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BANK OF SIERRA LEONE

GUIDELINES ON CORPORATE GOVERNANCE FOR COMMERCIAL BANKS AND FINANCIAL HOLDING COMPANIES 2023

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Preamble

Corporate Governance is a set of tools that enables management and the Board to run an institution more efficiently and effectively.

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks perform a crucial role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Banks' safety and soundness are key to financial stability, and the manner in which they conduct their business which is central to economic health. Governance weaknesses at banks that play a significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole.

The primary objective of corporate governance should be safeguarding stakeholders' interest in conformity with public interest on a sustainable basis. Among stakeholders, particularly with respect to retail banks, shareholders' interest would be secondary to depositors' interest.

Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank or financial holding company are carried out by its Board and senior management, including how they:

(i) set the bank's or financial holding company's strategy and objectives;
(ii) select and oversee personnel;
(iii) operate the bank's or financial holding company's business on a day-to-day basis;
(iv) protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognised stakeholders;
(v) align corporate culture, corporate activities and behaviour with the expectation that the bank or financial holding company will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
(vi) establish control functions.

Supervisors have a keen interest in sound corporate governance, as it is an essential element in the safe and sound functioning of a bank or financial holding company and may adversely affect the bank's risk profile if it is not operating effectively. Well governed banks contribute to the maintenance of an efficient and cost-effective supervisory process, as there is less need for supervisory intervention.

Sound corporate governance may permit the supervisor to place more reliance on the bank's or financial holding company's internal processes. In this regard, supervisory experience underscores the importance of having the appropriate levels of authority, responsibility, accountability, and checks and balances within each bank, including those of the Board of Directors but also of senior management and the risk, compliance and internal audit functions.

Memorandum of objects and reasons

Since the Global Financial Crisis (GFC) there have been significant developments in the field of Corporate Governance by Standard Setting Bodies (SSBs) and the Financial Stability Board (FSB), and by the Organisation for Economic Cooperation and Development (OECD). Sierra Leone has taken important steps at strengthening its overall legal and regulatory framework, with the passing of the Banking Act of 2019 as well as the Bank of Sierra Leone Act 2019. At the same time the Government of Sierra Leone had published the National Corporate Governance Code 2018, adopting the G20/ OECD Principles of Corporate Governance.

These Guidelines draw from the Basel Committee on Banking Supervision guidance, the principles of corporate governance published by the Organisation for Economic Co-operation and Development (OECD) and the National Corporate Governance Code.

In the light of ongoing developments in corporate governance, the overarching goal of these Guidelines is to further develop the provisions of the Banking Act of 2019, set out in Part III, paragraph 22 that laid the foundations for modern Corporate Governance in Sierra Leone.

The key objectives of these Guidelines are to:

(i) reinforce the collective oversight and risk governance responsibilities of the Board.
(ii) emphasize key components of risk governance such as risk culture, risk appetite and their relationship to a bank's risk capacity.
(iii) delineate the specific roles of the Board, Board risk committees, senior management and the control functions, including the CRO and internal audit.
(iv) emphasize the need to strengthening banks' or financial holding company's overall checks and balances.
(v) reinforce the critical role of the Board and the Board risk committees in strengthening a bank's risk governance. This includes:

   * greater involvement in evaluating and promoting a strong risk culture in the organisation;
   * establishing the organisation's risk appetite and conveying it through the Risk Appetite Statement (RAS); and
   * overseeing management's implementation of the risk appetite and overall governance framework.

(vi) emphasize that Board members and senior management are expected to define conduct risk based on the context of the bank's or financial holding company's business.

   * The Board shall set the "tone at the top" and oversee management's role in fostering and maintaining a sound corporate and risk culture.

   * Management should develop a written code of ethics or a code of conduct. Either code is intended to foster a culture of honesty and accountability to protect the interest of its customers and shareholders.

CORPORATE GOVERNANCE GUIDELINES

These Guidelines are issued pursuant to Sections 22 and 53(2) of the Banking Act 2019 and Section 44 of the Bank of Sierra Leone Act 2019.

1.0 Interpretation - In these Guidelines unless the context otherwise requires:-

"central bank" means Bank of Sierra Leone

"**control functions**" means those functions that have a responsibility independent from management to provide objective assessment, reporting and/or assurance. This includes the risk management function, the compliance function and the internal audit function.

"**corporate governance**" means a set of relationships between a company's management, its Board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made.

"**Chief Risk Officer (CRO)**" means the corporate executive responsible for identifying, analyzing, assessing and mitigating significant competitive, regulatory ad technological threats to the bank or financial holding company.

"**duty of care**" means the duty of Board members to decide and act on an informed and prudent basis with respect to the bank or financial holding company. Often interpreted as requiring board members to approach the affairs of the company the same way that a "prudent person" would approach his or her own affairs.

"**duty of loyalty**" means the duty of Board members to act in good faith in the interest of the company. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and shareholders.

"**executive director**" means a member of the Board (e.g., director) who also has management responsibilities within the bank or financial holding company.

"**non-executive director**" means a member of the Board who does not have management responsibilities within the bank or financial holding company.

"**independent director**" means a non-executive member of the board who does not have any management responsibilities within the bank or financial holding company and is not under any other undue influence, internal or external, political or ownership, that would impede the board member's exercise of objective judgment.

"**internal control system**" means a set of rules and controls governing the bank's organisational and operational structure, including reporting processes, and functions for risk management, compliance and internal audit.

"**risk appetite**" means the aggregate level and types of risk a bank or financial holding company is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.

"**risk appetite framework (RAF)**" means the overall approach, including policies, processes, controls and systems, through which risk appetite is established, communicated and monitored. It includes a risk appetite statement, risk limits and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAF should consider material risks to the bank, as well as to its reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the bank's or financial holding company's strategy.

"**risk appetite statement (RAS)**" means the written articulation of the aggregate level and types of risk that a bank or financial holding company will accept, or avoid, in order to achieve its business objectives. It includes quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate. It should also include qualitative statements to address reputation and conduct risks as well as money laundering and unethical practices.

"**risk capacity**" means the maximum amount of risk a bank is able to assume given its capital base, risk management and control capabilities as well as its regulatory constraints.

