions of the lead independent director are, but not limited to:

- (a) providing leadership and advice to the board in respect of matters where the chairperson has a conflict of interest or perceived conflict of interest, including the identification of circumstances where the chairperson may have a conflict of interest or perceived conflict of interest that may impact on the chairperson's independent decision making;
- (b) presiding at meetings of the board or committees of the board, as the case may be, from which the chairperson is absent or in respect of which the chairperson has a conflict of interest or perceived conflict of interest;
- (c) performing the functions of the chairperson that cannot be performed by the latter because of a conflict of interest or perceived conflict of interest;
- (d) providing a sounding-board for the chairperson to discuss confidential issues related to governance, board performance, the performance of individual directors, and concerns raised by directors, shareholders or employees; and
- (e) performing the annual assessment or appraisal of the chairperson's performance based on direct and confidential feedback from all directors.

10. Roles and responsibility of the board

10.1 The board must ensure that the financial conglomerate is prudently managed.

10.2 The members of the board must be able to exercise their independence and must be free from undue influence or bias in decision making.

10.3 The board must be capable of describing and understanding the purpose, structure, strategy, material operations and material risks of the financial conglomerate, including unregulated entities that are part of the financial conglomerate. In addition, the board must have a good understanding, and

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consider any aspects, of the members of the financial conglomerate and the wider group that may adversely affect the financial conglomerate as a whole or any specific eligible financial institution within the financial conglomerate.

10.4 The board must ensure that-

- (a) the Holding Company has a clear and rigorous process for identifying, assessing and selecting board candidates;
- (b) the Holding Company has adequate robust measures to promote continuity in the appointment of independent non-executive directors and other non-executive directors;
- (c) the board recruitment process includes the reviewing of whether the board candidate possesses the required knowledge, relevant 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 financial conglomerate's business and risk profile;
- (d) it has a composition that facilitates effective oversight of the financial conglomerate on an ongoing basis;
- (e) appropriate and ongoing training for directors; and
- (f) during any relevant required cooling-off period, the relevant person does not hold any position or is not associated with the Holding Company or the members of the financial conglomerate in a manner that would cause bias in decision-making, when judged from the perspective of a reasonable and informed third party;

10.5 The board must ensure that the relevant governance policy of the financial conglomerate clearly specifies:

- (a) 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 Holding Company;
- (b) that 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, submit a declaration that he/she meets the board-specified criteria of independence;
- (c) that the relevant contents of the aforementioned declaration made by the director must be duly assessed and appropriately verified by the Holding Company as part of its own internal governance process;
- (d) sufficiently robust criteria to ensure that the Holding Company appoints only 'fit-and-proper' persons:
 - (i) to serve as directors or key persons of the financial conglomerate;
 - (ii) with the necessary knowledge, relevant 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;
- (e) an appropriate minimum required cooling-off period for other types of appointment of persons to serve as directors and key persons of the Holding Company, such as, for example, the appointment of a person who currently or previously served as:

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- (i) an executive director;
 - (ii) the Chief Executive Officer;
 - (iii) the chairperson of the board; or
 - (iv) the curator/statutory manager, of any other Holding Company or eligible financial institution; and
 - (f) that reasonable steps are taken to prevent or mitigate any potential conflict of interest between the business interests of the financial conglomerate and the personal interests of directors or key persons.
- 10.6 The requirements and responsibilities of the board prescribed in the relevant provisions of the Banks Act, 1990 to banks and controlling companies and the Insurance Act, 2017 to insurers or controlling companies will, with the appropriate changes, apply to the board where the Holding Company is also licensed in terms of the Banks Act, 1990 or the Insurance Act, 2017.
- 11. Board sub-committees**
- 11.1 Board sub-committees support the board by providing specific expertise for considering complex or specialised matters and making recommendations for consideration by the board.
- 11.2 The Holding Company must establish the following board sub-committees:
- (a) an audit committee;
 - (b) a directors' affairs committee;
 - (c) a risk committee or a risk and capital management committee; and
 - (d) a remuneration committee.
- 11.3 The board sub-committees listed in paragraph 11.2 must have the necessary authority, independence, resources, expertise and access to all relevant information and staff within the financial conglomerate to perform their functions effectively.
- 11.4 The requirements and responsibilities of board sub-committees prescribed in the relevant provisions of the Banks Act, 1990 to banks or controlling companies and the Insurance Act, 2017 to insurers or controlling companies will, with the appropriate changes, apply to the committees listed in paragraph 11.2 where the Holding Company is also licensed in terms of the Banks Act, 1990 or the Insurance Act, 2017.
- 11.5 The Prudential Authority may, upon written application from the Holding Company and the eligible financial institution, exempt an eligible financial institution from appointing an audit committee, risk committee, directors' affairs committee, remuneration committee or risk and capital management committee in terms of the applicable financial sector law. In considering such an exemption, the Prudential Authority would need to be satisfied that the relevant committee of the Holding Company is able to adequately assume the relevant committee's responsibilities for an eligible financial institution and the financial conglomerate as a whole.
- 11.6 In terms of paragraph 11.2(b) the directors affairs committee is responsible for assisting the board:
- (a) in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the holding company;
 - (b) to establish and maintain a board directorship continuity programme entailing-

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- (i) a review of the performance of and planning for successors to the executive directors;
 - (ii) measures to ensure continuity of non-executive directors;
 - (iii) a regular review of the composition of skills, experience and other qualities required for the effectiveness of the board; and
 - (iv) an annual self-assessment of the board as a whole and of the contribution of each individual director;
- (c) in the nomination of successors to the key positions in the holding company in order to ensure that a management succession plan is in place;
- (d) in determining whether the services of any director should be terminated; and
- (e) in ensuring that the holding company is at all times in compliance with all applicable laws, regulations and codes of conduct and practices.

