Our Ref: B9/149C

14 December 2016

The Chief Executive of all Authorized Institutions and
Directors of the Board of all Locally-Incorporated Authorized Institutions

Dear Sir / Madam,

Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong

Further to the consultation conducted earlier this year I am writing to provide further guidance on the empowerment of INEDs in the banking industry in Hong Kong.

Background

The financial crisis which began in 2008 exposed governance weaknesses at financial institutions around the world. In many cases, boards and individual directors proved unable to understand the risks that their institutions were exposed to and hence failed to ensure that those risks were effectively managed or mitigated. This has led to a greater emphasis on the role of the board, and in particular the role of INEDs, what is expected of them and the knowledge, expertise and – not least – personal qualities they must possess in order to do their jobs effectively. These considerations are no less relevant in Hong Kong than they are in other developed financial centres internationally.

In light of these developments, in July 2015, the Hong Kong Monetary Authority (HKMA) commissioned a small group comprising members with wide-ranging expertise and experience in the area of corporate governance, with particular reference to the banking sector, to undertake a study of the role of INEDs in the local banking sector and to provide with their observations and recommendations to help empower INEDs. The group submitted its report to the HKMA in December 2015 and an industry consultation was carried out on the group's recommendations in early 2016.

Guidance

The guidance is set out in the Annex, covering the role of INEDs, practices of locally-incorporated authorized institution (AIs) with regard to INEDs, and proposed measures to be taken by AIs to ensure that there are sufficient suitably qualified people willing to serve as INEDs on the boards of AIs. It should also be read in conjunction with the HKMA's Supervisory Policy Manual on corporate governance, in particular module CG-1, which follows the Guidelines on "Corporate governance principles for banks" published by the Basel Committee on Banking Supervision in July 2015.

Implementation

AIs should aim to implement the guidance within one year of the date of this circular. In the event of an AI having difficulty in complying with specific requirements, they should contact the HKMA through their usual point of contact to discuss whether any flexibility may be considered.

Should you have any questions on this circular, you may contact Mr Trevor Keen of Banking Conduct Department at tnkeen@hkma.gov.hk. You may also approach your usual supervisory contacts at the HKMA regarding implementation issues.

Yours faithfully,

Norman T.L. Chan
Chief Executive

Encl.
c.c. The Hong Kong Association of Banks
The DTC Association