"**risk culture**" means a bank's or financial holding company's norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assume.

"**risk governance framework**" means as part of the overall corporate governance framework, the framework through which the board and management establish and make decisions about the bank's strategy and risk approach; articulate and monitor adherence to risk appetite and risk limits vis-à-vis the bank's or financial holding company's strategy; and identify, measure, manage and control risks.

"**risk limits**" means specific quantitative measures or limits based on, for example, forward-looking assumptions that allocate the bank's or financial holding company's aggregate risk to business lines, legal entities as relevant, specific risk categories, concentrations and, as appropriate, other measures.

"**risk management**" means the processes established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.

"**risk profile**" means a point-in-time assessment of a bank's or financial holding company's gross risk exposures (i.e., before the application of any mitigants) or, as appropriate, net risk exposures (i.e., after taking into account mitigants) aggregated within and across each relevant risk category based on current or forward-looking assumptions.

2.0 Scope of Application

These guidelines together with such amendments or revisions as may be adopted from time to time, applies to all institutions licensed under the Banking Act 2019 and not otherwise subject to resolution, official administration, receivership, or liquidation under Parts X, XI or XII of the Banking Act 2019.

3.0 Board's Overall Responsibilities

The Board shall have overall responsibility for the bank or financial holding company, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.

3.1 Responsibilities of the Board

3.1.1 The Board shall have ultimate responsibility for the bank's or financial holding company's business strategy and financial soundness, key personnel decisions, internal organisation and governance structure and practices, and risk management and compliance obligations. The Board may delegate some of its functions, though not its responsibilities, to Board committees where appropriate.

3.1.2 The Board shall establish and be satisfied with the bank's or financial holding company's organisational structure. This will enable the Board and senior management to carry out their responsibilities and facilitate effective decision-making and good governance. This includes clearly laying out the key responsibilities and authorities of the Board itself, senior management and of those responsible for the risk management and control functions.

3.1.3 The members of the Board shall exercise their "duty of care" and "duty of loyalty" to the bank or financial holding company under national laws and supervisory standards.

3.1.4 Accordingly, the Board shall:

3.1.5 **actively engage** in the affairs of the bank or financial holding company and keep up with material changes in the bank's or financial holding company's business and the external environment as well as act in a timely manner to protect the long-term interests of the company without involving in the day-to-day running of the institution.

3.1.6 **oversee** the development of and approve the bank's or financial holding company's business objectives and strategy and monitor their implementation.

3.1.7 **play** a lead role in establishing the bank's or financial holding company's corporate culture and values.

3.1.8 **oversee** implementation of the bank's or financial holding company's governance framework and periodically **review** that it remains appropriate in the light of material changes to the bank's or financial holding company's size, complexity, geographical footprint, business strategy, markets, and regulatory requirements.

3.1.9 **establish,** along with senior management and the CRO, the bank's or financial holding company's risk appetite, considering the competitive and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively.

3.1.10 **oversee** the bank's or financial holding company's adherence to the RAS, risk policy and ris limits.

3.1.11 **approve** the approach and oversee the implementation of key policies pertaining to the bank's or financial holding company's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations, the internal control system and other relevant policies.

3.1.12 **require** that the bank or financial holding company maintain a robust finance function responsible for accounting and financial data.

3.1.13 **approve** the annual financial statements and require a periodic independent review of critical areas.

3.1.14 **approve** the selection and **oversee** the performance of the CEO, key members of senior management and heads of the control functions.

3.1.15 **oversee** the bank's or financial holding company's approach to compensation, including monitoring and reviewing executive compensation and assessing whether it is aligned with the bank's or financial holding company's risk culture and risk appetite; and

3.1.16 **oversee** the integrity, independence and effectiveness of the bank's or financial holding company's policies and procedures for whistleblowing.

3.1.17 **comply** with its reporting duties to the BSL as prescribed by the Banking Act 2019, Prudential Guidelines 2022 and any other Legislations and Directives issued by the Bank of Sierra Leone.

3.1.18 **ensure** that all directives from the Central Bank are adhered to.

3.1.19 Boards shall comply at all times with the provisions made in Sections 39, 40, 41, 42, 43, 44 of the Banking Act of 2019, concerning transactions with insiders and their related parties.

3.1.20 Pursuant to provisions made in the Banking Act 2019, Boards shall ensure that transactions with related parties (including internal group transactions) are reviewed to assess risk and are subject to appropriate restrictions (e.g., by requiring that such transactions be conducted on arm's length terms) and that corporate or business resources of the bank or financial holding company are not misappropriated or misapplied.

3.1.21 In discharging these responsibilities, the Board shall consider the legitimate interests of depositors, shareholders, and other relevant stakeholders. It shall also ensure that the bank or financial holding company maintain an effective relationship with its supervisors.

3.1.22 In order to ensure continuity, Non-Executive Directors shall serve for a period of two terms of three years each, Chief Executive Officers (CEOs) shall serve for a period of not more than two terms of five years each, and Deputy Managing Directors (DMDs) and Executive Directors (EDs) shall serve for a period of not more than two terms of six years each.

3.1.23 **Integrity of Bank Records**

Accounting records and reports must be complete and accurate. Directors, chief executive officers and management should never make entries or allow entries to be made for any account, record or document of the institution that are false and would obscure the true nature of the transaction, as well as to mislead the true authorization limits or approval authority of such transactions.

All records and computer files or programmes of the bank, including personnel files, financial statements and customer information must be accessed and used only to discharge official functions.

3.1.24 Confidentiality

Confidentiality of relations and dealings between the institution and its customers is paramount in maintaining the institution's reputation. Thus directors, chief executive officers and management must take precaution to protect the confidentiality of customer information and transactions. No member of staff or director should during, or upon and after termination of employment with the institution (except in the proper course of his duty and or with the institution's written consent) divulge or make use of any information other than to discharge official functions.

Business and financial information about any customer may be used or made available to third parties only with prior written consent of the customer or in accordance with the arrangements for the proper interchange of information between institutions or when legally required to do so.

3.2 Corporate Culture and Values

3.2.1 A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behaviour. These norms are especially critical in terms of a bank's risk awareness, risk-taking behaviour and risk management (i.e., the bank's "risk culture").