12. Allocation and delegation of roles and responsibilities

- 12.1 As the ultimate decision-making and accountable body of the financial conglomerate, all powers and responsibilities reside initially with the board. The board may delegate, within an approved delegation framework, some of the activities or functions associated with its roles and responsibilities to board sub-committees or members of senior management.
- 12.2 As a general principle, the board should retain all strategic and policy decisions, and delegate day-to-day management decisions.
- 12.3 Delegation does not abrogate the accountability of the board for decisions made under delegation. Anything done or omitted under a delegation is deemed to have been done or omitted by the board.
- 12.4 The board must develop an appropriate system of delegation in which:
- (a) delegations are appropriately and clearly mandated and documented;
 - (b) there are adequate checks and balances in place;
 - (c) there is provision for the monitoring and reporting on delegations;
 - (d) there is no undue concentration of powers; and
 - (e) delegations may be withdrawn.

13. Duties and conduct of individual directors

- 13.1 A director of the board, in addition to the requirements of the Companies Act, 2008 (Act No 71 of 2008) to act in good faith, honestly, and reasonably, and to exercise due care and diligence in fulfilling his/her duties, must:
- (a) at all times comply with the fit and proper policy of the financial conglomerate;
 - (b) act in the best interests of the financial conglomerate and financial customers; and
 - (c) exercise independent judgment and objectivity in decision making, taking into account the interests of the financial conglomerate and financial customers.
- 13.2 A director of the Holding Company must have the commitment necessary to fulfil his/her role, as demonstrated by, for example, a sufficient allocation of time to the affairs of the financial conglomerate.

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- 13.3 A director of the Holding Company must act without favour, providing constructive and robust challenge of proposals and decisions and ask for information when the director considers it necessary.
- 13.4 The requirements on the duties and conduct of individual directors provided for in the relevant provisions of the Banks Act, 1990 to banks or controlling companies and the Insurance Act, 2017 to insurers or controlling companies will, with the appropriate changes, apply to directors of the Holding Company where the Holding Company is also licensed in terms of the Banks Act, 1990 or the Insurance Act, 2017.

14. Board performance

- 14.1 The board must:
- (a) have appropriate internal governance practices and procedures to support its work, in a manner that promotes efficient, objective and independent judgment and decision-making; and
 - (b) ensure that the internal governance practices and procedures referred to in paragraph (a) above, are followed and periodically reviewed to assess their effectiveness and adequacy.
- 14.2 The board must have adequate powers and resources to discharge its duties fully and effectively. These should, at a minimum, include:
- (a) the power to obtain timely and comprehensive information relating to the management of the financial conglomerate, including direct access to relevant persons within the Holding Company for obtaining information, such as senior management and key persons in control functions; and
 - (b) access to services of external consultants or specialists where necessary or appropriate, subject to criteria (such as independence) and due procedures for appointment and dismissal of such consultants or specialists.
- 14.3 The internal governance practices and procedures referred to above must, among other things:
- (a) be documented in a board charter;
 - (b) set out how the board will carry out its roles and responsibilities;
 - (c) include a process for nomination, selection and removal of board members and specify the term of office of board members as is appropriate to their roles and responsibilities; and
 - (d) address appropriate succession planning.
- 14.4 The board must adopt and implement a procedure to review, at least annually, its performance both collectively and individually, to ascertain whether the board remains effective in discharging its roles and responsibilities and identify opportunities for improvement.

15. Conflicts of interest

- 15.1 Conflicts of interest may arise:
- (a) Among, between and within the board, senior management and key persons in control functions of the Holding Company and members of the financial conglomerate; and
 - (b) Among, between and within the Holding Company, members of the financial conglomerate; and the wider group.

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- 15.2 Where conflicts of interest referred to in paragraph 15.1 cannot be avoided or resolved, the matter must be escalated to the board.
- 15.3 The board must prescribe appropriate measures to mitigate and prevent any adverse impact of conflicts of interest on the financial conglomerate.

16. The roles and responsibility of senior management

- 16.1 Subject to appropriate delegation from the board, senior management of the Holding Company is responsible for and must:
- (a) carry out the day-to-day operations of the Holding Company effectively and in accordance with the Holding Companies' board-approved culture, business objectives and strategies for achieving those objectives in line with the financial conglomerate's long-term interests and viability;
 - (b) promote sound risk management, compliance and fair treatment of customers;
 - (c) provide the board with adequate and timely information to enable the board to carry out its duties and functions, including the monitoring and review of the performance and risk exposures of the financial conglomerate, and the performance of senior management;
 - (d) maintain adequate and orderly records of the financial conglomerate;
 - (e) promote strong risk management and internal controls, through their personal conduct, through the implementation of transparent policies, and by communicating to all employees their responsibilities in these areas; and
 - (f) not interfere with the activities that control functions carry out in the rightful exercise of their responsibilities, including that of providing an independent view of governance, risk, compliance and control related matters.
- 16.2 Senior management must implement appropriate systems and controls, in accordance with the board-approved risk appetite and values, and consistent with internal policies and procedures. The systems and controls must provide for financial conglomerate decision-making in a clear and transparent manner that promotes effective management and must include:
- (a) processes for engaging persons with appropriate competencies and integrity to discharge the functions under senior management, including succession planning, ongoing training and procedures for termination;
 - (b) clear lines of accountability and channels of communication between senior management and key persons;
 - (c) proper procedures for the delegation of senior managerial functions and monitoring whether delegated functions are carried out effectively and properly, in accordance with the same principles that apply to delegations by the board (see paragraph 12 above);
 - (d) standards of conduct and codes of ethics for senior management and other staff to promote a sound corporate culture, and the effective implementation on an ongoing basis of internal standards and codes;
 - (e) proper channels of communication, including clear lines of reporting, between senior management and the board of directors; and
 - (f) effective communication strategies with the Prudential Authority, financial customers and other stakeholders, that include the identification of matters that should be disclosed, and to whom such disclosures should be made.

