HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B1/20C

14 July 2015

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

BCBS Revised Guidance on Corporate Governance Principles for Banks

As you may be aware, the Basel Committee on Banking Supervision ("BCBS") issued revised guidance on *Corporate governance principles for banks*[1] on 8 July 2015. This followed a public consultation in which the industry in Hong Kong provided comments.

The revised guidance supersedes the earlier *Principles for enhancing corporate governance* issued by the BCBS in 2010 and includes changes to—

- expand the guidance on the role of the board of directors in overseeing the implementation of effective risk management systems;
- emphasise the importance of the board's collective competence as well as the obligation of individual board members to dedicate sufficient time to their mandates and to keep abreast of developments in banking;
- strengthen the guidance on risk governance and highlight the importance of a sound risk culture in driving risk management within a bank;
- provide guidance for bank supervisors in evaluating the processes used by banks to select board members and senior management; and
- reflect that compensation systems form a key component of the governance and incentive structure through which the board and senior management of a bank

[1] Please see http://www.bis.org/bcbs/publ/d328.pdf

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址：www.hkma.gov.hk

convey acceptable risk-taking behaviour and reinforce the bank's operating and risk culture.

The HKMA will be revising its Supervisory Policy Manual (SPM) module CG-1 *Corporate Governance of Locally Incorporated Authorized Institutions* and, where appropriate, other relevant SPM modules, to bring them into line with the revised guidance, in a manner appropriate to the local banking sector. In the meantime, all authorized institutions are encouraged to review their corporate governance framework (including policies, procedures and practices) in light of the revised guidance and take appropriate actions to address any material deficiencies or gaps identified.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

c.c. The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn. Mr Jackie Liu)