



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
B9/195C

19 December 2018

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Supervision for Bank Culture

I am writing to announce the Hong Kong Monetary Authority's (HKMA) supervisory measures for bank culture, following consultation with the industry.

The HKMA initiated a Bank Culture Reform last year through promoting the adoption of a holistic and effective framework for fostering a sound culture within authorized institutions (AIs), with particular attention given to three pillars, namely governance, incentive systems, and assessment and feedback mechanism. Practical guidance on these three pillars was also provided to all AIs through the circular of 2 March 2017.

With a view to gauging the progress of Bank Culture Reform in Hong Kong and providing further guidance to the industry where necessary, the HKMA will implement the following supervisory measures:

- (i) Requiring AIs to conduct self-assessment: AIs will be required to review and report their governance arrangements as well as policies and procedures in relation to corporate culture and the implementation of the enhancement measures in fostering a sound bank culture with respect to the circular last year. For the avoidance of doubt, the self-assessment is intended to be an opportunity for AIs to reflect on any insights, lessons learnt and issues encountered in the implementation of enhancement measures, but not a check-box type compliance exercise;

- (ii) Conducting focus reviews: The HKMA will, through site visits and/or off-site reviews, assess and benchmark AIs' practices with respect to key areas of bank culture; and
- (iii) Undertaking culture dialogues: The HKMA will meet with senior management and/or board members of AIs responsible for bank culture to gather insights and lessons learnt.

Furthermore, promoting good banking culture is a common aspiration of jurisdictions around the world. In pursuing the culture initiative, the HKMA aims to draw on the valuable and relevant experience from overseas practices. It is important to keep an eye on any major conduct incidents occurred globally and consider the relevance of the findings in the context of Hong Kong as there are bound to be lessons that we can all learn. In this connection, we expect AIs, when conducting self-assessment, to also make reference to the findings of major conduct or other serious misbehaviour incidents outside Hong Kong as they review and assess whether there are any potential similar issues that may apply to the AI, benchmark their culture and behavioural standards against community standards and expectations, and report the findings to the boards as appropriate. Recent examples include the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* in Australia¹ and the *Prudential Inquiry into the Commonwealth Bank of Australia* by the Australian Prudential Regulation Authority².

We will gather from AIs insights, lessons learnt and issues encountered through the above supervisory measures and monitor the development of bank culture, while exploring other supervisory measures taking into account overseas experience.

The HKMA would first commence the self-assessment exercise. In terms of implementation timeline, the HKMA considers it appropriate to implement the self-assessment by phases. The first phase will cover about 30 AIs including all major retail banks and selected foreign bank branches with substantial operations in Hong Kong. The HKMA will inform these AIs individually. AIs covered in the first phase will be expected to complete the self-assessment and submit to the HKMA within six months. For the remaining AIs which are not covered in the first phase, these AIs are still expected to reflect on their own insights, lessons learnt and issues encountered in their culture enhancement initiatives.

¹ *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* in Australia (Interim Report issued on 28 September 2018)

² *Prudential Inquiry into the Commonwealth Bank of Australia* by the Australian Prudential Regulation Authority (Final Report released on 1 May 2018)

We have designed a template to assist AIs in conducting the self-assessment. The template, which is enclosed at the **Annex**, is divided into two parts. The first part “Culture Questions to the Board” comprises a set of high-level questions, aiming to serve as an opportunity for the AIs’ board to reflect on any insights, lessons learnt and issues encountered in the implementation of enhancement measures. The second part consists of specific questions for AIs to review and report their governance arrangements as well as policies and procedures in relation to corporate culture and the implementation of the enhancement measures in fostering a sound bank culture with respect to the circular last year.

As for focus reviews and culture dialogues, the HKMA will inform AIs of the details individually.

Should you have any questions about this circular, you may contact Ms Christine Wong at 2878 8288 or Mr Danny Yip at 2878 1304.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.

Self-assessment on Bank Culture Reform

Part A: Culture Questions to the Board

Completion Instructions:

- This part of the self-assessment should be completed under the guidance of the board of your institution, preferably having discussed in and incorporated inputs from the dedicated board-level committee in advising and assisting the board in discharging its responsibilities for your institution's culture-related matters, and should be co-signed by the chair (an independent non-executive director) of the dedicated board-level committee responsible for culture-related matters and the Chief Executive of your institution.
- For the avoidance of doubt, this self-assessment is intended to be an opportunity for institutions to reflect on any insights, lessons learnt and issues encountered in the implementation of enhancement measures, but not a check-box type compliance exercise.

