



**FINANCIAL SERVICES AUTHORITY  
SAINT VINCENT & THE GRENADINES**

**GUIDELINES  
ESTABLISHING A CODE OF CONDUCT  
FOR CORPORATE GOVERNANCE  
IN THE  
FINANCIAL SERVICES SECTOR  
ISSUED UNDER  
SECTION 10 OF THE  
FINANCIAL SERVICES AUTHORITY ACT 2011**

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## Corporate Governance

The term Corporate Governance refers to the way an organization is run, with particular emphasis on its accountability, integrity and risk management. It is the system by which organizations are directed and controlled. The overall purpose of Corporate Governance is to facilitate effective, entrepreneurial and prudent management of financial and registered entities<sup>1</sup>.

The responsibility for ensuring effective Corporate Governance rests with the organization's Board of Directors. Such responsibility is to be distinguished from the day to day operational management of the financial entity.

This Guideline provides a guide on the key components of effective Board practices, premised on the principles of accountability, transparency, probity and the sustainable success of the financial entity. The Guideline consists of principles (main and supporting) and provisions which financial and registered entities are expected to apply. This Guideline seek to instill or enhance the development of a more formalized approach to governance in all sectors regulated by the Financial Services Authority ('the Authority'). They provide guidance to financial and registered entities, as applicable. Of notable mention is that their application to financial entities assume greater relevance.

This Corporate Governance Guideline is issued in accordance with section 10 of the Financial Services Authority Act 2011.

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<sup>1</sup> Financial and registered entities are defined by the Financial Services Authority Act, No. 33 of 2011.

# PART I

## CORPORATE GOVERNANCE FRAMEWORK

### **Principle**

**Each financial entity should implement a Corporate Governance framework to ensure the strategic guidance of the financial entity. This should include the objectives of the financial entity, the effective oversight by the Board and the accountability of the Board to the financial entity, its shareholders<sup>2</sup> and relevant stakeholders.**

### **Guidelines**

A financial entity's Corporate Governance framework should be documented and made available to all shareholders. The framework should be prepared in accordance with the Guidelines provided herein.

A corporate governance framework should facilitate and protect the exercise of shareholders' rights, which include the right to:

1. participate and vote in Annual General Meetings (AGM) and be informed of the voting Rules and procedures
2. be furnished with sufficient and timely information about the date, location and agenda of AGMs, as well as full information regarding the issues to be decided at the meeting;
3. to have the opportunity to:
  - (i) pose questions to the Board, including in relation to the external audit;
  - (ii) place items on the agenda ; and
  - (iii) propose resolutions, subject to reasonable limitations.
4. elect and remove members of the Board;
5. convey or transfer shares;
6. participate in the profits of the financial entity;
7. obtain relevant information on the financial entity in a timely and regular basis; and
8. participate in and be sufficiently informed of decisions concerning fundamental corporate changes.

A financial entity's corporate governance framework should ensure the equitable treatment of all shareholders, including minority shareholders and foreign shareholders.

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<sup>2</sup> In the case of Cooperative Societies and Building Societies, "Shareholders" include "members".

## PART II

### ROLE OF THE BOARD

#### **Principle**

**The direction or supervision of a financial entity's business and affairs are entrusted to the directors, as such, every financial entity should be headed by an effective Board to lead and control the financial entity.**

#### **Guidelines**

1. The Board is collectively responsible for the long-term success of the financial entity. The Board should work with Management to achieve this objective and Management should remain accountable to the Board.
2. The Board should set the financial entity's values and standards and ensure that its obligations to its shareholders are understood.
3. The Board of directors and directors individually, owe a fiduciary responsibility to the financial entity for which it acts. All directors must objectively discharge their duties and responsibilities at all times in the best interests of the financial entity, its customers, shareholders and stakeholders.
4. The Board shall exercise objective and independent judgment in order to fulfill its responsibilities.
5. The Board should apply ethical standards and shall take into account the best interests of the financial entity and its shareholders in its decision making.
6. The Board shall be primarily responsible for protecting, preserving and enhancing the long-term economic value of the financial entity for the benefit of its shareholders.
7. Every financial entity should establish Guidelines outlining the matters reserved for the Board's decision and clear directions to Management on matters that must be approved by the Board.
8. The financial entity should arrange appropriate professional indemnity insurance cover in respect of legal action against the Board or individual directors.
9. The Board should be responsible for certain key functions, including:
  - (a) reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans;
  - (b) setting performance objectives and monitoring their implementation;
  - (c) assessing overall corporate performance;