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- 16.3 The Chief Executive Officer of the Holding Company must assess, at least annually, the effectiveness of the performance of other senior managers against the performance goals set by the board.
- 16.4 The Chief Executive Officer of the Holding Company must address any identified inadequacies or gaps in performance of other senior managers promptly and report same to the board.
- 16.5 The roles and responsibilities of senior management prescribed in the relevant provisions of the Insurance Act, 2017 to insurers or controlling companies apply, with the appropriate changes to the senior management of the Holding Company, where the Holding Company is also licensed under the Insurance Act, 2017.
- 16.6 The role and responsibilities of senior management, prescribed in the relevant provisions of the Banks Act, 1990, under the term 'executive officer' to banks or controlling companies will, with the appropriate changes, apply to the senior management of the Holding Company, where the Holding Company is also licensed under the Banks Act, 1990.

17. Organisational structure

- 17.1 Financial conglomerates typically participate in diverse economic sectors for a range of reasons. The organisational structure of a financial conglomerate will thus typically involve extensive and complex interconnections between regulated financial institutions and between regulated financial institutions and unregulated entities.
- 17.2 For this reason, financial conglomerates must clearly document the legal and management structures of, and inter-relationships between, members of the, the financial conglomerate to enable an understanding of its structure to assist the financial conglomerate in the identification and management of risks.
- 17.3 The board must ensure that the financial conglomerate has a transparent organisational and management structure which is consistent with the overall strategy and risk profile of the financial conglomerate.

18. Acquisition and disposal of material assets

- 18.1 Section 166(1)(a) of the FSR Act requires the Holding Company to obtain the approval of the Prudential Authority prior to making an acquisition or effecting a disposal of a material asset.
- 18.2 Section 166(1)(b) of the FSR Act requires the Prudential Authority to prescribe what constitutes 'a material asset' for the purposes of establishing transactions that require the approval of the Prudential Authority.
- 18.3 A material asset is an asset the acquisition or disposal of which:
 - (a) impacts the risk profile of the financial conglomerate;
 - (b) impacts the profitability of the financial conglomerate;
 - (c) impacts on the safety and soundness of the financial conglomerate, including the financial conglomerate's ability to manage its risks and meet its legal and regulatory obligations;
 - (d) increases the risk to financial customers; or
 - (e) impacts the ability of the Prudential Authority to monitor the financial conglomerate's compliance with its regulatory obligations.

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- 18.4 In addition to 18.3, the Prudential Authority prescribes that the acquisition or disposal of any of the following constitutes the acquisition or disposal of a material asset:
- (a) any controlling interest in an entity regulated by a financial sector regulator or organ of state or an entity regulated by a foreign regulator or foreign organ of state;
 - (b) any asset which value is in excess of 5% of the total assets of the financial conglomerate;
 - (c) an asset with a net income after tax in excess of 5% of the total net income after tax of the financial conglomerate, at acquisition or disposal or within the projected business plan period; or
 - (d) any entity that will result in an intra-group exposure within the financial conglomerate in excess of 10% of the total amount of intra-group exposures of all the entities within the financial conglomerate.

19. Risk management strategy

- 19.1 The board must approve a documented risk management strategy that sets out the types of risks that the financial conglomerate is willing to retain in implementing its business plan, and the way in which it will manage those risks.
- 19.2 The risk management strategy must have a financial conglomerate focus and address all sources of risk that may impact on the financial soundness of the financial conglomerate.
- 19.3 At a minimum, the risk management strategy must:
- (a) identify the objectives of the strategy;
 - (b) describe each current material risk and emerging risks of the financial conglomerate, and the Holding Company's approach to managing those risks;
 - (c) list the policies and procedures for dealing with risk management;
 - (d) summarise the roles and risk management responsibilities of the risk management function, the board, board sub-committees and senior management;
 - (e) include a documented process for board approval for any deviations or changes from the risk management strategy or risk appetite;
 - (f) outline the financial conglomerate awareness of the risk management system and for instilling an appropriate risk culture across the financial conglomerate;
 - (g) be consistent with the nature, scale and complexity of the financial conglomerate; and
 - (h) include a clearly defined risk appetite statement which is consistent with the financial conglomerate's risk management strategy and business plan or business objectives.
- 19.4 At a minimum, the financial conglomerate's risk appetite statement must identify clearly:
- (a) the overall level of risk the Holding Company is prepared to accept in pursuit of its strategic objectives and business plan, giving due consideration to the interests of financial customers; and
 - (b) for each type of material risk, the maximum level of risk that the Holding Company is willing to operate within, expressed as a limit based on its risk appetite, risk profile and capital strength.

