CORPORATE GOVERNANCE GUIDELINES
Central Bank of Seychelles

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1. INTRODUCTION
Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered and controlled. It includes the relationships among the many stakeholders involved and the goals for which corporations are governed. Institutions regulated by the Central Bank of Seychelles are required by law to have in place controls which would mitigate and control risks that business operations inevitably face. Such controls need to be reinforced through solid corporate governance structures guided by the Central Bank, and upheld by Board of Directors of such institutions.

2. APPLICABILITY
These guidelines will be applicable to all banks, and other institutions as may be determined by Central Bank. Where any institution forms part of a group, and there exist a group-wide governance policy which applies to all subsidiaries, the more stringent of the two policies shall apply.

3. GLOSSARY

3.1. Acceptable contribution - Any activity which adds value through active participation on strategic thinking based on intimate knowledge of current organisational performance, external industry and economic factors; ensure substantive involvement in decision making and informed assessment of the process and progress of strategic execution; providing constructive and relevant feedback that moves beyond meeting the formal compliance requirement to one that genuinely seeks to improve the way the Board works.

3.2. Bank\(^1\) - Any person licensed under the Financial Institutions Act, to conduct banking business.

3.3. Board of Directors - The highest body of authority in an institution responsible for the strategic guidance of the financial institution, the effective monitoring of its management, and accountability to its shareholders.


3.5. CEO – Chief Executive Officer or Managing Director of an institution.

3.6. Director – A person who is a member of the Board of Directors of an institution; and in relation to a branch of a foreign institution, the definition includes the person designated as managing agent under Section 313(1) of the Companies Act, 1972.

\(^1\) Section 2, FIA.
\(^2\) Section 2, FIA.
3.7. **Executive Director** – A director who is an officer or employee involved in the day to day management of the institution.


3.9. **Institution** – Any bank, Housing Finance Company, Development Bank of Seychelles, any other institution as may be determined by the Central Bank of Seychelles.

3.10. **IIA** – Institute of Internal Auditors.

3.11. **Independence**\(^3\) – The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.

3.12. **Independent Director** – A non-executive director who, or whose family does not have any material pecuniary relationships or transactions with the institution (not counting director’s remuneration).

3.13. **Key management** – Persons having authority and responsibilities for planning directing and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise of the entity).

3.14. **Non-Executive Director** – Any director who is not an executive director.

3.15. **Objectivity** – An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matter to that of others.

3.16. **Person** –
2.18.1. Natural person - an individual;
2.18.2. Artificial person - a company, partnership, syndicate, or body of persons, corporate or unincorporated.

3.17. **Shareholder** - Any person, company, or other institution that owns at least one share in a company.

3.18. **Sustainability report** - An organisational report that gives information about economic, environmental, social and governance performance.

\(^3\) IIA, 2001.
4. BOARD OF DIRECTORS

4.1. Board Composition

The Board of directors is an internal mechanism that serves to align shareholder’s interest to that of management within the organization. As such the size, composition and experience of the Board plays an important role in the strategic direction of the financial institution.

i. The Board shall be made up of no less than 5 and no more than 11 members.

ii. The majority of members shall be non-executive with a maximum of 2 executive directors with voting rights, one of which should be the CEO.

iii. The Board shall have a minimum of 1 non-executive independent Board member who has no relationship of any kind whatsoever with the institution that is such as to compromise his/her judgment other than his/her directorship and is free from any influence that might compromise his relationship with the institution.

iv. The Board should appoint a non-executive director as chairman to the Board. The CEO should not fulfill the role of chairman to the Board.

v. Board members should be persons with credibility and have the necessary skills and experience to bring an independent judgment on issues of strategy, performance and resources, including standards of conduct. Collectively, the Board should be diversified, have relevant competencies and understanding of the business.

vi. The Board should appoint and empower a company secretary to assist in its operations. The company secretary shall be subjected to a fit and proper test in the same manner as is recommended for new director appointments.

vii. The company secretary shall be appointed by the Board and can only be removed by the Board.

viii. The company secretary shall be accountable to the Board collectively, through the chairman on all matters relating to his duties as an officer of the company. Where the secretary has other administrative duties, he/her shall report on such to the CEO.