- (d) overseeing major capital expenditures and acquisitions;
  - (e) monitoring the effectiveness of the financial entity's governance practices and making changes as needed;
  - (f) selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning;
  - (g) reviewing management's performance;
  - (h) providing leadership, setting strategic objectives, and ensuring that the necessary financial and human resources are in place for the financial entity to meet its objectives;
  - (i) establishing a framework of prudent and effective controls which enables risks to be assessed and managed, including the safeguarding of shareholders' interests and the financial entity's assets;
  - (j) aligning Board and key executive remuneration with the long term interests of the financial entity and its shareholders.
  - (k) ensuring a formal and transparent Board nomination and election or selection process.
  - (l) monitoring and managing potential conflicts of interest of management, Board members and shareholders, including the misuse of corporate assets and abuse arising from related party transactions.
  - (m) ensuring the integrity of the financial entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
  - (n) setting the financial entity's values and standards (including ethical standards), and ensuring that its obligations to shareholders and other stakeholders are understood and met.
  - (o) overseeing the process of disclosure and communications as set out in Part XIX of these Guidelines.
10. Directors should act on a fully informed basis and are under a duty to act honestly and in good faith with due diligence and care and in the best interests of the financial entity, its shareholders or members, employees and the public.
11. Directors must also exercise their powers for a proper purpose and must not act or agree to the financial entity acting in a manner that contravenes the Financial Services Authority Act No. 33 of 2011 or any relevant enactment or the memorandum and articles incorporation or by-Laws of the financial entity.

12. A director must exercise a duty of care, diligence and skill that a reasonable director would exercise in the same circumstances taking into account the nature of the financial entity, the nature of the decision, his or her position and the nature of the responsibilities undertaken by him or her.
13. Directors can rely on an employee, a professional adviser or an expert if there are reasonable grounds to believe that they are competent in relation to the matter within their expertise. They can also rely on another director or a committee of directors on matters within the latter's designated authority. However, they can only rely on any of these if they act in good faith, make a proper inquiry as indicated by the circumstances.
14. The Board may delegate the authority to make decisions to any Board committee but without abdicating its responsibility.
15. A person who acts as a director of a financial entity should acquaint himself with the duties and responsibilities attached to his appointment and should be aware of and accept the implications arising out of such a position and act in accordance with such duties and responsibilities.
16. A director may take account of advice given to him by fellow directors shareholders or beneficial owners, but shall not act in accordance with such advice where this would result in illegality, impropriety or recklessness.
17. Directors should keep and maintain as confidential, all information concerning the Board's proceedings in connection with deliberations on any particular matter.
18. Board meetings should be held and recorded at least quarterly or more frequently, as required.
19. Board meetings should be directed by a formal schedule of matters specifically reserved for its decisions and such meetings should be recorded by way of a Minute or Resolution in writing, accurately reflecting the meeting and decisions made;
20. The minimum quorum as determined by the financial entity, should be in physical attendance however, where applicable, directors may attend by telephone or video conference.
21. Directors should regularly attend and adequately prepare for meetings of the Board and the Committees on which they serve.
22. Directors should attend any AGM of the financial entity at which the financial statements, Annual Report or report on the operation of the financial entity, is presented.

## **PART III**

### **DIVISION OF RESPONSIBILITIES**

#### **Principle**

**There should be a clear division of responsibilities at the head of the financial entity between the functioning of the Board and the executive responsibility for the management of the financial entity's business.**

#### **Guidelines**

1. Board members should be capable of exercising independent judgment.
2. There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs. No one individual or small group of individuals should be allowed to dominate the Board's decision making process.
3. The roles of chairman and chief executive should not be exercised by the same individual, except as approved by the Authority. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the Board.
4. If a Board decides that a chief executive should become chairman, the Board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.