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- 19.5 Where risks are not readily quantified, the risk management strategy and risk appetite should set qualitative limits on risk.
- 19.6 The risk management strategy must be supported by processes with respect to the risk appetite statement for:
- (a) ensuring that risk limits are set at appropriate levels, based on an estimate of the impact of a breach of a risk limit, and the likelihood that each material risk is crystallised;
 - (b) monitoring and reporting compliance with each risk limit and for taking appropriate action in the event that a particular limit is breached; and
 - (c) review of the risk appetite and risk limits, and the timing thereof.
- 19.7 The risk management strategy must be reviewed annually and kept updated in light of emerging risks and changing circumstances.
- 19.8 Material changes to the risk management strategy must be approved by the board of directors, properly justified and documented. The documentation must be available for review by internal audit, the auditors of the Holding Company, and the Prudential Authority, as needed.

20. Risk management framework

- 20.1 The Holding Company must ensure that the financial conglomerate's risk management framework incorporates the Holding Company and all members of the financial conglomerate and addresses at least the following:
- (a) the risk strategy and risk appetite of the financial conglomerate;
 - (b) policies, and related procedures and tools, for assessing, monitoring, reporting, and mitigating material risks that may affect the financial conglomerate and the ability of any eligible financial institution in the financial conglomerate to meet its obligations to financial customers;
 - (c) the provision of a holistic view of all material risks facing the financial conglomerate, including:
 - (i) risks emanating from regulated and unregulated members of the financial conglomerate;
 - (ii) risk concentrations within the financial conglomerate, business lines or geographic locations across the financial conglomerate;
 - (iii) risk concentration with regard to exposures to a common name counterparty of the Holding Company and members of the financial conglomerate;
 - (iv) intra-group transactions, guarantees and other commitments of the financial conglomerate that could impact the soundness of the financial conglomerate (e.g., through contagion); and
 - (v) prudent aggregation of material risks to which the financial conglomerate is exposed.
 - (d) appropriate resources and systems for the purpose of aggregating risks;
 - (e) interconnectedness of members of the financial conglomerate to each other and the Holding Company; and
 - (f) level of sophistication and functionality of information and reporting systems in addressing material risks of the financial conglomerate.
- 20.2 The financial conglomerate's risk management framework and system must:
- (a) be integrated with its organisational structure, decision-making processes, business operations and risk culture;
 - (b) be integrated with the risk management frameworks and systems of members of the financial conglomerate ; and

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- (c) measure the risk exposure of the financial conglomerate against the risk appetite limits on an ongoing basis in order to identify potential concerns as early as possible.
- 20.3 The financial conglomerate's risk appetite statement and related risk limits must be communicated to the boards and senior management of members of the financial conglomerate. The boards and senior management of members of the financial conglomerate should have clear guidance on the level of risk the Holding Company is willing to take, and the limits to which members of the financial conglomerate are able to expose the financial conglomerate.
- 20.4 The financial conglomerate must ensure that adequate resources are available across the financial conglomerate to meet requirements associated with its risk strategy and risk appetite.
- 20.5 The board must ensure that an effective system of internal controls is in place to provide reasonable assurance from a control perspective that the financial conglomerate is being operated consistent with financial conglomerate strategies, policies and procedures, which are attaining their intended outcomes.
- 20.6 The Holding Company must develop financial conglomerate risk management policies and procedures that:
 - (a) set out the approach taken to manage the financial conglomerates material risks, including measures and controls to meet the board's approved risk appetite;
 - (b) set out the manner in which the financial conglomerate policies and procedures apply to members of the financial conglomerate, including any appropriate adjustments or exemptions that may be applied to account for size, nature and complexity, local circumstances, regulations and practices;
 - (c) require the monitoring of adherence of the financial conglomerate with its overall strategy;
 - (d) require the monitoring of adherence to the risk appetite of the Holding Company and members of the financial conglomerate and, where necessary, constraining business activities that breach the risk appetite of the financial conglomerate and members of the financial conglomerate; and
 - (e) requirements that the senior management of the financial conglomerate has a financial conglomerate wide understanding of its risk factors.
- 20.7 Where an institution within the financial conglomerate engages in business activities that may pose a material risk to either the financial conglomerate or the wider group, the board must ensure that such business activities are undertaken in a way that complies with the governance arrangements of the financial conglomerate.
- 20.8 The board must ensure that the risk management framework is reviewed at least annually in order to maintain its efficiency.
- 20.9 The Holding Company must establish and adequately resource risk management, compliance, internal audit and actuarial functions of the financial conglomerate to enable:
 - (a) proper identification and addressing of risks that impact on the financial conglomerate;
 - (b) the undertaking of adequate monitoring of the implementation of financial conglomerate policies and procedures;
 - (c) timely and accurate information flows within the financial conglomerate;

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- (d) effective communication of financial conglomerate objectives, strategies and policies to members of the financial conglomerate; and
 - (e) promote a financial conglomerate risk and compliance culture.
- 20.10 The Holding Company must at least on an annual basis or when there is a significant change in the risk profile of the financial conglomerate, conduct an appropriate risk and capital assessment to enhance the link between the financial conglomerate's risk profile, its risk management, and its capital. This assessment is called the Financial Conglomerate - Capital and Risk Assessment (FC-CARA).
- 20.11 Where the majority of the total asset value of a financial conglomerate resides in a bank or controlling company, the FC-CARA must materially align with the ICAAP required under the Banks Act, 1990 and must be based on the principles, methodologies and requirements adopted thereunder.
- 20.12 Where the majority of the total asset value of a financial conglomerate resides in an insurer or controlling company, the FC-CARA must materially align with the ORSA requirements prescribed under the Insurance Act, 2017 and must be based on the principles, methodologies and requirements adopted thereunder.
- 20.13 In cases where a financial conglomerate does not fit the requirements of paragraph 20.11 or 20.12, the Prudential Authority may require the financial conglomerate to base the FC-CARA on the principles, methodologies and requirements applicable to an ICAAP or an ORSA.
- 20.14 The Prudential Authority may, on application from the Holding Company, exempt any bank, insurer or controlling company from submitting an ICAAP or ORSA report if such ICAAP and ORSA is not materially different to the FC-CARA. Any approval granted by the Prudential Authority may be subject to such conditions as the Prudential Authority may impose.
- 20.15 The FC-CARA must be submitted annually to the Prudential Authority within 14 days after board approval.

