

RESPONSE TO CONSULTATION PAPER

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Consultation topic:	Guidelines on Individual Accountability and Conduct-Proposed Scope of Application
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General comments:

In the 'Response to feedback received – proposed guidelines on individual accountability and conduct' ("Response to feedback paper") dated 6 June 2019, MAS response under Paragraph 3.47 stated that "MAS does not intend to include the Head of Legal as a CMF. As observed by various respondents, the Head of Legal provides advice on legal matters to the FI and its Board and senior management, and is generally not involved in managing the day-to-day operations of the FI".

Our comment to the above is as follows:

The Head of Legal's responsibilities are not limited to providing advice on legal matters per se. Approval of products, corporate structure, contractual documents and litigation strategies is one of the Legal Head's core responsibilities to manage a financial institution's legal risks, and by extension, reputational and financial risks.

Being fit and proper is an important attribute of the Legal Head, who may report to the CEO directly and bear the same burden of corporate governance responsibilities as other senior management and other material risk function's employees.

We also seek clarification from MAS as to whether responsibilities such as approval of products, corporate structure, contractual documents and litigation strategies are deemed managing the day-to-day operations of a FI.

Question 1: MAS seeks comments on

- (a) the proposed additional scope of FIs to apply the IAC Guidelines on, as set out in paragraph 2.3; and**
- (b) the proposed headcount threshold of less than 20 as set out in paragraph 2.7, to distinguish smaller FIs which MAS will not ordinarily expect to adopt the specific guidance under the five Outcomes.**

(a) We view the proposed additional scope favourably for the following reasons:

- The additional scope encompasses all FIs directly regulated by MAS. This will further strengthen accountability, risk management of the financial system as well as encourage appropriate conduct amongst employees.
- The proposed additional scope will also level the playing field among FIs regulated by MAS.

(b) We are in support of proposal (b) but seek MAS consideration for the following:

- Paragraph 3.25 of the Response to feedback paper states FIs may designate a senior manager to be responsible for more than one CMF. In such cases, FIs should ensure that the senior manager's responsibilities for each of these CMFs are clearly specified, and there is no conflict of interest inherent in or arising from simultaneously performing these CMFs. For example, MAS would not consider it appropriate for the Head of Internal Audit to have responsibility for another CMF, given the centrality of independence to the effectiveness of the internal audit function.

We note that it may be common for smaller FIs to outsource Internal Audit to external service providers, so the senior manager overseeing the responsibilities of the "Head of Internal Audit" would typically oversee another CMF. We understand that MAS seeks to apply the guidelines proportionately and commensurately with the size, nature and complexity of the FI and therefore seek MAS' confirmation that the example in Paragraph 3.25 can be implemented by smaller FIs seeking to practically implement the guidelines.

- For less-than-20-headcount FIs, the directors and chief executive officer would already need to be fit and proper for their roles as set out in the MAS Guidelines on Fit and Proper Criteria. They should be held responsible for the actions of their staff and the conduct of the business under their purview as prescribed in Outcome 2.
- Under Outcome 5, FIs are required to have a framework that promotes and sustains the desired conduct among all employees. As set out in the earlier consultation paper, the framework should entail consistent and effective communication of the expected standards of conduct, such as through a code of conduct, on-boarding and continuous training programmes, and sharing of lessons learnt where misconduct has occurred, to ensure that employees understand and observe these standards.
- We suggest that less-than-20-headcount FIs should minimally be expected to achieve Outcomes 2 and 5.