## **PART IV**

### **OVERSIGHT OF SENIOR MANAGEMENT**

#### **Principle**

**The Board should select appropriate senior management and other key functionaries to manage the day to day operations of the financial entity.**

#### **Guidelines**

1. The Board should provide oversight of senior management who should be held accountable for their actions. The Board should:
  - (a) monitor senior management's actions to ensure that they are consistent with the strategy and policies approved by the Board;
  - (b) critically question and review information and explanations provided by senior management;



- (c) set appropriate performance and remuneration standards for senior management;
- (d) ensure that senior management's knowledge and expertise remain appropriate for the nature of business undertaken by the financial entity; and
- (e) ensure that appropriate succession plans are in place for senior management positions;

## **PART V**

### **GROUP STRUCTURES**

#### **Principle**

**The Board of the parent company has responsibility for the oversight and direction of the entire Group.**

#### **Guidelines**

1. The Board of the parent company should exercise adequate oversight over subsidiaries while respecting the independent legal regulatory responsibilities that may apply to subsidiaries in different jurisdictions.
2. The Board of the Group structure should:
  - (a) establish a corporate governance framework with clearly defined roles and responsibilities for both the parent and the subsidiaries;
  - (b) ensure that there is effective Management for each subsidiary;
  - (c) monitor compliance by each subsidiary with all applicable legal, regulatory and corporate governance requirements; and
  - (d) maintain a relationship with both the home regulator and the regulator of subsidiaries.

## PART VI

### ROLE OF THE CHAIRMAN

#### **Principle**

**The principal role of the Chairman is to provide leadership to the Board and to ensure its effectiveness in all aspects of its role.**

#### **Guidelines**

1. The Chairman is responsible for<sup>3</sup>:
  - (a) setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;
  - (b) promoting a culture of openness and transparency at the Board level;
  - (c) ensuring that the directors receive complete, adequate and timely information;
  - (d) ensuring effective communication with shareholders; and
  - (e) ensuring effective communication between the Board and Management
2. The Chairman should on appointment be independent<sup>4</sup>.
3. A chief executive officer should not go on to be chairman of the same financial entity within three (3) years after exiting the post of chief executive officer unless an appropriate reason is provided in accordance with Part V11 (6).

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<sup>3</sup> The responsibilities are provided as guide only and should not construed as a comprehensive list of all the duties and responsibilities of a Chairman

<sup>4</sup> An independent director is one who has no relationship with the company, its related companies, its significant shareholders (10% shareholders) or its officers, that could interfere or be reasonably perceived to interfere with the exercise of the director's independent business judgment, in the best interests of the company.

## **PART VII**

### **BOARD COMPOSITION**

#### **Principle**

**The Board and its Committees should comprise directors who are fit and proper for the purpose for which they are appointed individually and as a group and, provide an appropriate balance and diversity of skills, experience, and knowledge of the financial entity.**

#### **Guidelines**

1. The Board should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, scope and nature of the operations of the financial entity and the requirements of the business.
2. Directors should have core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge.
3. A director should serve on a Board for no more than three consecutive terms or as defined by the financial entity or as determined by the Financial Services Authority.
4. There should be a strong and independent element on the Board, with independent directors making up at least one-third of the Board, to facilitate the exercise of objective judgment on corporate affairs.
5. Directors should disclose to the Board any relationships or circumstances which are likely to affect, or could appear to affect, his or her judgment or ability to act.
6. The Board should determine, taking into account the views of the nomination committee, whether a director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment.
7. The Board should state its reasons, if it determines that a director is independent notwithstanding, the existence of relationships or circumstances which may appear relevant to its determination, including if the director:
  - (a) has been an employee of the financial entity or group within the last five years;
  - (b) has, or has had within the last three years, a material business relationship with the financial entity either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the financial entity;
  - (c) has close family ties with any of the financial entity's advisers, directors or senior employees;

- (d) himself or an immediate family member, accepts any significant compensation from the financial entity or any of its related entities for the provision of services, for the current or immediate past financial year, other than compensation for Board service;
  - (e) holds cross-directorships or has significant links with other directors through involvement in other financial entities or bodies;
  - (f) is a significant shareholder or an immediate family member of a significant shareholder of the financial entity or affiliated entities
  - (g) represents a significant shareholder; or
  - (h) has served on the Board for more than nine years from the date of his or her appointment.
8. Boards should generally avoid approving the appointment of alternate directors.
  9. Alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency.
  10. If an alternate director is appointed, the alternate director should be familiar with the financial entity's affairs, and be appropriately qualified or experienced.
  11. Alternate directors bear all the duties and responsibilities of a director.

