



MICROCREDIT INFORMATION SESSION 3

Corporate Governance Expectations

*Bank of Jamaica
April 13, 2022
(Updated May 13, 2022)*

OBJECTIVES

1. Update to licensing criteria (Information Session 1, Feb 23)

2. Expound on Corporate Governance Expectations:
 - i. Roles and Responsibilities of the Board of Directors
 - ii. Categories of Directors (updated May 13, 2022)
 - iii. Composition and Size of the Board of Directors
 - iv. Separation of Responsibilities, Board Chair and CEO
 - v. Internal Audit and Compliance Functions

DISCLAIMER

This presentation is for information purposes. It does not, and is not intended to constitute professional legal advice nor does it seek to be an exhaustive statement of the law. You should obtain professional legal advice on any particular matter in, or arising from, the presentation which concerns you.

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

- Assumes overall responsibility and accountability for the affairs of the Microcredit Institution (MCI); establish strategic direction, governance framework, corporate culture and ensures compliance with regulatory requirements
- Approves and oversees implementation of business strategy with measurable goals
- Approves and implements governance framework that is commensurate with the size, complexity, business strategy, risk profile, and regulatory requirements
- Assesses effectiveness of governance framework periodically
- Appoints the Chairperson and CEO, and defines their roles and responsibilities
- Ensures sound corporate culture; reinforces ethical, prudential and professional behavior

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS (CONT'D)

- Leads in establishment of corporate culture and values; develops code of conduct and policies and procedures for the management of conflicts of interest
- Establishes and reviews Risk Appetite Statement in congruence with the company's business strategy and governance framework
- Ensures the implementation of systems and controls to identify, mitigate, and manage risks prudently
- Establishes policies in relation to the Board's commitment and competency
- Establishes policies and procedures in relation to the oversight of senior management
- Adopts appropriate policies and procedures that adhere to the legal and regulatory frameworks

CATEGORIES OF DIRECTORS

UPDATED 13 May 2022

Executive	Non-Executive	Independent
<ul style="list-style-type: none"> ▪ Also has management responsibilities/ employee. Eg: CEO CFO Other executive manager 	<ul style="list-style-type: none"> ▪ Does not hold an executive position in the MCI ▪ Has subject matter expertise and industry experience 	<p>Does not have direct or indirect connection or relationship with the MCI other than board membership:</p> <ul style="list-style-type: none"> ▪ Is not employed by the MCI or its affiliates or is a director of any of its affiliates ▪ Does not have 20% or more of shareholders voting rights ▪ Is not a shareholder owning 20% or more of the MCIs shares or that of another MCI

CATEGORIES OF DIRECTORS (CONT'D)

UPDATED 13 May 2022

Executive	Non-Executive	Independent
		<ul style="list-style-type: none"> ▪ Does not have a relative who is a director or senior manager of the MCI or who holds shares amounting to 20% or more of the voting rights of the MCI ▪ Has not been paid or received a substantial amount or been a major shareholder of a company that has been paid or received from the company a substantial amount of monetary benefits

COMPOSITION AND SIZE OF THE BOARD

CRITERION	MINIMUM EXPECTATIONS
Governance Structures	<p><u>BOARD:</u></p> <ul style="list-style-type: none">▪ Comprised of members suitably qualified to effectively carry out its functions▪ Minimum three (3) directors but, in any event, the composition should be adequate to the size and complexity of the business▪ Two-thirds independent* Board members▪ Chairman separate from CEO/head of the microcredit institution▪ Audit and compliance oversight separated, and overseen by independent members

COMPOSITION AND SIZE OF THE BOARD

CRITERION	MINIMUM EXPECTATIONS (REVISED)		
Governance Structures	<u>BOARD:</u>		
	<ul style="list-style-type: none"> ▪ Comprised of members suitably qualified to effectively carry out its functions ▪ Minimum three (3) directors but, in any event, the composition should be adequate to the size and complexity of the business 		
	TIER	VALUE OF GROSS LOAN PORTFOLIO	MINIMUM
	1	Under J\$75 million	Three (3)
2	J\$75 million and over	Five (5)	
<ul style="list-style-type: none"> ▪ Two-thirds One-third independent Board members ▪ Chairman separate from CEO/head of the microcredit institution ▪ Audit and compliance oversight separated, and overseen by independent members <ul style="list-style-type: none"> – may remain combined for Tier 1 institutions only 			

SEPARATION OF RESPONSIBILITIES, BOARD CHAIR & CEO

BOARD CHAIR	CEO/HEAD OF MCI
<ul style="list-style-type: none"> ▪ Provides leadership to the Board ▪ Maintains and ensures a balance of powers between executive and non-executive directors ▪ Secures effective participation of both executive and non-executive directors ▪ Ensures the Board works effectively and discharges its responsibilities ▪ Implements decisions or directions of the MCI or any other competent authority ▪ Ensures key issues are discussed by the Board in a timely manner ▪ Ensures appropriate steps are taken to maintain effective communication with shareholders and communicates the views of shareholders ▪ SHOULD NOT engage in activities involving direct supervision of senior management or other day-to-day operational activity 	<ul style="list-style-type: none"> ▪ Implements business and risk strategies in order to achieve the MCI's strategic objectives ▪ Establishes a management structure that promotes accountability and transparency throughout the MCI's operations and preserves the effectiveness and independence of control functions ▪ Promotes, in concert with the Board, a sound corporate culture within the MCI, which reinforces ethical, prudent, and professional behavior ▪ Ensures implementation of a proper compliance culture and accountable for the accuracy of submissions to the regulator ▪ Strengthens the regulatory and supervisory compliance framework ▪ Addresses the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner

INTERNAL AUDIT & COMPLIANCE

INTERNAL AUDIT	COMPLIANCE (NOMINATED OFFICER)
<ul style="list-style-type: none">▪ Generally accepted as good governance practice▪ Internal control that monitors compliance of the business with its statutory and other legal obligations as well as internal policies and procedures▪ May be employed or contracted by the business	<ul style="list-style-type: none">▪ Mandatory: The Terrorism Prevention Act (TPA) and regulations under The Proceeds of Crime Act (POCA)▪ Responsible for ensuring the implementation of effective Money Laundering/Financing of Terrorism (ML/FT) prevention measures▪ Must be employed by the business and performs management functions
<ul style="list-style-type: none">▪ Independent of operational and decision-making activities	

Contact

Regulatory Matters

Microcredit Regulatory Oversight

Bank of Jamaica

Nethersole Place

Kingston

Tel: 876-922-0750

Email: microcredit@boj.org.jm

Website: <https://boj.org.jm/core-functions/financial-system/microcredit-regulation/>

QUESTIONS/COMMENTS