3.2.2 In order to promote a sound corporate culture, the Board shall reinforce the **"tone at the top"** by:

3.2.2.1 **setting and adhering** to corporate values that create expectations that all business should be conducted in a legal and ethical manner and overseeing the adherence to such values by senior management and other employees.

3.2.2.2 **promoting** risk awareness within a strong risk culture, conveying the Board's expectation that it does not support excessive risk-taking and that all employees are responsible for helping the bank or financial holding company operate within the established risk appetite and risk limits.

3.2.2.3 confirming that appropriate steps have been or are being taken to communicate throughout the bank or financial holding company, the corporate values, professional standards or codes of conduct it sets, together with supporting policies; and

3.2.2.4 **confirming** that employees, including senior management, are aware that appropriate disciplinary or other actions will follow unacceptable behaviours and transgressions.

3.2.3 All banks or financial holding companies shall have a code of conduct or code of ethics or comparable policy that defines acceptable and unacceptable conduct.

3.2.3.1 It shall explicitly disallow illegal activity, such as financial misreporting and misconduct, economic crime including fraud, breach of sanctions, money laundering, anti-competitive practices, bribery and corruption, or the violation of consumer rights.

3.2.3.2 It shall make clear that employees are expected to conduct themselves ethically and perform their jobs with skill and due care and diligence in addition to complying with laws, regulations and company policies.

3.2.4. The bank's or financial holding company's corporate values shall recognise the critical importance of timely and frank discussion and escalation of problems to higher levels within the organisation.

3.2.5 All Board of Directors, CEOs and Management staff shall not use the banks or financial holding company name or facilities for their personal advantage and shall not use their connection with the institution to borrow from or become indebted to customers or prospective customers.

3.2.6 Staff of financial institutions shall not use their positions to obtain preferential treatment.

3.2.7 All banks or financial holding companies shall have a Whistleblower Policy. The policy shall be communicated to allow employees to communicate material and bona fide concerns and observations of any violations in a confidential manner. This includes communicating material concerns to the bank's or financial holding company's supervisor.

3.2.8 All banks or financial holding companies are required to promptly (within 24hrs) inform the Banking Supervision Department and the Financial Stability Department of the Bank of Sierra Leone of all cases of fraud in a manner that may be prescribed by the Bank of Sierra Leone. Upon completion of the investigation, a copy of the full report shall be sent to the Central Bank.

For the purpose of updating the Black Book and monitoring of staff behaviour in the financial system, banks or financial holding companies shall promptly notify the Central Bank of all disengagements including reasons for severance as per schedule 2.

3.2.9 The Board shall have oversight of the whistleblowing policy mechanism and ensuring that senior management addresses legitimate issues that are raised. The Board shall take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

3.2.10 The Board shall oversee and approve how and by whom legitimate material concerns shall be investigated and addressed by an objective independent internal or external body, senior management and/or the Board itself.

3.3 Risk Appetite, Management, and Control

3.3.1. As part of the overall corporate governance framework, the Board shall be responsible for overseeing a strong risk governance framework. An effective risk governance framework includes a strong risk culture, a well-developed risk appetite articulated through the RAS, and well-defined responsibilities for risk management in particular and control functions in general.

3.3.2. The risk governance framework shall outline actions to be taken when stated risk limits are breached, including disciplinary actions for excessive risk-taking, escalation procedures and Board of Directors' notification.

3.3.3. The Board shall take an active role in defining the risk appetite and ensuring its alignment with the bank's or financial holding company's strategic, capital, and financial plans and compensation practices. The bank's or financial holding company's risk appetite shall be clearly conveyed through an RAS that can be easily understood by all relevant parties: the Board itself, senior management, bank employees and the supervisor.

3.3.4. The bank's or financial holding company's RAS shall:

3.3.4.1 include both quantitative and qualitative considerations.

3.3.4.2 establish the individual and aggregate level and types of risk that the bank or financial holding company is willing to assume in advance in order to achieve its business activities within its risk capacity.

3.3.4.3 define the boundaries and business considerations in accordance with which the bank or financial holding company is expected to operate when pursuing the business strategy; and

3.3.4.4 communicate the Board's risk appetite effectively throughout the bank or financial holding company, linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns across the bank or financial holding company.

3.3.5 A risk governance framework shall include well defined organisational responsibilities for risk management, typically referred to as the three lines of defence:

3.3.5.1 the business lines. They take risks and are responsible and accountable for the ongoing management of such risks. This includes identifying, assessing and reporting such exposures, taking into account the bank's or financial holding company's risk appetite and its policies, procedures and controls.

3.3.5.2 a risk management function and a compliance function independent from the first line of defence. The risk management function complements the business line's risk activities through its monitoring and reporting responsibilities. The compliance function shall, among other things, routinely monitor compliance with laws, corporate governance rules, regulations, codes and policies to which the bank or financial holding company is subject; and

3.3.5.3 Internal audit function independent from the first and second lines of defence. Among other things, it shall provide independent review and objective assurance on the quality and effectiveness of the bank's or financial holding company's internal control system, the first and second lines of defence and the risk governance framework including links to organisational culture, as well as strategic and business planning, compensation and decision-making processes.

3.3.6 Regardless of the bank's or financial holding company's nature, size and complexity, and the risk profile of its activities, the specifics of how these three lines of defence are structured may vary while responsibilities for each line of defence shall be well defined and communicated.

3.3.7 The Board shall ensure that the risk management, compliance, and internal audit functions shall be properly positioned, staffed, and resourced to carry out their responsibilities independently, objectively and effectively. In the Board's oversight of the risk governance framework, it shall regularly review all policies and controls with senior management to identify and address significant risks and issues as well as determine areas that need improvement.

3.4 Oversight of the Board to Senior Management

3.4.1 The Board shall appoint the CEO/MD, Deputy Managing Director and other key personnel, including members of senior management, and heads of the second and third line of defence.

3.4.2 The Board shall ensure that there are not more than three expatriates' staff at any given time. However, banks or financial holding companies shall seek the approval from the Bank of Sierra Leone if there is a need to exceed the aforementioned number.