## **PART VIII**

### **FIT & PROPER CRITERIA**

#### **Principle**

**Directors, senior managers and other key functionaries should be fit and proper for the purpose for which they are appointed, thereby fostering confidence in the financial entity.**

#### **Guidelines**

1. The primary responsibility for ensuring that directors, senior managers and other key functionaries are soundly managed, is that of the financial entity or registered entity.
2. A financial entity or registered entity should carry out reasonable due diligence before appointing a director, senior manager or other key functionary.
3. Subsequent to the appointment of a director, senior manager or other key functionary, the financial entity or registered entity should monitor such person's fit and properness on an ongoing basis.
4. In assessing fit and properness, the nature, scale, complexity and diversity of the business being conducted, or proposed to be conducted by a financial entity or

- registered entity, its financial soundness, and the strategies, policies, systems and controls that it has, or will establish, should be taken into account.
5. In order to determine whether a person is ‘fit and proper’, the following should be assessed<sup>5</sup>:
    - (a) competence and capability;
    - (b) honesty, integrity and reputation; and
    - (c) financial position.
  6. In determining ***competence and capability***, regard should be had to whether the person is capable at all times of performing the role for which they have been employed or for which they are being recruited. Regard should be had to matters including but not limited to:
    - (a) whether the person satisfies and/or has demonstrated by experience and training or qualification that he or she is able, or will be able, to perform the function;
    - (b) whether the person was convicted of, or dismissed or suspended from employment for, drug or alcohol abuses or other abusive acts;
    - (c) whether the person has the mental capacity to be undertake the function; and
    - (d) whether the person has sufficient time and commitment to properly discharge his duties.
  7. In determining a person’s ***honesty, integrity and reputation***, regard should be had to matters including, but not limited to, those set out below. A determination should be made on whether the person’s reputation may have an adverse impact upon the financial entity or registered entity for which the proposed function is or is to be performed. The matters to be considered are as follows:
    - (a) whether the person has been convicted of any criminal offence; particularly an offence involving dishonesty, fraud, financial crime or other offences relating to banking and financial services, companies, insurance and consumer protection or is subject to any pending criminal or civil proceedings which may lead to a conviction by any Court, whether in the State or elsewhere;
    - (b) whether the person has been the subject of, or interviewed in the course of, any existing or previous investigation enforcement or disciplinary proceedings, by the Authority, or any other regulatory authorities (including a previous regulator), professional bodies, or government bodies or agencies, whether in the State or elsewhere;
    - (c) whether the person has contravened any of the requirements and standards of the regulatory system or the equivalent standards or requirements of other regulatory authorities (including a previous regulator), professional bodies, or government bodies or agencies whether in the State or elsewhere;

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<sup>5</sup> Depending on the person being assessed, greater emphasis may be placed on one or more of the above categories than the others.