21. Risk policies

- 21.1 The Holding Company must develop and implement board-approved policies, where applicable, that address the material risks of the financial conglomerate.
- 21.2 At a minimum, the following material risks and risk areas must be covered in a policy, where relevant:
- (a) asset-liability management risk;
 - (b) capital management;
 - (c) compliance risk;
 - (d) concentration risk;
 - (e) counterparty risk;
 - (f) country risk and transfer risk;
 - (g) credit; and in particular risks arising from impaired or problem assets and the financial conglomerate related impairments, provisions or reserve;
 - (h) currency risk;
 - (i) detection and prevention of criminal activities risk;
 - (j) equity risk arising from positions held in financial conglomerate's banking book;
 - (k) fitness and propriety risk;
 - (l) interest rate risk;
 - (m) information technology risk;

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- (n) insurance fraud risk;
 - (o) investment risk;
 - (p) liquidity risk;
 - (q) market risk (position risk) in respect of positions held in the financial conglomerate's trading book;
 - (r) operational risk;
 - (s) outsourcing risk;
 - (t) reinsurance and other forms of risk transfer risk;
 - (u) remuneration risk;
 - (v) reputational risk;
 - (w) risk arising from exposure to a related person;
 - (x) risk arising from all relevant payment and settlement services, processes or systems;
 - (y) risk arising from unregulated entities within the financial conglomerate;
 - (z) risk relating to procyclicality;
 - (aa) risks related to securitisation or re-securitisation structures;
 - (bb) risks related to stress testing;
 - (cc) risks related to the inappropriate valuation of instruments, assets or liabilities;
 - (dd) solvency risk;
 - (ee) strategy risk;
 - (ff) technological risk;
 - (gg) translation risk;
 - (hh) underwriting risk; and
 - (ii) any other risk regarded as material by the Holding Company .
- 21.3 The Holding Company may combine one or more of the policies for addressing risks specified in paragraph 21.2, provided the Holding Company is satisfied that the specified risks do not justify a separate policy given the nature, scale and complexity of its business.
- 21.4 The Holding Company's risk management policies must be reviewed regularly, but at least annually, and kept updated in light of emerging risks.
- 21.5 Material changes to the risk management policies must be approved by the board and must be properly assessed and documented. The documentation must be available for review by internal audit, auditors of the financial conglomerate, and the Prudential Authority as needed.

22. Capital management

- 22.1 A financial conglomerate's capital management policy, which must be subject to the Holding Company's governance, must clearly document internal capital planning processes which ensure compliance with capital requirements at eligible financial institution level and at the level of the Holding Company, where applicable.
- 22.2 A financial conglomerate's internal capital planning process must take into consideration the financial conglomerate risk profile and risk appetite, and the possible negative impact on its capital position from members of the financial conglomerate and the relevant risks to which it is exposed.
- 22.3 The internal capital planning process must also take into account the availability of capital and the quality thereof, across the financial conglomerate. This consideration should include the regulatory, legal and other impediments to the transfer of capital across members of the financial conglomerate,

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sectors and jurisdictions in which the members of the financial conglomerate operate.

- 22.4. A financial conglomerate must establish processes to help ensure effective co-ordination and communication between the board and the members of the financial conglomerate with respect to the financial conglomerate's capital planning.

23. Business continuity management

- 23.1 The Holding Company must have in place financial conglomerate business continuity management (BCM) arrangements, including policies and procedures.
- 23.2 The board is responsible for ensuring that the BCM requirements in this Standard are applied appropriately to members of the financial conglomerates, including in relation to unregulated entities.
- 23.3 The board must -
- (a) ensure that the financial conglomerate's BCM is appropriate to the nature and scale of its operations and is consistent with the financial conglomerate's risk strategy and risk management system; and
 - (b) ensure that the financial conglomerate business continuity plan is developed and implemented and is reviewed at least annually by senior management of the financial conglomerate.
- 23.4 Where a member of the financial conglomerate is not regulated by the Prudential Authority and undertakes critical business operations for the financial conglomerate the Holding Company must ensure that those business operations are undertaken in a way that complies with the financial conglomerate's BCM policy.
- 23.5 The Holding Company must notify the Prudential Authority of any instances where the financial conglomerate experiences a major disruption that has the potential to have a material impact on the financial conglomerate's risk profile or its financial soundness.
- 23.6 The BCM requirements prescribed in the relevant provisions of the Banks Act, 1990 to banks or controlling companies and the Insurance Act, 2017 to insurers or controlling companies apply, with the appropriate changes to the Holding Company where the Holding Company is also licensed in terms of the Banks Act, 1990 or the Insurance Act, 2017.

24. Liquidity management

- 24.1 The board must adequately and consistently identify, measure, monitor, and manage the financial conglomerate's liquidity risks and liquidity risks of the Holding Company and members of the financial conglomerate.
- 24.2 Liquidity must be sufficient across the financial conglomerate to fully accommodate funding needs in normal times and periods of stress.
- 24.3 The board must develop and maintain liquidity management processes and funding programs that are consistent with the nature, scale, complexity and risk profile of the financial conglomerate.
- 24.4 The liquidity risk management processes and funding programs for the financial conglomerate must take into full account lending, investment, reinsurance and other activities, and ensure that adequate liquidity is

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maintained at the Holding Company and at each member of the financial conglomerate.