4.2. Role of the Board

The Board of Directors is responsible for, without delegation, strategically guiding the bank, effectively monitoring management, and provides accountability to shareholders. Effective corporate governance can be achieved if Boards are composed of qualified members who understand the activities and risk profile of the bank, are mindful of their responsibilities, are fully informed, act in good faith, give due consideration to issues, exercise objective judgment free from undue influence from management or others, and are able and willing to devote adequate time to the oversight of the institution. The Board thus:

i. Shall have a Term of Reference (TOR) which illustrates its purpose, vision, objectives, scope and deliverables in terms of duties and responsibilities.

ii. Is responsible for the approval and monitoring of the overall business strategy including the institution’s risk profile, and its ability to effectively manage risk and the annual budget.

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4 Criteria for director independence are attached in annex 1 of the guideline.
iii. Limit the bank’s exposure to excessive risk of all kinds including, legal, reputational, financial, governance, and information technology risks whilst maintaining a balance between enterprise and caution.

iv. Is responsible for ensuring that it has an effective system of internal control along with a risk-based internal audit.

v. Shall understand and execute its oversight role, select, monitor and where necessary approve policies and procedures manuals in all major operation of the institution.

vi. Shall ensure that adequate systems and procedures are in place, and sufficient resources are available thus compliance with requirements of laws, regulations and guidelines issued by the regulatory body.

vii. Provide oversight of senior management by receiving information on a timely basis to evaluate the performance of management and where necessary seek information on areas of concern.

viii. Shall ensure that oversight by senior management is consistent with Board policies.

ix. Shall ensure that solvency and liquidity of the institution is continuously monitored.

x. Subject to relevant laws and best practice, shall establish relevant sub-committees to advise the Board, and ensure that their mandate, composition and working procedures are well defined and disclosed.

xi. Shall in its capacity, remove any director by ordinary resolution of remaining directors which is to be then presented at the general meeting for shareholders’ approval.

xii. Shall ensure high standards of corporate conduct.

4.3 Appointment process

There should be formal, rigorous and transparent procedures for appointment of new directors to the Board. Appointment should be made on merit, against objective criteria and with due regards for the benefits of diversity on the Board, and compliant with relevant laws regulating the institution.

i. A nomination committee which is to assist with the process of identifying new members for election by shareholders, and shall have available a TOR, explaining its roles and authority as delegated to it by the Board.

ii. Membership of the Nomination committee. Members should be sufficiently acquainted with the industry so as to identify potential seasoned leaders.

iii. The committees role for proposal of new members, taking into consideration the balance of skills, knowledge, expertise and experience, background, professionalism, integrity and independence. Such recommendation is to be made to the Board as the committee may deem appropriate.

iv. Cooling off period of at least 2 years for directors resigned from a bank’s or any other credit granting institution’s Board which is regulated by the Central Bank.

v. Fit and proper test and written approval of the regulator before appointment.

vi. Completion of appropriate corporate governance courses during the Board tenure.

vii. Integral components of the appointment process for new directors such as orientation and education programs.

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5 Principle 1 Basel II, Enhancing corporate governance for banking organisations.
6 Principle 4 Basel II, Enhancing corporate governance for banking organisations.
viii. Rigorous review to assess his/her independence and performance by the regulators. Independent members serving on the Board for more than 5 years are required to be subjected to.

ix. All directors should be submitted for re-election at regular intervals for a period not exceeding 5 years on each reappointment, subject to continued satisfactory performance\(^7\) at the annual shareholders meeting.