3.4.3 The Board shall ensure that expatriates' staff serve in the bank or financial holding company for a period not more than five (5) years. The Board shall also ensure that expatriate staff provide capacity building for staff of the bank or financial holding company to achieve an effective succession planning model in the institution.

3.4.4 The decisions of the Board must be adhered to and implemented by the CEO/MD.

3.4.5 The Board shall provide oversight of senior management. It shall hold members of senior management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the Board's performance expectations. This includes adhering to the bank's or financial holding company's values, risk appetite and risk culture, under all circumstances. In doing so, the Board shall:

3.4.5.1 monitor that senior management's actions shall be consistent with the strategy and policies approved by the Board, including the risk appetite.

3.4.5.2 meet regularly with senior management as stated in the Charter.

3.4.5.3 question and critically review explanations and information provided by senior management.

3.4.5.4 set appropriate performance and remuneration standards for senior management consistent with the long-term strategic objectives and the financial soundness of the bank.

3.4.5.5 assess whether senior management's collective knowledge and expertise remain appropriate given the nature of the business and the bank's or financial holding company's risk profile; and

3.4.5.6 be actively engaged in succession plans for the CEO and other key positions, as appropriate, and ensure that appropriate succession plans are in place for senior management positions.

3.5 Senior Management Selection Process

3.5.1 Banks or financial holding companies shall have a clear and rigorous process for identifying, assessing and selecting senior management candidates.

3.5.2 The selection process shall include reviewing whether senior management candidates:

(i) be fit and proper as defined in Section 22 (9) of the Banking Act of 2019 and additional regulations issued by the BSL

(ii) obtain police clearance certificate for the proposed appointee

(iii) submit to the Central Bank the following documents as part of the selection process:

(a) An extract of the Board minutes containing the approval granted by the Board for the appointment under review.
(b) Copies of the relevant academic/professional certificates of the proposed appointee.
(c) Copy of the applicable pages of the national passport showing the bio data of the appointee.
(d) Passport sized photographs of the appointee
(e) Detailed job description

(iv) have sufficient time to fully carry out their responsibilities; and
(v) have the ability to promote a smooth interaction between Board members.

4.0 Corporate Secretary

4.1 The qualification and experience of a Corporate Secretary of a bank or financial holding company shall be in accordance with the extant Guidelines on competency and "fit and proper" person in the banking sector of Sierra Leone.

4.2 The functions of a Corporate Secretary shall not be outsourced by banks or financial holding companies.

4.3 The role of the Corporate Secretary in a bank or financial holding company shall not be combined with that of the Head Legal/ Legal Adviser without the approval of the Central Bank.

4.4 The Corporate Secretary shall ensure that all Board-related compliance matters are made available to the Chief Compliance Officer in a timely manner.

4.5 The appointment and removal of the Corporate Secretary shall be a matter for the Board, subject to the Central Bank's ratification.

4.6 The Corporate Secretary shall report directly to the Board and have an indirect reporting line to the MD/CEO.

5.0 Board Qualifications and Composition

Board members shall be and remain qualified, individually, and collectively, for their positions. They shall understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the bank or financial holding company.

5.1 Board Composition

5.1.1 Banks or financial holding companies shall always observe the provisions of the Banking Act of 2019, Part III, Section 22(7) (a-d), which establish the requirements for composition of banks and financial holding companies' Boards.

5.1.2 The Board shall always be gender sensitive in its composition and that of its sub Committees.

5.1.3 Notwithstanding the minimum legal requirements, the Board shall be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank or financial holding company.

5.1.4 In assessing the collective suitability of the Board, the following shall be considered:

5.1.4.1 Board members shall have the minimum educational standards, a range of knowledge and experience in relevant areas and have varied backgrounds to promote diversity of views. Relevant areas of competence may include, but are not limited to capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance and management skills;

5.1.4.2 the Board collectively shall have a reasonable understanding of local, regional and, if appropriate, global economic and market forces and of the legal and regulatory environment; and

5.1.4.3 individual Board members' attitude shall facilitate communication, collaboration and critical debate in the decision-making process.

5.1.5 In accordance with Section 22(7)(d) of the Banking Act 2019, Boards of banks and financial holding companies shall ensure that their Boards have specific members with the title Independent Non-Executive Directors (INEDs).

The objective is to enhance the clarity and effectiveness of governance structures and practices in Sierra Leone banking sector.

5.2 Board Member Selection and Qualifications

5.2.1 Boards shall have a clear and rigorous process for identifying, assessing and selecting Board candidates. The Board (not management) nominates candidates and promotes appropriate succession planning of Board members.

5.2.2 The selection process shall include reviewing whether Board candidates:

(i) possess the knowledge, skills, experience and, particularly in the case of independent and non-executive directors given their responsibilities on the Board and in the light of the bank's or financial holding company's business and risk profile;

(ii) be fit and proper as defined in Section 22 (9) of the Banking Act of 2019 and additional regulations issued by the BSL

(iii) obtain police clearance certificate for the proposed appointee

(iv) submit to the Central Bank the following documents as part of the selection process:

(f) An extract of the Board minutes containing the approval granted by the Board for the appointment under review.

(g) Copies of the relevant academic/professional certificates of the proposed appointee.

(h) Copy of the applicable pages of the national passport showing the bio data of the appointee.

(i) Passport sized photographs of the appointee

(j) Detailed job description

(v) have sufficient time to fully carry out their responsibilities; and

(vi) have the ability to promote a smooth interaction between Board members.

5.2.3 Pursuant to Section 21(1)(a-b), (2) and (3) of the Banking Act of 2019, Board candidates shall not have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from:

5.2.3.1 other persons (such as management or other shareholders);

5.2.3.2 past or present positions held; or

5.2.3.3 personal, professional or other economic relationships with other members of the Board or management (or with other entities within the group).

5.2.4 Boards shall comply at all times with the provision of the Banking Act of 2019, Part II, 19, 1, a-d, with regards to the appointment of Board members, i.e., to obtain the Central Bank's prior written approval.

