

**Saudi banks comments on BCBS Consultative document
Entitled "Corporate Governance Principles for Banks"**

Bank # 1

We have set out our general and specific comments below.

General Comment:

Definition of terms: the following terms would benefit from a more precise definition than currently offered in the Consultative Draft.

- “recognized stakeholder” (page 3)
- “corporate culture” (page 7)
- “relevant stakeholder” (page 8).
- “reputation risk” (page 24, paragraph 112,)
- “transparency” (page 32, paragraph 152,)

Specific comments:

Introduction

**“Applicability, proportionality and differences in governance approaches”
(page 5 paragraph.14)**

The statement in this paragraph “Obligation to pursue good governance” needs to clarify:

- An obligation to whom?
- Obligation based on what system of law or regulation?
- How will this be enforced?

This is especially important because the paper does not address which stakeholders are “relevant” or “recognized”.

Principle 1:”Board’s overall responsibilities”

Violation of “Consumer rights” (page 8, paragraph 29)

It is not clear what this means beyond “any reputation risks or improper or illegal activity”.

Principle 3:”Board’s own structure and practices”

Role of the chair (page13, paragraph.60)

The role of chair as stated: *“To promote checks and balances, the chair should be non-executive member and not serve as chair of any board committee”* would be difficult to apply. Whilst leading practice recommends that the chair should not be chair of the Audit, Risk and Nomination and Compensation Committees bank believes he should be allowed to chair other Board Committees.

Bank # 2

Bank has undertaken a review of the document and is supportive of the general principles enshrined in the proposals. The Bank is aligned with these guidelines, in terms of the important role of the Board and its working closely with the senior executives who manage the enterprise on a daily basis. Bank also agrees with the independence of the Risk function and of the CRO, and the establishment of a Board Risk Committee chaired by a Non-executive Director to whom the CRO reports.

One area where the BCBS guidance lacks clarity relates to the extent to which banks should segregate Risk origination (business), Credit approval, Risk Management and Risk Administration activities and the associated governance framework around the credit risk decision making process. The bank in this respect endorses the BCBS view that the CRO is an independent role. This independence of risk function should be from front line, and revenue generating functions. The primary responsibility includes overseeing the development and implementation of a bank's risk management function, as well as discharging independent credit approval responsibilities.

Bank # 3

The document covers the core principles for risk management: setting a risk culture, the roles of the Board, business units, the risk management function and internal audit and other control functions.

The revised principles expand the guidance on the role of the Board of Directors in overseeing the implementation of effective risk management systems. In this regard, Board structures in some developing countries may deviate from the standards set out in the document. In particular, the role of the Chairman of the Board frequently includes participation in other Board committees, notably the Executive Committee, and often as the Chairman of these Board committees. On other Board committees' independent (as defined) non-executive directors may be over represented as compared to the consultative paper's suggestions.

Whilst the consultative paper's proposals have merit, there are sound reasons for the current composition of local Boards and their Committees in some developing countries. Measures to impose change therefore need to be

carefully considered and, if introduced, they should be applied in a phased and proportionate manner in order to achieve the desired goals and not to inadvertently weaken Board oversight. In this regard bank would welcome regulations to consider the application of local discretion as it may have in the determination of independence (having regard also to other local regulatory norms) and in allowing flexibility in the membership of Board committees. It is bank's view that committee members' experience and ability is of at least equal importance to technical independence.

Bank # 4

Bank has reviewed the consultative document issued in October 2014 by the Basel Committee on Banking Supervision (BCBS) entitled "Guidelines – Corporate Governance Principles for Banks". Bank advises that it broadly agrees with the principles enunciated therein while noting that the implementation thereof should be commensurate with the size, complexity, structure, and risk profile of a bank or banking group.

Bank # 5

Please find below bank's feedback as requested:

- Article 60 mandates that "the chair of the board should not serve as a chair on any committee."

It is recommended to restrict the chair of the board from chairing 'specific committees' but not all committees.

- Article 66 mandates that "committee chair should be an independent, non-executive board member."

Some regulatory guidelines may allow an executive to chair the Executive Committee.

- Article 70 mandates "the risk committee chair to be held by an independent director and not the chair of the board or any other committee."

It is recommended to allow non-executive board member to chair the Risk Committee.

- Article 89 mandates that "the board should review and select through interview process members of senior management".

It is recommended to exclude the senior management interview requirement and mandate it only for CEO role. This is because it may

create a challenge for the board to interview where each position may have many candidates to be interviewed to select a nominee among them.

- Article 95 mandates that "the board should define an appropriate subsidiary board and management structure to contribute to the effective oversight of the business and subsidiaries."

We recommend having the board defining the appropriate subsidiary board structure; however, management structure may be defined by the subsidiary's board itself.

- Article 144 mandates that "the board to review the compensation policy at least annually".

With the maturity achieved after implementing Basel and FSB Principles for Sound Compensation Practices and their Implementation Standards, bank believes that the board should review the policy whenever there is a change or as needed.