- (d) whether the person has been the subject of any justified complaint relating to regulated activities;
  - (e) whether the person has been involved with a company, partnership or other organization that has been refused registration, authorization, membership or a licence to carry out a trade, business or profession, or has had that registration, authorization, membership or licence revoked, withdrawn or terminated, or has been expelled by a regulatory or government body;
  - (f) whether, as a result of the removal of the relevant licence, registration or other authority, the person has been refused the right to carry on a trade, business or profession requiring a licence, registration or other authority;
  - (g) whether the person has been a director, partner, or concerned in the management, of a business that has gone into insolvency, liquidation or administration while the person has been connected with that organization or within one year of that connection;
  - (h) whether the person, or any business with which the person has been involved, has been investigated, disciplined, censured or suspended by a regulatory or professional body, a court or Tribunal, whether publicly or privately;
  - (i) whether the person has been dismissed, or asked to resign and resigned, from employment or from a position of trust, fiduciary or similar appointment;
  - (j) whether the person has ever been disqualified from acting as a director or disqualified from acting in any managerial capacity;
  - (k) whether, in the past, the person has been candid and truthful in all his dealings with any regulatory body and whether the person demonstrates a readiness and willingness to comply with the requirements and standards of the regulatory system and with other legal, regulatory and professional requirements and standards; and
  - (l) whether the person is an undischarged bankrupt.
8. Although directors, senior managers and key functionaries are not expected to have substantial resources, the *financial positions* of these persons are useful to determine their prudence and ability to withstand financial temptation. The financial entity or registered entity should assess:
- (a) whether the person has been the subject of any judgment debt or award in the State or elsewhere, that remains outstanding or was not satisfied within a reasonable period; and
  - (b) whether, in the State or elsewhere, the person has made any arrangements with creditors, filed for bankruptcy, had a bankruptcy petition served on him, been adjudged bankrupt, been the subject of a bankruptcy restriction order, offered a

bankruptcy restrictions undertaking, had assets sequestered, has an order for the garnishment of wages made against him or has been or is involved in proceedings relating to any of these circumstance.

9. Notwithstanding the aforementioned principles, a person may not be fit and proper where his or her proposed functions with a financial entity or registered entity will materially conflict with any other function that he or she undertakes or will undertake. In determining the materiality of the conflict, regard should be had to whether the conflict could be managed and if so, whether satisfactory arrangements could or will be put in place to manage them.

## **PART IX**

### **BOARD APPOINTMENTS**

#### **Principle**

**There should be a formal and transparent process for the appointment of directors to the Board.**

#### **Guidelines**

1. The search for Board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board including gender.
2. In considering appointment and re-appointment of directors including composition and progressive refreshing of the Board, the financial entity should take into account the directors' competencies, commitment, contribution and performance (*e.g. attendance, preparedness, participation and candor*).
3. The Board should, as applicable, establish a Nomination Committee to make recommendations to the Board on all Board appointments, with written terms of reference which clearly set out its authority and duties. The Nomination Committee should comprise at least two directors, the majority of whom, including the Chairman of the Nomination Committee, should be independent.
4. The Nomination Committee should make recommendations to the Board on relevant matters relating to:
  - (a) the review of Board succession plans for directors, in particular, the Chairman and for the CEO;
  - (b) the development of a process for evaluation of the performance of the Board, its committees and directors;
  - (c) the review of training and professional development programs for the Board;
  - (d) the appointment of directors including alternate directors, if applicable; and

- (e) whether or not a director is independent.
5. The Nomination Committee should decide if a director is able to and has been adequately carrying out his duties as a director of the financial entity, taking into consideration the director's number of Board appointments and other significant commitments.
  6. A description of the process for the selection, appointment and re-appointment of directors to the Board should be disclosed in the financial entity's Annual Report.
  7. The financial entity should disclose the names of directors submitted for appointment or reappointment and adequate and sufficient details to enable shareholders to make informed decisions. Such information should include:
    - (a) academic and/or professional qualifications or evidence of relevant experience;
    - (b) shareholding in the financial entity and its related financial entities;
    - (c) any relationships including immediate family relationships between a nominee and the current directors, the financial entity or its shareholders;
    - (d) Board committees served on, as a member or chairman;
    - (e) date of first appointment as a director;
    - (f) date of last re-appointment as a director;
    - (g) directorships or chairmanships both present and those held over the preceding three years in other financial entities; and
    - (h) details of all other principal commitments.



## PART X

### COMMITMENT TO THE FINANCIAL ENTITY

#### **Principle**

**All directors should be able to allocate sufficient time to the financial entity to discharge their responsibilities effectively.**

#### **Guidelines**

1. When a director has multiple Board appointments or other significant commitments<sup>6</sup>, he must ensure that sufficient time and attention is given to the affairs of each financial entity.
2. The Nomination Committee should state in writing to each director, the time expected to be committed, emphasizing the need for availability in the event of crises.
3. The Board should determine the maximum number of financial entity Board representations which any director may hold, for the purpose of the proper discharge of his duties to the financial entity.
4. Changes to a director's disclosed other commitments should be reported to the Board as they arise.