24.5 The Holding Company must:

- (a) take account of the fact that participations or investments in a member of the financial conglomerate may be illiquid; and
- (b) factor into its liquidity risk management processes certain major trigger events, such as catastrophes, downgrades from credit rating agencies, defaults or other events that may lead to liquidity issues for the financial conglomerate and members of the financial conglomerate.

24.6 The processes and programs referred to in paragraph 24.3 should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds amongst members of the financial conglomerate and between these entities and the Holding Company.

25. Internal controls

25.1 The financial conglomerate's risk management system must be supported by an effective system of internal controls capable of providing the board and senior management with reasonable assurance from a control perspective that the business of the financial conglomerate is being operated consistently with:

- (a) the strategy and business objectives determined by the board;
- (b) the key business, risk management, information technology and financial policies and procedures determined by the board; and
- (c) the legislation that applies to the financial conglomerate.

25.2 The Holding Company's system of internal controls must be appropriate to the nature, scale and complexity of the financial conglomerate's business and risks.

25.3 At a minimum, the internal control system must provide for the following:

- (a) appropriate segregation of duties, and controls to ensure that segregation is observed;
- (b) appropriate controls for all key business processes and policies, including for major business decisions;
- (c) end-to-end control processes for complex business activities;
- (d) controls to provide reasonable assurance over the fairness, accuracy, reliability and completeness of the Holding Company's financial and non-financial information;
- (e) board-approved delegations of authority that are reviewed regularly by the board;
- (f) controls at the appropriate levels, including at the procedure or transactional levels, and at the legal entity or business unit levels;
- (g) regular monitoring of all controls to ensure they remain effective;
- (h) an inventory of all key policies and procedures, and the controls in respect of each policy and procedure; and
- (i) training in respect of relevant components of the system of internal controls, particularly for employees in positions of trust or responsibility, or who carry out activities that involve significant risk.

26. Risk governance - General requirements for control functions

26.1 To provide appropriate governance over the risk management system and system of internal controls, a financial conglomerate must establish and

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adequately resource control functions throughout the financial conglomerate. Control functions are a critical part of a financial conglomerate's checks and balances and must provide an independent perspective on risks and breaches of legal or regulatory requirements.

- 26.2 The board must approve the roles and responsibilities, and any changes to the roles or responsibilities, of each control function, and must ensure that each function has the resources, authority and independence needed to meet its responsibilities.
- 26.3 The authority and responsibilities of each control function must be documented and subject to regular review by the board.
- 26.4 Control functions should operate without conflicts of interest; where a conflict arises, it must be brought to the attention of the board of directors for resolution.
- 26.5 Control functions must have the right to conduct investigations of possible breaches and to request assistance for such investigations from specialists within the financial conglomerate, or external specialists.
- 26.6 The board, or relevant board sub-committee, or an independent expert must periodically review and assess the performance of each control function.
- 26.7 Each control function must conduct regular self-assessments of their respective functions and implement or monitor the implementation of any needed improvements.

27. Risk Governance – Heads of control functions

- 27.1 Heads of control functions must be fit and proper.
- 27.2 There must be adequate policies and procedures relating to the appointment, dismissal and succession of heads of control functions, and the board must be actively involved in such processes.
- 27.3 The appointment, performance assessment, remuneration, disciplining and dismissal of the head of each control function (other than the head of the internal audit function) must be done with the approval of, or after consultation with, the board or relevant board sub-committee.
- 27.4 The appointment, performance assessment, remuneration, disciplining and dismissal of the head of the internal audit function must be done by the board, its chairperson or the audit committee.
- 27.5 The remuneration of heads of control functions of the Holding Company must not be predominantly linked to the financial performance of the financial conglomerate and must not be inconsistent with the long-term strategy and the financial soundness of the financial conglomerate.
- 27.6 Heads of control functions must have appropriate segregation of duties from operational business line responsibilities. The board of directors must ensure that the segregation is observed.
- 27.7 The heads of control functions must have:
 - (a) sufficient seniority and authority to be effective;
 - (b) reporting lines that support their independence;
 - (c) unrestricted access to relevant information;
 - (d) direct access to the board of directors or relevant board sub-committee, without the presence of senior management if so requested, for the purpose of raising concerns about the effectiveness of the risk management system or system of internal controls; and

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- (e) the freedom to report to the board of directors or relevant board sub-committee without fear of retaliation from senior management.
- 27.8 Heads of control functions must report regularly to the board or relevant board committee.
- 27.9 The head of a control function must without delay report in writing to the board or relevant board sub-committee any reasonable suspicion that any financial sector law relevant to its area that applies to the financial conglomerate has or is being contravened. Where the suspected contravention is of the Banks Act, 1990, Insurance Act, 2017 or the Financial Sector Regulation Act, 2017, the head must also report immediately to the Prudential Authority if, in the opinion of the head, satisfactory steps to rectify the matter have not been taken within 30 days from the date of the board meeting at which the report is considered.