### 4.4 Board structure and procedures

As Board members are charged with the ultimate oversight of a financial institution, attendance to all Board meetings is necessary to enable its proper functioning. Duties must be discharged in good faith as failure to attend continuously is likely to signal a director’s inability or unwillingness to meet the director’s fiduciary duties to the institution and its mission. Missed meetings therefore, diminish the effectiveness of the entire Board.

i. The Board shall set no less than 6 regular meetings per year where the intervals between any 2 meetings shall not be more than 60 days, at such time and place as determined by the Board.

ii. Directors are expected to attend each Board meeting and each meeting of any committee on which he/she sits on. Members are expected to notify any excused absences\(^8\) accordingly.

iii. Any director who fails to attend more than 2 consecutive meetings per year shall by resolution of the Board, be removed from the Board in the absence of a valid reason as to why he/she should remain on the Board.

iv. The Board should set up a quorum for voting on all matters and should be adhered to within the absence of any director.

v. Board discussions shall be properly recorded in minutes to provide a thorough record of Board discussion and the rationale behind decisions taken.

vi. Management is obliged to provide the Board with timely information relating to matters brought before the Board prior to Board meetings and on an on-going basis.

vii. Directors who serve on more than 1 Board shall be subjected to rigorous review by regulators in order to ensure efficiency and effectiveness of the director’s role of the Board he/she serves.

viii. No director shall sit on the Board of more than one bank or credit granting regulated by the Central Bank in the same jurisdictions.

ix. No member of a regulatory body shall be eligible for appointment on an institution’s Board which is under its supervisory portfolio.

x. Confidentiality relating to discussions in Board meetings and information submitted must be respected by all directors and in the events that a director sits on more than one Board.

### 4.5 Board remuneration

Remunerations at Board level should be sufficient to attract, retain and motivate directors with the qualities required to run a financial institution successfully.

i. The Board should set up a remuneration committee comprising of no less than 3 non-executive directors, one of which shall be independent, who will cover all aspects of

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\(^8\) Absences due to illness, official travels, and holidays.
remuneration, including but not limited to director’s fees, salaries, allowances, bonuses and benefits in kind.

ii. The remuneration committee is responsible for recommending a framework for remuneration for the institution as a whole.

iii. Remuneration for executive directors should be structured to link rewards to corporate and individual performance.

iv. Level of remuneration for non-executive members should reflect the experience and level of responsibilities, taking into account effort and time spent by such director.

v. Deprivation of remuneration shall not be applicable, on account that director demonstrates/exhibits adequate attendance and contributions to Board meetings.

vi. Detailed rationale behind actual remuneration packages shall be submitted to shareholders and the regulatory body.

5. AUDIT COMMITTEE

5.1 Composition and procedures

The Audit Committee is a sub-committee empowered by the Board in order to establish a formal and transparent arrangement for considering how corporate reporting, risk management, internal control principles should be applied and for maintaining an appropriate relationship with the company’s auditors.

i. The committee should consist of at least 3 Board members, one of which shall be an independent director. No member of the committee shall be a director exercising an executive function in the institution.

ii. The committee shall have a TOR which includes the authority delegated to it by the Board, its role and responsibilities, ensuring confidentiality and stating the correct reporting lines of its members.

iii. The committee shall meet as often as is necessary to fulfill its functions, but shall meet no less than 4 times yearly.

iv. The committee should meet with the external auditors at least once a year without management present.

v. The committee has the authority to investigate any matter within its scope of responsibilities and obtain advice and assistance from outside legal, accounting, or other advisors, as necessary, to perform its duties and responsibilities.

vi. Minutes of all meetings including the rationale for the decisions shall be circulated to all Board members.

vii. Majority of members of the committee shall be financially literate, having such qualifications as finance, accounting or auditing.

viii. The committee shall ensure that proper reporting lines are put in place:

   a. The committee shall submit its report to the Board on how it has discharged its duties.
   b. The chief internal auditor shall report functionally to the committee.

5.2 Roles and responsibilities

To assist the Board in fulfilling its oversight responsibilities, the main role of the committee should include but not be limited to:-

i. To review and assess the integrity of the draft audited financial statements.

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9 Notwithstanding section 37(1) FIA 2004 which states that there shall be no less than 2 members one of which shall be a non-executive director.
ii. To monitor the institution’s compliance with legal and regulatory requirements.

iii. To make recommendations to the Board for the appointment, re-appointment and removal of the external and internal auditor and to approve the remuneration and terms of engagement of the external auditor.

iv. To monitor and review the effectiveness of the institution’s internal audit function.

v. To review and monitor the external auditor’s independence and objectivity and effectiveness of the audit process, taking into consideration regulation governing such.

vi. To evaluate the existence and operation of an effective system of risk management and internal controls and accounting procedures in the financial institution.

vii. Consider and assess the policies with respect to risk assessment, risk management and risk compliance.

viii. Provide assurance with regards to the integrity of business conducted by the financial institution.