## PART XI

### DEVELOPMENT OF DIRECTORS

#### **Principle**

**All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.**

#### **Guidelines**

1. A director shall obtain and maintain adequate knowledge of the business and activities of the financial entity for which he acts.
2. Upon appointment of each director, the financial entity should provide a formal letter to the director, setting out the director's duties and obligations.
3. Incoming directors should receive comprehensive and tailored induction on joining the Board.

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<sup>6</sup> The term "significant commitments" include all commitments which involve significant time commitments such as full-time occupation, consultancy work, committee work, appointments and directorships.

4. The induction of directors should include an overview of his duties as a director and how to discharge those duties, and an orientation program to ensure that the director is familiar with the financial entity's business and governance practices.
5. The financial entity should provide appropriate exposure for "first time directors" in relevant areas including industry-specific information, as appropriate.
6. All directors should be aware of relevant laws, regulations and changing commercial risks, from time to time.
7. The Chairman should regularly review and agree with each director on their training and development needs.

## **PART XII**

### **BOARD EVALUATION**

#### **Principle**

**It is desirable for a formal annual assessment of the effectiveness of the Board as a whole and its Board committees and the contribution by each director to the effectiveness of the Board.**

#### **Guidelines**

1. The Board's assessment should take into account the balance of skills, experience, independence and knowledge of the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness.
2. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and committee meetings and any other duties).
3. The Board should implement a process to be carried out internally by the Nomination Committee or by an external assessor for the assessment of the effectiveness of the Board as a whole and its Board committees and for assessing the contribution by the Chairman and each individual director to the effectiveness of the Board.
4. The Nomination Committee or the external assessor should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, which allow for comparison with industry peers, should be approved by the Board. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.
5. The Chairman should act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of directors.

## PART XIII

### ACCESS TO INFORMATION

#### **Principle**

**The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.**

#### **Guidelines**

1. The Chairman is responsible for ensuring that the directors receive accurate and timely information.
2. Information provided to the Board should include Board papers and related materials, background or explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, forecasts and monthly management accounts.
3. Under the direction of the Chairman, the Corporate Secretary's responsibilities include ensuring that appropriate information flows within the Board and its Board committees advising the Board on all governance matters, as well as facilitating orientation and assisting with professional development as required.
4. The role of the Corporate Secretary should be clearly defined and should include responsibility for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.
5. All directors should have access to the advice and services of the Corporate Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the Corporate Secretary should be a matter for the Board as a whole.
6. The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice on major matters concerning the business of the financial entity, if necessary, and at the financial entity's expense.

## **PART XIV**

### **RISK MANAGEMENT & CONTROLS**

#### **Principle**

**The Board should ensure that Management maintains a sound independent system of risk management and internal controls to safeguard shareholders' interests and the financial entity's assets, and should determine the nature and extent of the significant risks which the Board is willing to take, in achieving its overall strategic objectives.**

#### **Guidelines**

1. Management should identify the risks to which the financial entity is exposed.
2. The Board should determine the financial entity's levels of risk tolerance and risk policies including risk mitigation, and oversee Management in the design, implementation and monitoring of the risk management and internal control systems .
3. The Board should, at least annually, review the adequacy and effectiveness of the financial entity's risk management and internal control systems, including financial, operational, compliance and information technology controls. Such review can be carried out internally or with the assistance of any competent third parties.
4. The Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems, in the financial entity's Annual Report.
5. The Board should monitor the risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the Annual Report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.
6. The Board may establish a separate Board Risk Management Committee or otherwise assess appropriate means to assist it in carrying out its responsibility of overseeing the financial entity's risk management framework and policies.

## **PART XV**

### **COMPLIANCE**

#### **Principle**

**The Board should ensure that the financial entity has appropriate systems and policies in place which will allow it to comply with required legal and regulatory requirements.**

#### **Guidelines**

1. The Board should ensure that there an appropriate compliance function is established to ensure that the financial entity acts responsibly and observes all obligations applicable to it.
2. The compliance function should advise the Board and senior management on compliance laws, rules and standards, including keeping them informed of developments in this area. The compliance functions should also include educating staff on compliance issues, act as a point of contact within the financial entity for compliance enquiries and shall provide guidance on compliance to staff through a compliance manual or guidelines.
3. The compliance function should be independent from Management and should provide separate reporting to the Board.
4. The compliance function should have sufficient authority and independence and management should not interfere with the carrying out of this function.