28. Fit and propriety requirements for key persons

- 28.1 Prudent management of the financial conglomerate is substantially reliant on the appointment of suitably qualified persons to governance and management roles in the financial conglomerate. It is critical that the board ensures that the key persons appointed at the Holding Company and at each member of the financial conglomerate are fit and proper.
- 28.2 The Holding Company must have a board-approved fit and proper policy, which must be applied throughout the financial conglomerate. The policy requirements on fitness and propriety should be reflective of the organisational values to which the financial conglomerate subscribes.
- 28.3 In addition, the fitness and propriety policy should include, but not be limited to:
 - (a) requirements on competence with respect to formal qualifications, knowledge, relevant skills and practical experience;
 - (b) personal character qualities of honesty and integrity;
 - (c) good financial standing;
 - (d) a requirement that all key persons satisfy legislative requirements for fitness and propriety;
 - (e) succession planning framework for key persons; and
 - (f) a requirement that the legislative requirements for key persons and the policy on fitness and propriety are well communicated and understood by all entities that form part of the financial conglomerate and the wider group.
- 28.4 Any breach of the fitness and proper policy of the financial conglomerate must be treated as a serious matter and addressed swiftly.
- 28.5 The Holding Company must notify the Prudential Authority within 30 days of becoming aware of:
 - (a) a breach of the fit and proper policy by a key person of the Holding Company; and/or
 - (b) a change in circumstances that may adversely affect the fit and proper status of a key person of the Holding Company.

29. Key persons – appointment and termination

- 29.1 The appointment of all key persons of the Holding Company must be approved by the Prudential Authority, and takes effect only if the Prudential Authority approves the appointment:

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- 29.2 In the case of an auditor, paragraph 29.1 above does not apply in respect of the reappointment of an auditor that does not involve a break in the continuity of the appointment.
- 29.3 The Holding Company must notify the Prudential Authority of the termination of the appointment of a key person, within 30 days of such termination.
- 29.4 The Prudential Authority may, where a key person of the Holding Company has been approved in terms of the Banks Act, 1990 or the Insurance Act, 2017, advise the Holding Company to dispense with the requirements of paragraph 29.1 above.
- 29.5 Paragraph 29.4 above, does not apply to an auditor of the Holding Company.

30. Oversight of outsourcing arrangements

- 30.1 The outsourcing of some activities is an integral part of many modern businesses. It is common cause that on account of the core business of financial conglomerates, entities that fall outside of the financial conglomerate would be better placed and resourced to provide services to the financial conglomerate for the furtherance of its objectives.
- 30.2 Furthermore, outsourcing may introduce risks to the financial conglomerate given that the financial conglomerate relies on the controls it would expect to be in place in the entity with which it has outsourcing arrangements.
- 30.3 Additionally, where a number of members of the financial conglomerate or the Holding Company have individually entered into outsourcing arrangements with a single service provider or connected service providers, a risk may arise within the service providers, and the financial conglomerate will need to provide for business continuity in the event of the risk materialising. When considering whether to outsource a material function or activity, the Holding Company must ensure that an assessment of the risks of outsourcing is carried out, including the appropriateness of outsourcing the particular function or activity, taking into account the size, nature and complexity of the outsourced function or activity.
- 30.4 The Holding Company must ensure that there are processes and criteria in place to review decisions to outsource a function in order to ensure that such outsourcing does not imply delegation of responsibility for that function or activity.
- 30.5 The Holding Company must obtain the prior approval of the Prudential Authority before it enters into any special outsourcing arrangements and notify the Prudential Authority prior to entering into other outsourcing arrangements.
- 30.6 The Prudential Authority may object to the other outsourcing arrangement after receiving the notification by means of a written notice, stating the grounds for the objection, within 20 working days of receipt of the notification.
- 30.7 If the Prudential Authority objects to the other outsourcing arrangement, the arrangement shall have no legal effect. The Holding Company must ensure that this scenario is catered for in the other outsourcing arrangement. The Holding Company may dispute the Authority's objection.

31. Stress and scenario testing

- 31.1 The risks associated with specific business lines may differ markedly in respect of each other. This distinction is more apparent between prudentially regulated and non-prudentially regulated institutions. Therefore, stress tests

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carried out at a group-wide level and that are escalated for the consideration of the board ideally present a holistic view of the risks that may affect specific sectors and any spill over effects that may affect other entities within the financial conglomerate and the wider group.

- 31.2 The Holding Company must periodically carry out financial conglomerate-wide stress tests and scenario analyses for its major sources of risk.
- 31.3 The Prudential Authority may request a financial conglomerate to conduct a stress and/or scenario test outside the periods stipulated in paragraph 31.2 in circumstances determined by the Prudential Authority.

32. Controls around off-balance sheet transactions

- 32.1 It is essential for the board to fully appreciate the material risks that may emanate from special purpose entities or vehicles that may impact the financial conglomerate. For this reason, it is important for special purpose entities or vehicles to be captured in the risk management processes of the financial conglomerate and the wider group.
- 32.2 The board must ensure that material off-balance sheet activities, including those of special purpose entities or vehicles, are part of the financial conglomerate's risk management framework.

