



Regulatory Newsflash

The FSB publishes its findings on Corporate Governance

The FSB has recently published the findings of its Thematic Review on Corporate Governance. The review takes stock of how FSB member jurisdictions have applied the G20/OECD Principles of Corporate Governance (“the Principles”) to publicly listed regulated financial institutions and identifies possible areas of follow up or where more work could be undertaken to further promote effective governance.

- The review identifies many examples of how jurisdictions have applied the Principles and that Important lessons have been learned by financial institutions, regulators and other stakeholders; foremost, **the need to strengthen corporate governance.**
- It also makes **12 recommendations** grouped into the areas of focus of the review. Some of these recommendations are directed primarily at financial institutions themselves, others at FSB member

jurisdictions, and one broad final recommendation is made for the OECD to review practices in respect of certain areas of corporate governance.

Recommendations for **financial institutions** focus on **board responsibilities** and include:

- **Implement and disclose codes of ethics/conduct.**
- Conduct regular assessments of **board effectiveness** and ensure the board receives **adequate training** to remain abreast of relevant new laws and regulations.
- **Improve procedures and practices as they relate to succession planning and board training.**
- **Enhance the transparency of the board nominations process**, for example the criteria for nominating individuals to board, the qualifications of board members and the election process.
- **Give shareholders** the opportunity to **vote at shareholder meetings** on **remuneration policies** and the **total value of compensation arrangements** offered to the board and senior management.

The FSB identified the following areas that require further attention:

- **Group oversight** and the **relationship between group entities**, including issues such as lines of sight covering **effective intra-group oversight, reporting** and **escalation** and **identifying RPTs** and setting materiality thresholds for board review.
- **Conflicts of interest (COIs)**, including **Related party transactions (RPTs)**. There are a number of **key challenges** around the review and disclosure of RPTs, including identifying RPTs and setting materiality of RPT that require review by the board. In addition, very few jurisdictions **specifically reference** the importance of **independence** as it relates to **conflicts of interest** or refers to **board members' responsibility** in this area.
- **Business** and **risk culture**, and setting the **"tone from the top"**.
- **Board evaluations** are an effective tool and required across almost all jurisdictions but **the quality of evaluations** and **access to results** could be **further enhanced**.
- **Succession planning requirements** could be enhanced, such as **incorporating the suggested role of major shareholders in the process**, details of how the **succession plan** relates to the **strategy of the firm** and, providing **standard disclosure** for how succession plans should be disclosed. Financial institutions should also consider **enhancing their training programmes** for directors.
- The **disclosure and transparency** of the **board nominations process** could be enhanced.
- Typical **external auditor reporting lines** have a negative impact on **auditor disclosures** to **shareholders**.

The full report can be found [here](#).

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