Questions:

1. How does your board see its role in relation to establishing your institution's culture and behavioural standards that promote prudent risk-taking and fair treatment of customers?
2. What proactive steps did your board (including relevant board-level committee(s)) take in driving your institution's culture enhancements?
3. Regarding the progress of culture reform at your institution, what have you learnt from fostering a sound culture within your institution, including the (i) good practices and (ii) key areas for improvement at your institution? Which pillars (governance, incentive systems, assessment and feedback mechanisms) or other areas do they relate to?
4. In your view, what are the most salient indicators (quantitative and/or qualitative) that you would use to measure and assess your institution's culture?
5. Based on the indicators mentioned above, what tangible outcomes have you seen from fostering a sound culture within your institution?
6. Looking forward, what are your institution's priorities on culture reform over the coming twelve months (i) in relation to the three pillars, and (ii) among the business units in your institution (or other categorization that you see appropriate), and which do you expect to be the most difficult to achieve?
7. Looking forward, how does your institution encourage/motivate your staff at all levels to adopt and adhere to your institution's desired culture and behavioural standards?
8. If your institution is a part of an overseas-incorporated institution, how does your cultural programme interface with that of your head office and what adjustments have been/will be made having regard to local circumstances¹?
9. Is there any additional contextual information which you feel is relevant in understanding the progress of culture reform at your institution?

¹ If there are any review or audit reports on culture initiated by the head office that may be relevant to the context of this self-assessment, they may be attached as part of your submission as appropriate.

Part B(1): Detailed self-assessment

Completion Instructions:

- This part of the self-assessment should be carried out by the internal audit department, the compliance department or other equivalent unit of your institution. It should be signed by the head of the relevant department and should be approved and co-signed by the Chief Executive of your institution.
- Your institution may wish to provide supporting documents to illustrate your institution's work under the respective items below as appropriate.

Questions:

Question No.	Question	Response		
		Yes/No	If yes, please elaborate with examples/evidence, including the relevant timing (if any).	If no, please explain ² .
	Section A: Governance			
1	Does the board of your institution play a leading role in establishing your institution’s culture and behavioural standards that promote prudent risk-taking and fair treatment of customers?	Yes/No		
2	Does your institution have any effective mechanisms in place for ensuring that your institution’s desired culture is understood and shared by all levels of staff?	Yes/No	(What are the mechanisms?)	
3	Does your institution have a dedicated board-level committee to advise and assist the board of your institution in discharging its responsibilities for your institution’s culture-related matters, or in the process of establishing one?	Yes [please answer the rest of this question below] /No		
3(a).	When was / will be the committee established (month and year)?	--		--
3(b).	Is the committee a stand-alone committee set up for such purposes, or an expansion of the remit of an appropriate board-level committee in encompassing culture-related responsibilities?	--	Stand-alone / Expansion of _____	
3(c).	Is the committee chaired by an independent non-executive director?	Yes/No		

² If your institution answer "no" to any of the questions, please (i) explain and provide relevant action/improvement plans with target complementation dates; or (ii) explain and demonstrate an alternative course of initiatives/actions of which your institution has undertaken for the purposes of fostering sound culture in that aspect. For overseas incorporated authorized institutions, as promulgated in the HKMA's circular "Bank Culture Reform" dated 2 March 2017, it is expected that similar frameworks and mechanisms, albeit tailored to fit individual circumstances, should be put in place. In such case, please explain the relevant individual circumstances and how the frameworks and mechanisms in your institution fit into such circumstances.

3(d).	What are the terms of reference for the committee?	--		
3(e).	How many times did the committee meet in the past 12 months (or since establishment if it was established less than 12 months ago)?	--		
3(f).	What were the (i) key topics discussed and (ii) key recommendations of the committee?	--	(i)	
		--	(ii)	
3(g).	Is the committee assisted by internal audit functions or other experts where appropriate?	Yes/No	(In the event where internal audit functions are involved in assisting the committee, please complete Part B(2) below which is to be completed by internal audit functions)	
3(h).	Does the committee introduce a regular process to review and confirm the effectiveness of the overall culture enhancement initiatives pursued by your institution?	Yes/No	(How often it is reviewed and confirmed and how to review the effectiveness?)	
3(i).	Does the committee (i) approve, (ii) review and assess the adequacy of any relevant statement which sets out your institution's culture and behavioural standards?	(i) Yes/No	(If yes, please attach the relevant statement(s))	
		(ii) Yes/No	(The frequency of such activity: _____ and how to review and assess the adequacy)	
3(j).	Does the committee seek to ensure that the aforesaid statement is/are translated into policies and procedures that are relevant to the day-to-day work of different levels of staff?	Yes/No	(How to ensure? Any sample of summary sheets?)	
4.	Apart from your above responses in this Section, is there any supplementary information that demonstrates that your institution takes each of the following factors mentioned in our Practice Guide ³ into full consideration in articulating and communicating your institution's desired culture and values clearly?	--		
4(a).	Lead by example	Yes/No	(How?)	
4(b).	Relevance to different levels of staff	Yes/No	(How?)	
4(c).	Effective and continual communications from the top	Yes/No	(How?)	

