

# MAS proposes “Guidelines on Individual Accountability and Conduct” for financial institutions in Singapore

At a glance  
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## In a nutshell

The Monetary Authority of Singapore (“MAS”) released a consultation paper on the “Proposed Guidelines on Individual Accountability and Conduct” (“Guidelines”) on 26 April 2018.

Comments are due by 25 May 2018, with final guidelines targeted to be issued in Q4 2018.

**Three specific objectives of the proposed guidelines** are to :

- promote **individual accountability** of Senior Managers (“SM”),
- strengthen oversight of **employees in material risk functions** (“MRF”) and
- **raise standards of conduct** in Financial Institutions (“FI”).

The guidelines present an **outcome-based approach** to facilitate implementation proportionate to the context of specific FIs. **Five specific outcomes** are defined to achieve the objectives above. It is the responsibility of each FI to hold its SMs accountable for actions and to ensure proper conduct amongst employees, with the **central goal to ensure risk ownership is embedded at all levels of the organisation**. Whilst no specific regulatory submissions are intended, MAS will engage FIs on the rigour of the implementation of the outcomes specified in the guidelines.

# Who is impacted?

## Institutions in scope



**Banks**



**Capital markets infrastructures**



**Insurers**



**Capital markets intermediaries**

Guidelines are proposed to apply to a **wide variety of financial institutions in Singapore** including banks, insurers, finance companies, exchanges, clearing houses, holders of capital markets services licenses, licensed financial advisers, trust companies and approved holding companies.

The **geographical and operational scope of coverage** assumes a group basis for locally-incorporated banks and insurers, and local operations and downstream subsidiaries and branches in Singapore and overseas, as applicable, for locally-incorporates subsidiaries of foreign banks and insurers.

## Relevance to individuals

The expected outcomes will apply to **an extensive group of individuals within a financial institution**, covering heads of ‘Core Management Functions’ (“CMF”) and employees of “Material Risk Functions” (“MRF”). Additionally, specific responsibilities for the Board (or Head Office) are listed, highlighting the expectation of organisational accountability at the highest levels.

### Key Impact



**Board**

Expected to ensure reinforced measures, including appropriate standards, processes and frameworks, to implement detailed specific outcomes.



**Heads of CMFs**

Should be clearly identified, fit and proper for their roles and held responsible for the actions of their staff and conduct of business under their purview. *Definition includes C-Suite (CEO, CFO, CRO, COO, CIO/CTO, CISO, CDO) and heads of business functions. FIs will review how each CMF applies in the context of their operations in Singapore.*








**Employees of MRFs**

Should be fit and proper for their roles, subject to effective risk governance and appropriate standards of conduct and incentive structure. *Employees whose decisions /activities could materially impact an FI's risk profile, including executive, business, risk management, control or support functions across front, middle and back office, as well as employees in supervisory capacity over such functions.*

# Five specific outcomes to drive the objectives

The guidelines define **five specific outcomes** to achieve the three core objectives of the Guidelines, where FIs are expected to work towards the outcomes. Assessment of compliance by the MAS will take the form of consultative approach in the initial implementation phase and become part of the ongoing supervisory process. MAS will take necessary actions where FIs, their Board and senior management do not meet expectations under the guidelines.

	Outcome	Details
1 	<b>Clear identification of senior managers</b>	Senior managers who have responsibility for the management and conduct of functions that are core to the FI's operations are clearly identified.
2 	<b>Senior managers fit and proper and held responsible</b>	Senior managers are fit and proper for their roles, and held responsible for the actions of their staff and the conduct of the business under their purview.
3 	<b>Transparent management and reporting structure and enabling governance framework</b>	The FI's governance framework is supportive of and conducive to senior managers' performance of their roles and responsibilities. The FI's overall management structure and reporting relationships are clear and transparent.
4 	<b>Requirements for employees in Material Risk Functions ("MRF")</b>	Employees in MRF's are fit and proper for their roles, and subject to effective risk governance as well as the appropriate standards of conduct and incentive structure.
5 	<b>Framework for employee conduct</b>	The FI has a framework that promotes and sustains the desired conduct among all employees

## Core objectives

Individual accountability of SMs

Strengthened oversight of employees in MRFs

Raised standards of conduct

# Bringing it to life

Whilst final requirements are intended to be published in the fourth quarter of 2018, firms can take first steps to assess their readiness for implementation. From our global experience, we outline below, **anticipated challenges** which can be considered in the preparation phase.