## **PART XVI**

### **AUDIT COMMITTEE**

#### **Principle**

**The Board should establish formal and transparent arrangements in relation to oversight for its financial reporting process risk management, internal control principles compliance with applicable laws and regulations and for maintaining an appropriate relationship with the financial entity's external auditors.**

#### **Guidelines**

1. The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.
2. The Audit Committee should be comprised of at least two directors, the majority of whom, including the Audit Committee Chairman, should be independent.
3. The Board should ensure that the members of the Audit Committee are appropriately qualified to discharge their responsibilities. At least one member, should have relevant

accounting or related financial management expertise or experience which enables him or her to provide objective and effective opinions.

4. The Audit Committee should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.
5. The main role and responsibilities of the audit committee should be set out in writing and should include:
  - (a) to monitor the integrity of the financial statements of the financial entity and any formal announcements relating to the financial entity's financial performance and reviewing significant financial reporting judgments contained therein;
  - (b) to review the financial entity's internal financial controls and, unless expressly addressed by a separate Board Risk Management Committee or by the Board itself, to review the financial entity's internal control and risk management systems;
  - (c) to monitor and review the effectiveness of the financial entity's internal audit function;
  - (d) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
  - (e) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;
  - (f) to develop and implement policies on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
  - (g) to report to the Board on how it has discharged its responsibilities.
6. The Audit Committee should meet with the external auditors and with the internal auditors, in each case without the presence of Management, at least annually.
7. The Audit Committee should review the independence of the external auditor annually and should state:
  - (a) the aggregate amount of fees paid to the external auditors for that financial year, and

- (b) a breakdown of the fees paid in total for audit and non-audit services respectively, or an appropriate negative statement, in the financial entity's Annual Report.
8. Where the external auditor also supplies a substantial volume of non-audit services to the financial entity, the Audit Committee should keep the nature and extent of such services under review, seeking to maintain objectivity.
  9. The Audit Committee should review the policy and arrangements by which staff of the financial entity and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective of the Audit Committee should be to ensure that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken.
  10. The existence of a whistle-blowing policy should be disclosed in the financial entity's Annual Report, and procedures for raising such concerns should be publicly disclosed as appropriate. Whistle blowing should not result in disciplinary action against an employee, senior manager or director. The Audit Committee should encourage the reporting of unethical or unlawful behavior without fear of retribution.
  11. A director who was the former partner or director of the financial entity's existing auditing firm should not act as a member of the financial entity's Audit Committee:
    - (a) within a period of 12 months commencing on the date of his ceasing to be a partner or director of the auditing firm and in any case; or
    - (b) for as long as he has any financial interest in the auditing firm.

## **PART XVII**

### **REMUNERATION**

#### **Principle**

**It is desirable that a formal and transparent procedure for developing policy on directors' and senior management remuneration is established. No director or senior management should be involved in deciding his or her own remuneration.**

#### **Guidelines**

1. A transparent system for the determination of directors' and senior management's remuneration should be established.
2. In determining directors' and senior management's remuneration, consideration may be taken of other remuneration packages offered by similar financial entities. Such comparisons should be avoided where there is a risk of exorbitant increases in remuneration levels with no corresponding improvement in corporate and individual performance.

3. Directors' and senior management's remuneration should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, other incentives, awards and benefits. Remuneration packages should not however, be overly generous.
4. The level and structure of remuneration should be aligned with the long-term interest and risk policies of the financial entity, and should be appropriate to attract, retain and motivate (a) directors to provide good stewardship of the financial entity, and (a) senior management to successfully manage the financial entity.
5. A significant and appropriate proportion of directors' and senior management's remuneration should be structured so as to link rewards to corporate and individual performance.
6. Every financial entity should provide clear disclosure of its remuneration policies, level of remuneration, and the procedure for setting remuneration, in the financial entity's Annual Report.