5.2.5 If a Board member ceases to be qualified or is failing to fulfil his or her responsibilities, the Board shall immediately notify the Central Bank as prescribed in Part II, section 20(2) of the Banking Act, 2019. Moreover, when a Board member is subject to disqualification, he/she shall immediately cease to hold office or act as such and the bank or financial holding company concerned shall immediately terminate his appointment pursuant to section 20(3) of the Banking Act of 2019.

5.2.6 The bank or financial holding company shall have in place a Nomination Committee or similar body, composed of a sufficient number of independent/non-executive Board members, which identifies and nominates candidates after having considered the criteria described above.

5.2.7 The Board shall ensure that members participate in induction programmes and have access to ongoing training on relevant issues which may involve internal or external resources. The Board shall dedicate sufficient time, budget and other resources for this purpose, and draw on external expertise as needed. More extensive efforts shall be made to train and keep updated those members with more limited financial, regulatory or risk-related experience.

5.2.8 Where there are shareholders with power to appoint Board members, the Board shall ensure that such individuals understand their duties. Board members have responsibilities to the bank's overall interests, regardless of who appoints them. In cases where Board members are selected by a controlling shareholder, the Board shall set out specific procedures or conduct periodic reviews to facilitate the appropriate discharge of responsibility by all Board members.

6.0 Obligations of the Board to the Central Bank

6.1 Notwithstanding, upon notice or compliant, the Central Bank shall review or cause a review of a decision made by the Board when it deems it necessary.

6.2 Such review when ordered by the Central Bank shall be adhered to or carried out by the Board.

6.3 Failure of the Board to adhere to the review of the Central Bank shall attract penalties.

7.0 Board's own Structure and Practices

The Board shall define appropriate governance structures and practices for its own work and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.

7.1 Organization and Assessment of the Board

7.1.1 The Board shall structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the Board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues.

7.1.2 The Board shall maintain and periodically update organisational Charter or other similar documents setting out its organisation, rights, responsibilities and key activities.

7.1.3 To support its own performance, the Board shall carry out regular assessments of its committees and individual Board members and in addition, independent assessment by external experts. The Board shall:

7.1.3.1 In line with the Banking Act, 2019, periodically review its structure, size and composition as well as committees' structures and coordination;

7.1.3.2 assess the ongoing suitability of each Board member periodically (at least annually), also taking into account his or her performance on the Board;

7.1.3.3 either separately or as part of these assessments, periodically review the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary changes; and

7.1.3.4 use the results of these assessments as part of the ongoing improvement efforts of the Board and, where required by the supervisor, share results with the supervisor.

7.1.4 The Board shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions.

7.2 Role of the Chairman

The Chairman of the Board plays a crucial role in the proper functioning of the Board. The chairman shall provide leadership to the Board and shall be responsible for its effective overall functioning, including maintaining a relationship of trust with Board members.

7.2.1 The Chairman shall:

7.2.1.1 possess the requisite experience, competencies and personal qualities in order to fulfil these responsibilities.

7.2.1.2 ensure that Board decisions are taken on a sound and well-informed basis.

7.2.1.3 encourage and promote critical discussion and ensure that dissenting views shall be freely expressed and discussed within the decision-making process.

7.2.1.4 dedicate sufficient time to the exercise of his or her responsibilities.

7.2.1.5 shall be an independent non-executive resident director.

7.3 Meeting of the Board and its Committees

7.3.1 The schedules of meetings of the Board and its committees shall be approved by the Board ahead of each financial year.

7.3.2 To effectively perform its oversight function and monitor management's performance, the Board and its committees shall meet at least once every quarter. Provided where the Remuneration Committee is a stand-alone committee, it shall meet on need basis, but at least once a year.

7.3.3 The meeting of the Board and its Committee shall be held at a specified location or virtually if physical meetings cannot be held.

7.3.4 The quorum for the meetings of the Board and its committees shall be two-thirds of members, majority of whom shall be NEDs.

7.3.5 Every Director is required to attend all meetings of the Board and its committees that he or she is a member. To qualify for reappointment, a director shall have attended at least two-thirds of all Board and its committee meetings.

7.3.6 The Chairman of the Board shall not be in attendance by invitation or otherwise in any of the Board committee meetings.

7.3.7 The MD/CEO, DMD and EDs shall not be in attendance either by invitation or otherwise, at any meeting of the Board or its committees where the remuneration of Eds shall be discussed.

7.3.8 The establishment of sub-committees of Board committees is prohibited.

7.4 Board Committees

7.4.1 A Board may establish certain specialised Board sub-committees. The sub-committees shall be created and mandated by the full Board. The number and nature of committees depend on many factors, including the size of the bank and its Board, the nature of the business areas of the bank or financial holding company, and its risk profile.

7.4.2 Each committee shall have a charter or other instrument that sets out its mandate, scope and working procedures. This includes how the committee shall report to the full Board, what is expected of committee members and any tenure limits for serving on the committee. The Board shall consider the occasional rotation of members and of the chairman of such committees, as this can help avoid undue concentration of power and promote fresh perspectives.

7.4.3 In the interest of greater transparency and accountability, a Board should disclose the committees it has established, their mandates and their composition (including members who are considered to be independent).

7.4.4 Committees should maintain appropriate records of their deliberations and decisions (e.g., meeting minutes or summaries of matters reviewed, recommendations made, and decisions taken). Such records should document the committees' fulfilment of their responsibilities and help the supervisor or those responsible to assess the effectiveness of these committees.

7.4.5 The committee chair shall be a non-executive Board member and shall not be the Chairman of the Board.

7.5 Audit Committee

7.5.1 An audit committee must:

7.5.1.1 be required for all licensed commercial banks and financial holding companies;

7.5.1.2 be distinct from other committees;

7.5.1.3 have a chair who is independent/non-executive and is not the chair of the Board or of any other committee;

7.5.1.4 be made up entirely of independent/non-executive Board members; and

7.5.1.5 include members who have experience in audit practices, financial reporting and accounting.

7.5.2 The audit committee is, in particular, responsible for:

7.5.2.1 framing policy on internal audit and financial reporting, among other things;

7.5.2.2 overseeing the financial reporting process;

7.5.2.3 providing oversight of and interacting with the bank's or financial holding company's internal and external auditors;

7.5.2.4 recommending through the Board to shareholders for their approval, the appointment, remuneration and dismissal of external auditors;

7.5.2.5 reviewing and approving the audit scope and frequency;

7.5.2.6 receiving key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, and other problems identified by auditors and other control functions;

7.5.2.7 overseeing the establishment of accounting policies and practices by the bank or financial holding company; and

7.5.2.8 reviewing the third-party opinions on the design and effectiveness of the overall risk governance framework and internal control system.