Addressing the challenges early on can significantly boost preparedness to implement the guidelines once finalized. The **benefits of starting early** include timely identification of potential barriers, a smoother transition to implementation and less disruption to business-as-usual. In addition, particularly where changes impact individuals, timely design of communication strategy and stakeholder engagement will positively impact implementation efforts.

## Anticipated challenges



### **Defining what 'good' looks like**

- How do you demonstrate **reasonable steps** have been taken



### **Applying a practical approach to addressing the requirements**

- Resourcing for compliance and identifying implementation lead
- Defining reporting lines when an SM has areas of responsibility beyond Singapore or oversees multiple entities/functions
- Mapping Core Material Functions to Singapore operations
- Defining criteria for employees in Material Risk Functions



### **The human element**

- The process can be emotive and needs careful consideration for communications and stakeholder management



### **Access to data for reporting**

- How to translate qualitative metrics and information into regular data sets/reports and make it sustainable

## Connecting the dots with existing regulatory guidelines

- The implementation will have to consider to what extent certain elements have been implemented as part of compliance with other **existing applicable regulatory requirements in Singapore** relating to expectations for the Board to establish a governance framework and requirements for accountability and conduct. The list in the consultation paper **includes more than fifteen** MAS regulations, notices or guidelines applicable to different types of financial institutions.
- Senior managers who also have responsibilities as company directors need to consider the interconnection with **regulatory requirements on directors' responsibilities**.
- In addition, internationally operating firms will need to consider the interplay with **similar guidelines from other key regions**.

# Lessons learned from other countries

The spirit and intention of the Guidelines follow suit of *similar regulatory requirements* in a number of jurisdictions, notably:

- Senior Managers and Certification Regime (“SMR”) in the United Kingdom
- Managers-in-Charge Regime (“MICR”) in Hong Kong
- Banking Executive Accountability Regime (“BEAR”) in Australia

We have helped clients to implement the regulatory requirements across the world noting key *lessons learned for implementation of initiatives regarding executive accountability* – and how to address them when *getting started*.

## 1. Complexity

### Don't underestimate the complexity

- Mapping responsibility across large and/or matrix organisation requires directed effort
- Setting criteria for core material functions and material risk takers requires end-to-end understanding of the organisation and context

## 2. Readiness

### The majority of firms weren't ready

- Lack of consideration for practical implementation and implication can delay the process considerably
- Potential existing gaps or overlaps in allocation of responsibilities will complicate execution

## 3. Emotion

### The process gets personal

- People might react in unexpected ways, particularly when the specifics are not yet crystallised
- Cultural nuances can play a significant role

## 4. Fluidity

### Prepare for instability

- Decision-making could potentially become more conservative
- Overlap with existing regulatory projects can create additional confusion



## Getting started - positioning for effective implementation

### 1. Assess where you are now

Identify actions already being undertaken and the key gaps/‘blind spots’

### 2. Mobilise multi-disciplinary teams

Start preparatory work, regardless of legislation not being final

### 3. Communication

Right messaging and setting expectations is essential to managing the emotions

### 4. Early involvement of HR and business

Align for key stakeholder buy-in and implementation sensitivities

# How PwC can help

Pending the final guidelines, and given **our global experience in assisting leading global FIs in their response to similar requirements** under other regimes, we can support you in understanding the implications of the proposed guidelines as well as preparation for effective implementation.

As you begin to consider the new measures, we **can help you prepare for implementation**, starting from building awareness to impact and gap analyses and prioritising work going forward:



Designing and facilitating workshops to bring stakeholders across business up-to-speed on the implications of the guidelines



Reviewing the maturity and operation of existing governance arrangements related to the elements covered by the guidelines



Defining what 'good' looks like and how it can be measured depending on organisation's context



Identifying the likely gaps to the new guidelines and prioritising activity to prepare for the new guidelines

In addition, we can support you in the **end-to-end implementation**, bringing deep industry expertise, data analytics solutions, experience in advising Boards and senior management on corporate governance matters as well as overall experience helping our clients navigate large scale regulatory change initiatives.

If you would like further information on issues outlined above, please call your usual PwC contact or any of the individuals listed:

**Jennifer Pattwell**  
Partner  
+65 9635 4156  
[jennifer.pattwell@sg.pwc.com](mailto:jennifer.pattwell@sg.pwc.com)

**Denise Lim**  
Partner  
+65 8127 3801  
[denise.ll.lim@sg.pwc.com](mailto:denise.ll.lim@sg.pwc.com)

**Natalja Sesterikova, CFA**  
Senior Manager  
+65 9573 8205  
[natalja.sesterikova@sg.pwc.com](mailto:natalja.sesterikova@sg.pwc.com)

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