6. INTERNAL AUDIT

Internal auditing is a independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

6.1 Role of internal audit

An effective internal audit function serves to aid the Board in discharging its duties especially with regards to corporate governance. The key roles and responsibilities are as follows:-

i. Provides an independent assessment of the adequacy of, and compliance with, the financial institution’s established policies and procedures.

ii. Ad hoc reviews of other areas of concern, including unacceptable levels of risk.

iii. Performance of periodic audits of the administration and operations of the financial institution to ensure compliance with all applicable laws and the implementation of the decisions of the Board.

iv. Tests of reliability and integrity of data, including program data, to ensure the achievement of goals and objectives of the institution.

v. Assist in the investigation of significant suspected fraudulent activities within the organisation and notify the Audit and/or Risk Management Committees as appropriate.

vi. Testing of both transactions and functioning of specific internal control procedures.

vii. Shall examine and assess available information, communicate the results, and follow up on the recommendations.

viii. Carry out regularly an independent review of the risk management system developed by the institution.

ix. Shall monitor and ensure that recommendations from the regulators and external auditors are properly dealt with.

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10 Content of the following paragraphs has been derived from the Basel Committee on banking supervision; Internal audit in banks and the supervisor’s relationship with auditors, August 2001.

11 Board of Directors of the Institute of Internal Auditors approved the definition of internal audit in June 1999.
6.2 Internal audit approach

Senior management is responsible for controlling events and seizing opportunities, identifying, assessing and managing risks. To this effect, the correct operation of internal processes is essential if an institution is to achieve its objectives.

i. Each institution shall have a permanent internal audit function including appropriate resources and staffing to enable the achievement of its objectives.

ii. Each institution shall have an internal audit charter that enhances the standing and authority of the internal audit function.

iii. The internal audit function must be independent of the activities audited and must also be independent from the everyday internal control process.

iv. Internal auditors shall possess the necessary professional competence and shall continuously be updated on emerging techniques.

v. The internal audit approach shall adopt a more risk-based approach rather than a compliance-based approach.

vi. The scope of internal audit shall encompass every activity and every entity of the institution.

vii. The internal audit function shall have at its disposal an audit plan detailing its audit scope and expected time frame for completion of such audits. This shall be prepared on an annual basis.

6.3 Objectivity and independence

The IIA international standards for the professional practice of internal auditing mandate that internal auditors maintain a certain level of independence from the work they audit. Internal auditors are independent and objective when they render impartial and unbiased judgment in the conduct of their engagement and avoid any conflict of interest situations.

i. The internal audit function should be objective and impartial, being in a position to perform its assignments free from bias and interference.

ii. Internal auditors shall report functionally to the Audit Committee and administratively to senior management. Moreover, internal audit reports should be simultaneously submitted to the committee and senior management, thus facilitating open and direct communications with same.

iii. Budgetary controls and considerations imposed by the administrative reporting line should not impede internal audit in accomplishing its objectives.

iv. Internal auditors should not accept such gifts or favours that are not available to all, from others such as employees, clients or business.

v. Internal auditors may provide consulting services relating to operations for which they had previous responsibilities but shall disclose beforehand if there is potential impairment of independence and objectivity related to the proposed consulting services.\textsuperscript{12}

vi. Internal auditors must refrain from assessing specific operations for which they were previously responsible\textsuperscript{13}

vii. Internal audit function is expected to uphold the basic principles of the IIA code of ethics, notably:-

\begin{itemize}
  \item[a)] Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment;
\end{itemize}

\textsuperscript{12} Impairment to Independence or Objectivity (standards), January 2009, Section 1130.C1 and 1130.C2.

\textsuperscript{13} Impairment to Independence or Objectivity (standards), January 2009, Section 1130.A1.
b) Shall not accept anything that may impair or be presumed to impair their professional judgment;
c) Shall disclose all material facts known to them that if not disclosed, may distort the reporting of activities under review.