7.5.3 At a minimum, the audit committee shall possess a collective balance of skills and expert knowledge commensurate with the complexity of the banking organisation and the duties to be performed and shall have relevant experience in financial reporting, accounting and auditing. Where needed, the audit committee has access to external expert advice.

7.6 Risk Committee

7.6.1 A risk committee shall:

7.6.1.1 be required for all licensed banks and financial holding companies;

7.6.1.1.2 be distinct from the audit committee, but may have other related tasks, such as finance;

7.6.1.1.3 have a chair who is a non-executive director and not the chair of the Board or of any other committee;

7.6.1.1.4 include a majority of members who are non-executive directors;

7.6.1.1.5 include members who have experience in risk management issues and practices;

7.6.1.1.6 discuss all risk strategies on both an aggregated basis and by type of risk and make recommendations to the Board thereon, and on the risk appetite;

7.6.1.1.7 review the bank's or financial holding company's risk policies at least annually; and

7.6.1.1.8 oversee that management has in place processes to promote the bank's or financial holding company's adherence to the approved risk policies.

7.6.2 The risk committee of the Board shall be responsible for advising the Board on the bank's or financial holding company's overall current and future risk appetite, overseeing senior management's implementation of the RAS reporting on the state of risk culture in the bank or financial holding company, and interacting with and overseeing the CRO.

7.6.3 The committee's work includes oversight of the strategies for capital and liquidity management as well as for all relevant risks of the bank or financial holding company, such as credit, market, operational, legal and reputational risks, to ensure they are consistent with the stated risk appetite.

7.6.4 The committee shall receive regular reporting and communication from the CRO and other relevant functions about the bank's or financial holding company's current risk profile, current state of the risk culture, utilisation against the established risk appetite, and limits, limit breaches and mitigation plans.

7.6.5 There shall be effective communication and coordination between the audit committee and the risk committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the bank or financial holding company.

8.0 Other Committees

The following Committees are mandatory for banks and financial holding companies that shall be designated as DSIBs by the Bank of Sierra Leone. The chairperson of these committees must be an independent director of the bank or financial holding company.

8.1 Compensation and Nomination Committee

8.1.1 Compensation Committee

8.1.1.1 Every licensed bank and financial holding company shall have a compensation and nomination committee.

8.1.1.2 It shall support the Board in overseeing the remuneration system's design and operation and in ensuring that remuneration shall be appropriate and consistent with the bank's or financial holding company's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

8.1.1.3 The compensation committee shall be constituted in a way that enables it to exercise competent and independent judgment on compensation policies and practices and the incentives they create.

8.1.1.4 The Board Compensation Committee shall have at least three members. All members of the Committee shall be non-executive or independent directors of the bank. The chairperson of the Committee shall be an independent director of the bank or financial holding company.

8.1.1.5 Appointments to the committee are made by the Board and shall be for a term of three years extendable by no more than one term of three years, so long as members (other than the chairman of the Board if he or she is a member of the committee) continue to be independent/non-executive.

8.1.1.6 The chairman of the Board shall not be the chair of the committee.

8.1.1.7 The compensation committee works closely with the bank's or financial holding company's risk committee in evaluating the incentives created by the remuneration system.

8.1.1.8 The risk committee shall, without prejudice to the tasks of the compensation committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

8.1.1.9 The responsibilities of the Board Compensation Committee shall include:

8.1.1.9.1 Conducting regular reviews of, and making recommendations to the Board on, the Remuneration Policy. This shall include an assessment of the Reuneration Policy's effectiveness and compliance with legal and regulatory requirements;

8.1.1.2 Making annual recommendations to the Board on the remuneration of the CEO, direct reports of the CEO, other persons whose activities may, in the Board Remuneration Committee's opinion, affect the financial soundness of the institution and any other person specified by the Central Bank; and

8.1.1.3 Making annual recommendations to the Board on the remuneration of the categories of persons covered by the Remuneration Policy.

8.1.1.10 The Board Compensation Committee shall:

8.1.1.10.1 Have free and unfettered access to risk and financial control personnel and other parties (internal and external) in carrying out its duties; and

8.1.1.10.2 If choosing to engage third-party experts, have power to do so in a manner that ensures that the engagement, including any advice received, is independent.

8.1.1.11 Members of the Board Remuneration Committee shall be available to meet with the Central Bank on request.

8.1.2 Nomination Committee.

The Nomination Committee shall provide recommendations to the Board for new Board members and members of senior management.

The nomination committee shall analyse the role and responsibilities of the Board member and the knowledge, experience and competence which the role requires.

8.1.2.2 The nomination committee shall ensure that the Board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the bank or financial holding company as a whole.

8.1.2.3 It may be involved in assessment of Board and senior management effectiveness and may be involved in overseeing the bank's or financial holding company's per- sonnel or human resource policies.

8.1.2.4 The following shall be the responsibilities of the Nomination Committee:

8.1.2.4.1 Regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the board with regards to any changes.

8.1.2.4.2 Give full consideration for succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the bank and financial holding company, and the skills and expertise needed on the Board in the future.

8.1.2.4.3 Keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

8.1.2.4.4 Keep updated records and seek for information about strategic issues and commercial changes affecting the banks and financial holding company and the market in which it operates.

8.1.2.4.5 Before any appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the committee shall:

8.1.2.4.5.1 Use open advertising or the services of external advisers to facilitate the search

8.1.2.4.5.2 Consider candidates from a wide range of backgrounds

8.1.2.4.5.3 Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, taking care that appointees have enough time available to devote to the position.

8.1.2.4.6 For the appointment of a chairman, the committee shall prepare a job specification, including the time commitment expected. A proposed chairman's other significant commitments shall be disclosed to the Board before appointment and any changes to the chairman's commitments shall be reported to the board as they arise.