33. Information

- 33.1 The operations within the financial conglomerate may inhibit the flow of information within the financial conglomerate.
- 33.2 The board must develop and implement a framework for governing information flows within the financial conglomerate. A sound information flow framework would enable the board to identify the linkages within the financial conglomerate from a governance and risk management perspective.
- 33.3 The Prudential Authority may in order to fulfil its supervisory duties in respect of the financial conglomerate request additional information from the Holding Company in respect of members of the group of companies.
- 33.4 Without limiting the information referred to in paragraph 33.3, the following information may be requested from the Holding Company:
 - (a) copies of correspondence between an eligible financial institution and/or Holding Company and a foreign regulatory authority that relate to matters that may or are likely to have a material impact on the supervisory duties of the Prudential Authority;
 - (b) copies of correspondence between a subsidiary of an eligible financial institution and the Holding Company that relates to matters that may or are likely to have a material impact on the supervisory duties of the Prudential Authority;
 - (c) any material information which may or is likely to negatively affect the fitness and propriety of a significant owner of an eligible financial institution within the financial conglomerate;
 - (d) copies of any other information or documentation at the disposal of the financial conglomerate that relates to matters that may or are likely to have a material impact on the supervisory duties of the Prudential Authority;
 - (e) details of a substantial shareholder of any member of the financial conglomerate or the Holding Company;

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- (f) the financial conglomerate's group structure based on the business line, governance and the legal structure;
- (g) the main business activities conducted by any member of the financial conglomerate, including relevant matters relating to services and products, markets, geographic regions and sectors;
- (h) the composition of the board of any member of the financial conglomerate, and further information as may be required to perform the Prudential Authority's supervisory responsibilities, such as the roles and responsibilities of the respective boards and information relating to any of the board sub-committees;
- (i) the senior management structure of any member of the financial conglomerate, and the respective main responsibilities of such senior management;
- (j) the business model or strategy adopted by any member of the financial conglomerate;
- (k) the control functions and policies adopted by members of the financial conglomerate, including matters relating to accounting policies, internal audit, the compliance function, outsourcing, audit and the interaction between internal and external audit;
- (l) the strategy adopted by members of the financial conglomerate in respect of risk, including their appetite for risk, the principal risks that the members of the financial conglomerate are willing to assume, any specific or board approved limits relating to risk positions, the manner in which risks are monitored and controlled, and the frequency at which risk information has to be reported to the respective boards and senior management of members of the financial conglomerate;
- (m) the strategy adopted by members of the financial conglomerate in respect of their responsibility to manage or hold any excess capital and reserve funds in the financial conglomerate, the monitoring of capital in relation to the risks incurred by various entities in the group, and the allocation of capital among the members of the financial conglomerate;
- (n) the strategy adopted by members of the financial conglomerate in respect of funding and liquidity management, including the extent to which liquidity management is centralised or managed on a business line or legal entity basis;
- (o) the strategy adopted by members of the financial conglomerate in respect of intra-group transactions and transactions with related and inter-related persons , including whether or not limits are imposed in respect of intra-group transactions and transactions with related and inter-related person, and to ensure that such transactions are conducted on an arm's-length basis;
- (p) the strategy adopted by members of the financial conglomerate in respect of concentration risk, including whether or not limits are imposed in respect of concentration risk;
- (q) investments or interests held within a financial conglomerate in regulated entities, unregulated entities, regulated joint ventures, unregulated joint ventures, regulated associates and unregulated associates, specified special-purpose institutions, companies acquired during a specified period and/or any other entity specified in writing by the Prudential Authority;

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- (r) in respect of each investment or interest specified in sub-paragraph (q) above, the nature of the business conducted by a member of the financial conglomerate, that is, the main activity or business such as banking, insurance, securities trading, portfolio management, property holding or development, the country in which an entity is incorporated, whether the entity conducts business as the principal or agent or as both principal and agent, the relevant regulatory authority or supervisor of the rules that apply to the relevant entity, and the latest date in respect of which audited financial statements are available;
- (s) in respect of a regulated entity, the minimum capital requirement or solvency amount determined in accordance with the rules or regulations of the relevant authority or supervisor responsible for the supervision of the relevant entity, the amount of qualifying capital and reserve funds determined in accordance with the rules and regulations of the relevant authority or supervisor responsible for the supervision of the relevant entity, and any surplus or shortfall amount, that is, the difference between the entity's qualifying capital and reserve funds and the required amount of capital and reserve funds;
- (t) the aggregate amount of any direct or indirect exposures granted by a member of the financial conglomerate to another member of the financial conglomerate or the aggregate amount of any direct or indirect exposures granted by a member of the financial conglomerate to other members of the financial conglomerate;
- (u) the relevant approaches or methods implemented by an eligible financial institution within the financial conglomerate for the measurement of its exposure to relevant risks; and
- (v) information outlined in sub-paragraphs (g) to (u) may be requested with regard to the Holding Company.

34 Use of group policies and functions

- 34.1 The boards of members of the financial conglomerate will ordinarily be responsible for the activities of their entities. As a result, the boards of each of these members of the financial conglomerate may develop policies that relate to the business lines of those respective entities. While these policies will be reflective of the requirements of specific business lines, it is critical that the policies of the members of the financial conglomerate are aligned with the financial conglomerate's overall strategy and policies.
- 34.2 The board must ensure that policies utilised by members of the financial conglomerate are aligned with the financial conglomerate policies without prejudice to the governance of the member of the financial conglomerate. Where a prejudice exists, the decision to align or deviate from the financial conglomerate's policies should be aligned with the overall strategy of the financial conglomerate and be approved by the board.
- 34.3 The board must ensure that where functions are being utilised by members of the financial conglomerate or special purpose entities or vehicles, the boards of members of the financial conglomerate and the governing body responsible for the special purpose vehicle or entity have approved the use of the functions and ensured that such functions give appropriate regard to its business and specific requirements.

35. Reporting

- 35.1 The Holding Company must report on governance and risk management practices to the Prudential Authority on a semi-annual basis.
- 35.2 The form and manner of regulatory reporting returns will be determined by the Prudential Authority and published on its website.

36. Regulatory action

If in the view of the Prudential Authority, a financial conglomerate has not complied with the requirements of this Standard, the Prudential Authority may take appropriate regulatory action.