## **PART XVIII**

### **CONFLICT OF INTEREST**

#### **Principle**

**The Board should be able to effectively exercise objective independent judgment on corporate affairs. The Board should ensure that policies are in place to identify, prevent and manage potential conflicts of interest.**

#### **Guidelines**

1. Board members should be able to commit themselves effectively to their responsibilities.
2. Members of the Board and key executives should be required to disclose to the Board their relationship with each other and whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the financial entity.
3. Members of the Board and key executives have an obligation to inform the Board where they have a business, family or other special relationship outside of the financial entity, whether or not such relationship, could affect their judgment with respect to a particular transaction or matter affecting the financial entity. Such special relationships include situations where executives and Board members have a relationship with the financial entity via their association with a shareholder who is in a position to exercise control.
4. Where a material interest has been declared, that director should not be involved in any decision involving the transaction or matter.



5. Insider trading and self-dealing should be prohibited<sup>7</sup>.

## PART XIX

### DISCLOSURES

#### **Principle**

**Directors should ensure that timely and accurate disclosures are made on all material matters regarding the financial entity, including the financial situation, performance, ownership, corporate governance framework and management of the financial entity.**

#### **Guidelines**

1. Disclosure<sup>8</sup> should include, but not be limited to, material<sup>9</sup> information on:
  - (a) The financial and operating results of the financial entity;
  - (b) The objectives of the financial entity;
  - (c) Major share ownership, voting rights and beneficial ownership (*where applicable*);
  - (d) Remuneration policy for members of the Board and key executives and information about Board members, including their qualifications, the selection process, other financial entity directorships and whether they are regarded as independent by the Board;
  - (e) Related party transactions;
  - (f) Foreseeable risk factors including the system for monitoring and managing risk;
  - (g) Key issues regarding employees and other stakeholders that may materially affect the performance of the financial entity, such as human resources policies, training programmes, management/employee relations and relations with creditors, suppliers and the community; and
  - (h) Governance structures and policies, in particular, the content of any corporate governance guideline or policy and the process by which it is implemented.<sup>10</sup>
2. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.

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<sup>7</sup> Self-dealing occurs when persons having close relationships to the financial entity, including controlling shareholders, exploit those relationships to the detriment of the financial entity and investors.

<sup>8</sup> Disclosure requirements are not expected to place unreasonable administrative or cost burdens on enterprises. Nor are financial entities expected to disclose information that may endanger their competitive position unless disclosure is necessary to fully inform the investment decision and to avoid misleading the investor.

<sup>9</sup> Information whose omission or misstatement could influence the economic decisions taken by users of information.

<sup>10</sup> This disclosure may be made in a director's report, the Annual report or on the financial entity's website.

3. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the Board and shareholders that the financial statements fairly represent the financial position and performance of the financial entity in all material respects.
4. External auditors should be accountable to the shareholders and owe a duty to the financial entity to exercise due professional care in the conduct of the audit.
5. Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users.
6. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

### THE ROLE OF SHAREHOLDERS

#### IN ENGAGING WITH FINANCIAL ENTITIES IN WHICH THEY INVEST

These Guidelines on Corporate Governance focuses on providing principles and guidance to financial entities and their Boards to spur them towards a high standard of corporate governance.

Shareholder inputs on governance matters are useful to strengthen the overall environment for good governance policies and practices, and convey shareholders' expectations to the Board. By constructively engaging with the Board, shareholders can help to set the tone and expectation for governance of the financial entity.

A shareholder's vote at general meetings is a direct way of expressing views and expectations to the Board. Hence, shareholders should exercise their right to attend general meetings and vote responsibly. Where relevant, shareholders should communicate to the Board their reasons for disagreeing with any proposal tabled at a general meeting.

*This statement does not form part of the Guidelines of Corporate Governance. It is aimed at enhancing the quality of engagement between shareholders and financial entities, so as to help drive higher standards of corporate governance and improve long-term returns to shareholders.*

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Financial Services Authority  
P.O. Box 356  
Kingstown  
St. Vincent & the Grenadines  
Tel (784) 456-2577  
Fax (784) 457-2568  
E-mail: [info@svgfsa.com](mailto:info@svgfsa.com)