³ The Practice Guide on the Three Pillars for Promoting Sound Bank Culture was attached in the Annex of the HKMA's circular "Bank Culture Reform" dated 2 March 2017.

	and training			
4(d).	Clear ownership of risk and culture reform	Yes/No	(How?)	
	Section B: Incentive Systems			
5.	Do the incentive systems of your institution (including staff recruitment, performance management, remuneration and promotion systems) take into account adherence (and non-adherence) to your institution's culture and behavioural standards instead of reward good business performance only?	Yes/No	(How to take into account?)	
6.	Do the incentive systems of your institution avoid incentivising short-term business performance at the expense of the interests of customers and the safety and soundness of your institution?	Yes/No	(How to avoid?)	
7.	Does your institution (i) establish, (ii) articulate and (iii) apply clear and appropriate consequences for individuals engaging in any undesired or unacceptable behaviours?	(i) Yes/No	(What are the consequences?)	
		(ii) Yes/No	(How?)	
		(iii) Yes/No	(How?)	
8.	Do the relevant arrangements and/or remuneration structure for different levels of staff and management commensurate with their respective seniority and responsibilities?	Yes/No	(Please elaborate for each of the relevant groups of business lines (or other categorization that you see appropriate)	
9.	Apart from your above responses in this Section, is there any supplementary information that demonstrates that your institution takes each of the following factors mentioned in our Practice Guide into full consideration in reviewing and introducing reform to the incentive system of your institution where appropriate to induce behaviours which promote your institution's desired culture and values?	--		
9(a).	Avoidance of over reliance on sales/revenue targets in performance measurement	Yes/No	(How?)	
9(b).	Adequate consideration of behavioural indicators	Yes/No	(How?)	
9(c).	Separate performance rating for adherence to corporate values	Yes/No	(How?)	
9(d).	Balanced use of incentives and disincentives	Yes/No	(How?)	
	Section C: Assessment and Feedback Mechanisms			
10.	Does your institution develop appropriate tools to monitor adherence of individual business units and relevant staff to your institution's culture and	Yes/No	(What are the tools and how to monitor?)	

	behavioural standards?			
11.	Does your institution have an effective escalation policy (including “whistle-blowing” mechanism) in place within your institution to allow timely reporting of any illegal, unethical or questionable practices observed by staff and stakeholders in a confidential setting without the risk of reprisals?	Yes (Please answer the rest of this question below) /No		
11(a).	(i) How many cases were received via the whistle-blowing mechanism annually in the past 3 years? (ii) What trend does your institution observe from the whistle-blowing cases? (iii) What is your institution’s analysis with respect to such trend?	--	(i) (ii) (iii)	--
11(b).	Is the effectiveness of such channels of escalation reviewed from time to time?	Yes/No	(How often and how to review?)	
11(c).	Are the results from the relevant assessment and feedback mechanisms be reported to the senior management and the relevant board-level committee at appropriate intervals (at least annually) and when warranted?	Yes/No	(Report to whom and what is the interval?)	
12.	Apart from your above responses in this Section, is there any supplementary information that demonstrates that your institution takes each of the following factors mentioned in our Practice Guide into full consideration in putting in place an effective mechanism to assess actual behaviour on the ground and provide useful feedback to help management consider whether any enhancements are necessary?	--		
12(a).	Monitoring core parameters	Yes/No	(How?)	
12(b).	Staff feedback	Yes/No	(How?)	
12(c).	Customer feedback	Yes/No	(How?)	
12(d).	Sharing of lessons learned	Yes/No	(How?)	
12(e).	Internal escalation channels	Yes/No	(How?)	
Section D: Supplementary Questions				
13.	Elaborate, if any, other key elements, in your institution’s culture framework in fostering a sound culture, that are not yet covered in the above sections (namely, governance, incentive systems, and assessment and feedback mechanisms).			
14.	Elaborate, if any, other key governance arrangements and/or policies and procedures your institution has			

	adopted / will adopt that your institution would like to supplement in this self-assessment.			
15.	Does your institution make reference to the findings of major conduct or other serious misbehaviour incidents outside Hong Kong ⁴ as your institution reviews and assesses whether there are any potential similar issues that may apply to your institution, benchmark your institution's culture and behavioural standards against community standards and expectations?	Yes/No	(Any potential similar issues identified and what are they?)	
16.	With regard to item 15 above, does your institution report relevant findings (if any) to the board of your institution?	Yes/No	(What are the findings reported/planned to report and when?)	

Part B(2): Self-assessment to be completed by the internal audit functions (where applicable)

Completion Instructions:

- In the event where internal audit functions are involved in assisting the committee (Question 3(g) above refers), this part is to be completed by the internal audit functions. If internal audit functions are not involved, this section needs not to be completed. This section should be signed by the head of the internal audit functions of your institution.
- The internal audit functions of your institution may wish to provide supporting documents to illustrate the respective items below as appropriate.

Questions:

1. What is the role of the internal audit functions in relation to your institution's culture-related matters?
2. How do the internal audit functions assist the committee in introducing a regular process to review and confirm the effectiveness of the overall culture enhancement initiatives pursued by your institution?
3. Regarding the progress of culture reform at your institution, what have you learnt from fostering a sound culture within your institution, including the (i) good practices and (ii) key areas for improvement at your institution? Which pillars (governance, incentive systems, assessment and feedback mechanisms) or other areas do they relate to?

⁴ Recent examples include the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* in Australia and the *Prudential Inquiry into the Commonwealth Bank of Australia* by the Australian Prudential Regulation Authority.