

FSC Newsletter

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**Financial Services
Commission**

Internal Governance

The European Banking Authority (“EBA”) recently published its guidelines on internal governance (the “Guidelines”).

The Guidelines which are issued under Article 16(3) of the EBA Regulation No. 1093/2010 establish a comprehensive regime for effective internal governance arrangements.

The underlying objective of the Guidelines is for institutions to benefit from an improved governance framework by a better alignment of their risk profile with their risk strategy/appetite and a better management of risks, which should lead to a reduction of losses.

The FSC has issued a Guidance Note on Internal Governance (the “Guidance Note”) which effectively sets out the EBA’s guidelines. The purpose of this Newsletter is to summarise the contents of the Guidance Note.

The Guidelines are applicable to credit institutions and firms authorised under the Financial Services (Markets in Financial Instruments) Act 2006, to which the Financial Services (Capital Adequacy of Credit Institutions) Regulations 2007 and the Financial Services (Capital Adequacy of Investment Firms) Regulations 2007 apply.

Furthermore the guidelines apply to institutions on a solo basis and to parent undertakings and subsidiaries on a consolidated or sub-consolidated basis, unless stated otherwise.

Internal governance includes all standards and principles concerned with setting an institution’s objectives, strategies and risk tolerance/appetite. It also includes how responsibilities and authority are allocated, how reporting lines are set up and what information they convey. Internal governance encompasses sound IT systems, outsourcing arrangements and business continuity management.

The guidelines cover the requirement for the following to be in place:

- a) A clear organisational structure with well defined, transparent and consistent lines of responsibility;
- b) Effective processes to identify, manage, monitor and report the risks it is, or might be, exposed to;
- c) Adequate internal control mechanisms, including sound administrative and accounting procedures and remuneration policies; and
- d) Practices that are consistent with, and promote, sound and effective risk management.

The Guidance Note provides detailed guidance for each of the 8 areas highlighted below:

Guideline 1

Corporate structure and Organisation such as organisational framework, know your structure and non-standard or non-transparent activities.



Guideline 2

Management body – duties, responsibilities, composition and functioning.

Guideline 3

Framework for business conduct including corporate values, code of conduct, conflicts of interest and internal alert procedures.

Guideline 4

Outsourcing.

Guideline 5

Risk management, culture, management framework and new products.

Guideline 6

Internal controls and the internal control framework, risk control function, chief risk officer, internal audit and compliance functions.

Guideline 7

Information systems and communications together with business continuity management.

Guideline 8

Transparency, empowerment and internal governance transparency.

Detailed guidance relating to internal governance in respect of remuneration (which was covered in Guideline 4 of the EBA) can be found in the separate guidance note entitled “Remuneration Policies” also published by the FSC.

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