Foundation Event Series One

Corporate Governance, Risk Analysis and Control

Tina Bryan-Bannister
Anguilla Financial Services Commission

Overview

- Corporate Governance
- Regulatory Framework
- Typology of Risks
- Responsibilities of Board
- Risk Management Issues
- Internal Controls
- Key Consideration for the Board

Corporate Governance

Corporate Governance involves the manner in which the business and affairs of institutions are governed by their boards of directors and senior management which affects how they:

- Determine the institution's risk tolerance/appetite;
- Set the institution's strategy and objectives;
- Operate the institution's business on a day-to-day business;
- Align business activities and behavior with the expectation that institution will operate in a safe and sound manner and in compliance with applicable laws and regulations;

Why Corporate Governance

- Why the interest in Corporate Governance?
- How the regulatory framework works?
- How does a financial institution manage risks?
- What are the benefits to financial institutions?

Interest in Corporate Governance

- Growing attention to corporate governance standards and risk management.

- Last few years have seen some of the biggest financial institutions falter or collapse.

- Latest thinking suggests problem due to reliance on systems rather than value based judgement and a need for:
  - more transparency;
  - accountability; and
  - exercise of judgement based on careful consideration of the wider picture.

Regulatory Framework

Combined through legislation and guidelines:

- Company Management Act
- Trust Companies and Offshore Banking Act
- POCA, AML/CFT Regulations and Code
- Financial Services Commission Act
- Guidelines issued under Publications (FSC Website) www.fsc.org.ai
- Companies Act

The Companies Act contains provisions that speak to the general duties and responsibilities of directors.

Regulatory Framework Cont'd

- To ensure appropriate procedures and controls to manage risks associated with the products and services.
- To ensure prudent management and balance of risks and potential returns.
- To establish risk management committee to review adequacy of policies and systems and their effectiveness.

Typology of Risks

Typical categorization of risks of a financial institution include:

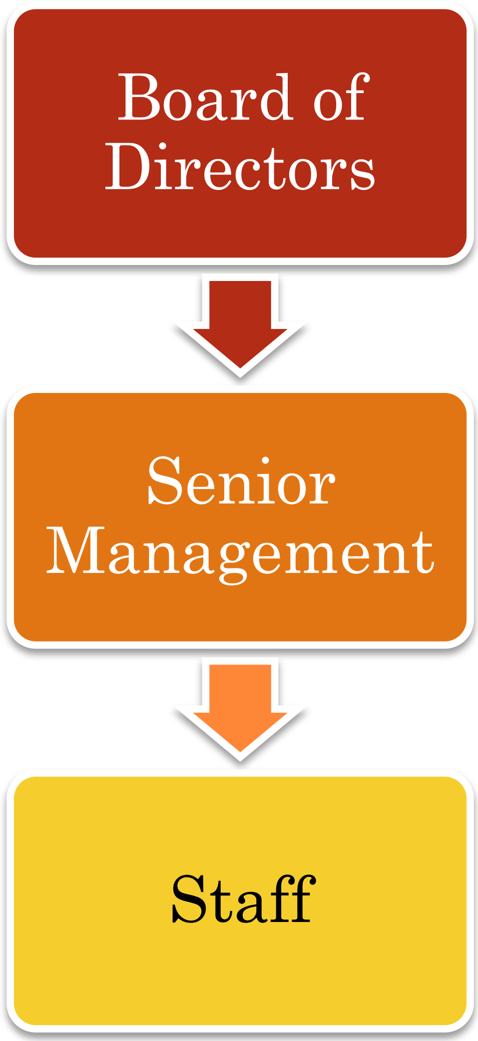
- AML/CFT risks
- Liquidity risk (ability to roll over debt to meet cash, collateral requirements of counterparties)
- Legal and Regulatory risk (changes in law, compliance)
- Strategic risk (marketing/product development)
- Litigation risk
- Solvency risk (security of customer's assets)
- Operational risk (arising from management failure, systems failure-internal fraud, corporate/fiduciary breaches, ML/TF)
- Reputation risk (general public perception)

Responsibilities of the Board

Approve and oversee the implementation of the financial institution's:

- Overall risk strategy.
- Risk policy, risk management and internal controls (compliance monitoring programme).
- Corporate governance principles and corporate values.