8.1.2.4.7 Prior to the appointment of a director, the proposed appointee shall be required to disclose any other business interests that may result in a conflict of interest.

8.1.2.4.5.2 Consider candidates from a wide range of backgrounds

8.1.2.4.8 Composition of the Nominations Committee

8.1.2.4.8.1 Shall comprise of at least three (3) members.

8.1.2.4.8.2 All members of the committee shall be Non-executive Directors

8.1.2.4.8.3 Only members of the committee shall attend committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

8.1.2.4.8.4 Appointments to the committee shall be made by the Board and shall be for a period of up to three years and shall be eligible for reselected for another term provided the director still meets the criteria for membership of the committee.

8.1.2.4.8.5 The Board shall appoint the committee chairman who shall be either the chairman of the Board or an independent or non-executive director. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the board.

8.1.2.4.8.6 The chairman of the Board shall not chair the committee when it is dealing with the matter of succession to the chairmanship.

8.1.3 Ethics and Compliance Committee.

The Compliance Committee shall ensure that the bank or financial holding company has the appropriate means for promoting proper decision-making, due consideration of the risks to the bank's reputation, and compliance with laws, regulations and internal rules.

8.1.3.1 The following shall be the responsibilities of the Compliance Committee:

8.1.3.1.1 Develop for Board's approval the bank's or financial holding company's compliance policy, and oversee its implementation;

8.1.3.1.2 Assess, at least once a year, the effectiveness of compliance risk management.

8.1.3.1.3 E nsure that compliance issues shall be resolved effectively and expeditiously by senior management with the assistance of the compliance function.

8.1.3.2 Composition of the Compliance Committee:

8.1.3.2.1 Shall comprise of at least three (3) members.

8.1.3.2.2 All members of the committee shall be non-executive directors.

8.1.3.2.3 Only members of the committee shall attend committee meetings. The Head of Compliance shall be in attendance for all meetings and other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

8.1.3.2.4 Appointments to the committee shall be made by the Board and shall be for a period of up to three years, which may be extended for further periods of up to three-years, provided the director still meets the criteria for membership of the committee.

8.1.3.2.5 The Board shall appoint the committee chairman who shall be an independent or non-executive director. In the absence of the committee chairman, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify to be appointed to that position by the Board.

9.0 Conflicts of Interest

9.1 The Board shall oversee the implementation and operation of policies to identify potential conflicts of interest. Where these conflicts cannot be prevented, they shall be properly managed (based on the permissibility of relationships or transactions under sound corporate policies consistent with national law and supervisory standards).

9.2 The Board shall have a formal written conflicts-of-interest policy and an objective compliance process for implementing the policy. The policy shall include:

9.2.1 a member's duty to avoid, to the extent possible, activities that may create conflicts of interest or the appearance of conflicts of interest;

9.2.2 examples of where conflicts can arise when serving as a Board member;

9.2.3 a rigorous review and approval process for members to follow before they engage in certain activities (such as serving on another board) so as to ensure that such activity will not create a conflict of interest.

9.2.4 a member's duty to promptly disclose any matter that may result, or has already resulted, in a conflict of interest;

9.2.5 a member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity or ability to properly fulfil duties to the bank may be otherwise compromised;

9.2.6 adequate procedures for transactions with related parties so that they are made on an arm's length basis; and

9.2.7 the way in which the board shall deal with any non-compliance with the policy.

9.3 The Board shall oversee and be satisfied with the process by which appropriate public disclosure is made, and/or information is provided to supervisors, relating to the bank's policies on conflicts of interest and potential material conflicts of interest.

9.4 This shall include information on the bank's or financial holding company's approach to disclosing and managing material conflicts of interest that are not consistent with such policies, and conflicts that may arise because of the bank's or financial holding company's affiliation or transactions with other entities within the group.

10.0 Governance of Group Structures

10.1 Boards of Subsidiaries

10.1.1 Boards and Senior Management of Subsidiaries shall remain responsible for developing effective risk management processes for their entities. The methods and procedures applied by subsidiaries shall support the effectiveness of risk management at a group level. While parent companies should conduct strategic, group-wide risk management and prescribe corporate risk policies, subsidiary management and Boards shall have appropriate input to their local or regional application and to the assessment of local risks.

10.1.2 Parent companies shall ensure that adequate tools and authorities are available to the subsidiary and that the subsidiary understands the reporting obligations it has to the head office. It shall be the responsibility of subsidiary Boards to assess the compatibility of group policy with local legal and regulatory requirements and, where appropriate, amend those policies.

10.1.3 While the strategic objectives, risk governance framework, corporate values and corporate governance principles of the subsidiary shall align with that of the parent company (referred to here as "group policies"), the subsidiary Board shall make necessary adjustments where a group policy conflicts with an applicable legal or regulatory provision or prudential rule or would be detrimental to the sound and prudent management of the subsidiary.

10.1.4 In the case of a significant regulated subsidiary (due to its risk profile or systemic importance or due to its size relative to the parent company), the Board of the significant subsidiary shall take such further steps as are necessary to help the subsidiary meet its own corporate governance responsibilities and the legal and regulatory requirements that apply to it.

10.2 Complex or Opaque Structures

Banks and financial holding companies shall create structures for legal, regulatory and tax purposes. Structures shall take the form of units, branches, subsidiaries or other legal entities that can considerably increase the complexity of the organisation. The number of legal entities, and in particular the interconnections and intragroup transactions among such entities, can lead to challenges in identifying and managing the risks of the organisation as a whole.

10.2.1 Operating through complex or non-transparent structures may pose financial, legal, reputational and other risks to the bank. It may impede the ability of the Board and senior management to conduct appropriate business oversight and could hinder effective banking supervision.

10.2.2 Senior management and the Board, as appropriate shall be cognisant of these challenges and take action to avoid or mitigate them by:

(i) avoiding setting up complicated structures that lack economic substance or business purpose;

(ii) continually maintaining and reviewing appropriate policies, procedures and processes governing the approval and maintenance of those structures or activities, including fully vetting the purpose, the associated risks and the bank's or financial holding company's ability to manage those risks prior to setting up new structures and initiating associated activities;

(iii) having a centralised process for approving the creation of new legal entities and subsidiaries based on established criteria, including the ability to monitor and fulfil each entity's regulatory, tax, financial reporting, governance and other requirements and for the dissolution of dormant subsidiaries;

(iv) establishing adequate procedures and processes to identify and manage all material risks arising from these structures, including lack of management transparency, operational risks introduced by interconnected and complex funding structures, intragroup exposures, trapped collateral and counterparty risk. The bank shall only approve structures if the material risks can be properly identified, assessed and managed; and

(v) ensuring that the activities and structure are subject to regular internal and external audit reviews.