7. RISK MANAGEMENT AND INTERNAL CONTROL

In order to increase return characterizing institution’s performance, management often engage in activities that increases the overall risks. Financial institutions face risk such as interest risks, market risk, credit risk, off balance sheet risks, technology and operational risks, foreign exchange risks, liquidity risks and insolvency risks in their daily operations. Mismanagement of such risks eventually leads to unexpected losses. Therefore, risk management and internal control system play a key role in directing and guiding the institution’s various activities.

7.1 Risk management

Boards are ultimately responsible for identifying and understanding the conditions within which its organisations are operating to ensure risk management are appropriate so as to identify potential issues as soon as possible.

i. The Board can opt to have a separate Risk Management Committee, or can merge the task of risk management along with that of the Audit Committee.

ii. In the case of a separate Risk Management Committee, the Board shall nominate no less than 3 members and shall make available a committee charter to the members.

iii. The risk management committee shall not, in the exercising of its duties usurp the role of senior management.

iv. Senior management, through delegation from Board, shall formulate and circulate the institution’s risk management policy that formally sets out system objectives in accordance with the institution’s corporate structure.

v. The committee as part of its duties, shall identify and analyse risks underlying the achievement of key business objectives of the institution, and shall make recommendations to the Board for risk assessment in areas of concern within the institution.

vi. The committee shall ensure monitoring which safeguards the adequacy and quality of the internal control systems’ performance over time.

7.2 Internal controls

A strong internal control system encompasses the policies, processes, tasks, behaviour and other aspects of a company and:-

i. Ensures the quality of internal and external reporting.

ii. Ensures compliance with applicable laws and regulations.

iii. Capable of responding swiftly to evolving risks to the business arising from factors within the organisation or changes in the business environment.

iv. Reviewed annually to test the effectiveness of the internal control system.

v. Ensure implementation of the instructions and directions given by senior management or the Board.

vi. Ensure reliability of financial information through implementation of internal control procedures that promote correct recording of the organisation’s operations.
8. INTEGRATED REPORTING AND DISCLOSURE

The Board should ensure that appropriate systems and processes are put in place in order to produce a report to stakeholders that gives a complete picture of the organisation’s financial and non-financial profiles in such a way that the report is holistic and reliable.

i. The Board shall ensure transparency and accountability by assuring the integrity of the company’s integrated report.

ii. Sustainability reporting and disclosure shall be independently assured by the Audit Committee.

iii. The process of risk management and the overall results of risk assessments shall be appropriately disclosed in a transparent and understandable manner and should identify those most relevant to the institution.

iv. Information shall be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.

v. An annual audit shall 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 institution in all material respects.

vi. Key management personnel compensation should be disclosed in the financial institution’s annual report in order to be compliant with IFRS\textsuperscript{14}.

vii. Remuneration of Board members and senior management shall be disclosed to the regulatory body annually.

viii. The Board shall ensure compliance with disclosure requirements are per applicable laws governing the institution.

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\textsuperscript{14} IAS 24 Related Party Disclosure.
ANNEX I - CRITERIA FOR INDEPENDENT DIRECTOR

For the purpose of this guideline, a director is independent in relation to the supervised institution if that person:

a) does not control or have significant influence over the institution, and is not an officer of an entity that controls or has significant influence over the institution, and has not met either of the foregoing conditions at any point during the three years immediately before their current appointment to the Board;
   
   i) the chairperson of the Board is deemed as independent in the case where the chairperson also sit on the Board of a holding company or a parent company.

b) is not employed, and has not previously been employed, in an executive capacity by the institution, unless there has been a period of at least three years between ceasing such employment and serving on the Board;

c) is not a director of any sister company of the institution

d) is not a current principal of a material professional adviser or a material consultant to the institution or another group member, and has not within the last three years been a principal of such a firm with primary responsibility for the services provided, and is not currently and has not within the last three years been an employee of such a firm materially associated with the service provided.

e) does not have immediate family members who are executive officers of the institution. Immediate family member means: spouse or common-law partner, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of the director or his or her immediate family member) who shares the individual’s home.