COMMUNICATION CHANNEL



Risk Management Issues

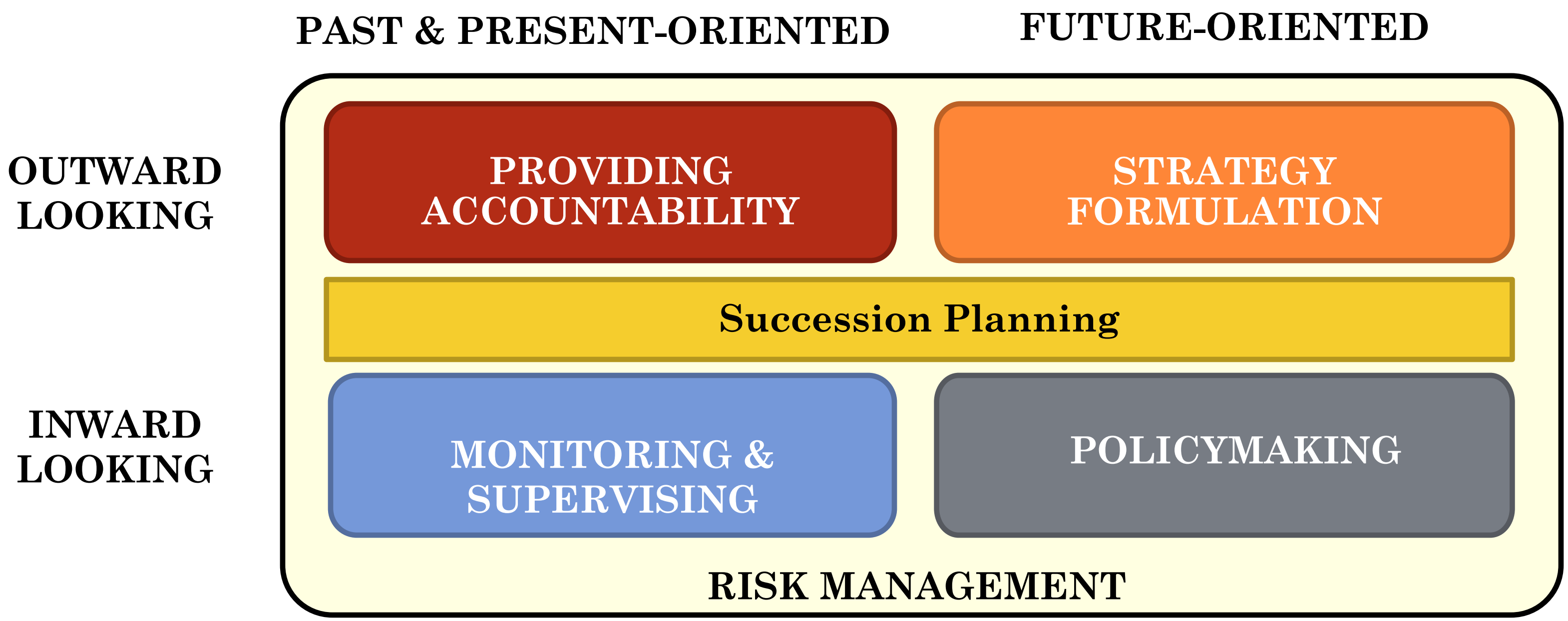
- Lack of understanding of the risks of the institution.
- Lack of sufficient resources and time for risk analysis.
- Lack of training of staff involved in high risk products.
- Inability to ensure that the risk management framework was appropriate.

Internal Controls

- Comprehensive ML policies and procedures.
  - If poor results (introduce a remediation programme).
- Ensure adequate resources to address risks.
- Hold persons accountable.
  - Discipline members of staff for breach of policy and procedure.
- Scrutinize carefully the compliance monitoring programme and the internal audit.
  - Take corrective action as needed.
- Other (monthly financial reporting, adequate cash reserves, regular reporting, etc.)

EXPECTATIONS OF THE BOARD

Figure 1. [2]



[2]Developed based on the corporate governance framework by Professor Robert Ticker and published in his book, *Corporate Governance: Principles, Policies and Practices* (Oxford University Press, 2009).

Key Considerations for the Board

- Review the global risks and consider the impact on the industry.
- Regularly review the overall business risks facing the institution.
- Focus on the critical overall business risks.
- Introduce a regular reporting requirement.
- Effective communication throughout the institution about risk.

Benefits to Financial institutions

- Many major clients expect to see high levels of corporate governance and risk management in place prior to involvement with an institution.

- Lowering the chances of regulatory intervention saves money and reputation.

- Overall contribution to efficiency and profitability.

Dangers of Non-Compliance

- Financial institutions' board of directors could be held criminally liable.

- Financial institutions risk prosecution, regulatory sanctions and loss of reputation.

- Anguilla risks loss of reputation and credibility as a financial centre.