10.2.3 The Board of the parent company shall enhance the effectiveness of the above efforts by requiring a periodic independent formal review of the structures, their controls and activities as well as of their consistency with Board-approved strategy.

10.2.4 The Board shall be prepared to discuss with, and as necessary report to, the bank's supervisor and the host country supervisors the policies and strategies adopted regarding the establishment and maintenance of these structures and activities.

11.0 Senior Management

Under the direction and oversight of the Board, senior management shall carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the Board.

11.1 Senior management consists of a core group of individuals responsible and accountable to the Board for the sound and prudent day-to-day management of the bank or financial holding company.

11.2 The organisation and procedures and decision-making of senior management shall be clear and transparent and designed to promote effective management of the bank and /or financial holding company. This includes clarity on the role, authority and responsibility of the various positions within senior management, including that of the CEO.

11.3 Members of senior management shall have the necessary experience, competencies and integrity to manage the businesses and people under their supervision. They shall receive access to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibilities.

11.4 Members of senior management shall be selected through an appropriate promotion or recruitment process which considers the qualifications required for the position in question. For those senior management positions for which the board of directors is required to review or select candidates through an interview process, senior management shall provide sufficient information to the Board and go through the "fit and proper" persons' test as prescribed in Section 22(9) of the Banking Act 2019.

11.5 Members of senior management shall provide adequate oversight of those they manage and ensure that the bank's activities are consistent with the business strategy, risk appetite and the policies approved by the Board.

11.6 Senior management shall be responsible for delegating duties to staff and shall establish a management structure that promotes accountability and transparency throughout the bank and financial holding company.

11.7 No individual shall serve in an Acting capacity continuously for more than six months.

11.8 Consistent with the direction given by the Board, senior management shall implement business strategies, risk management systems, risk culture, processes and controls for managing the risks - both financial and non-financial - to which the bank or financial holding company is exposed and concerning which it is responsible for complying with laws, regulations and internal policies. This includes comprehensive and independent risk management, compliance and audit functions as well as an effective overall system of internal controls. Senior management shall recognise and respect the independent duties of the risk management, compliance and internal audit functions and shall not interfere in their exercise of such duties.

11.9 Senior management shall provide the Board with the information it needs to carry out its responsibilities, supervise senior management and assess the quality of senior management's performance. In this regard, senior management shall keep the Board regularly and adequately informed of material matters, including:

(i) changes in business strategy, risk strategy/risk appetite;

(ii) the bank's or financial holding company's performance and financial condition;

(iii) breaches of risk limits or compliance rules;

(iv) internal control failures;

(v) legal or regulatory concerns; and

(vi) issues raised as a result of the bank's whistleblowing procedures.

12.0 Risk Management / Enterprise Risk Management Function

Banks and financial holding companies shall have an effective independent risk management function, under the direction of a Chief Risk Officer (CRO), who is a member of senior management with sufficient stature, independent, sufficient resources and has access to the Board.

12.1 The independent risk management function is a key component of the bank's or financial holding company's second line of defence. The CRO shall be responsible for overseeing risk-taking activities across the enterprise and should have authority within the organisation to do so. Key activities of the risk management function shall include:

(i) identifying material individual, aggregate and emerging risks;

(ii) assessing these risks and measuring the bank's exposure to them;

(iii) subject to the review and approval of the board, developing and implementing the enterprise-wide risk governance framework, which includes the bank's risk culture, risk appetite and risk limits;

(iv) ongoing monitoring of the risk-taking activities and risk exposures in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs (i.e., capital planning);

(v) establishing an early warning or trigger system for breaches of the bank's or financial holding company's risk appetite or limits;

(vi) influencing and, when necessary, challenging decisions that give rise to material risk; and

(vii) reporting to senior management and the board or risk committee on all these items, including but not limited to proposing appropriate risk-mitigating actions.

12.2 The risk management function shall be sufficiently independent of the business units and shall not be involved in revenue generation. Such independence shall be an essential component of an effective risk management function, as is having access to all business lines that have the potential to generate material risk to the bank as well as to relevant risk-bearing subsidiaries and affiliates.

12.3 The risk management function shall have sufficient number of employees who possess the requisite experience and qualifications, including market and product knowledge as well as command of risk disciplines. Staff shall have the ability and willingness to effectively challenge business operations regarding all aspects of risk arising from the bank's or financial holding company's activities. Staff shall have access to regular training.

12.4 Role of the CRO

Banks/ Financial Holding Companies shall have a CRO with overall responsibility for the bank's or financial holding company's risk management function.

12.4.1 The CRO shall have primary responsibility for overseeing the development and implementation of the bank's or financial holding company's risk management function. This shall include the ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports as necessary to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities.

12.4.2 The CRO shall be responsible for supporting the Board in its engagement with and oversight of the development of the bank's risk appetite and RAS and for translating the risk appetite into a risk limits structure. The CRO, together with management, shall be actively engaged in monitoring performance relative to risk-taking and risk limit adherence. The CRO's responsibilities shall also include managing and participating in key decision-making processes (e.g., strategic planning, capital and liquidity planning, new products and services, compensation design and operation).

12.4.3 The CRO shall possess the authority and necessary skills to oversee the bank's or financial holding company's risk management activities. The CRO shall be independent and have duties distinct from other executive functions. This requires the CRO to have access to any information necessary to perform his or her duties. The CRO, however, shall not have management or financial responsibility related to any operational business lines or revenue-generating functions, and there shall be no "dual hatting" (i.e., the chief operating officer, CFO, chief auditor or a member of senior management shall in principle not also serve as the CRO).

12.4.4 The CRO shall report and have direct access to the Board or its risk committee without impediment. The CRO shall have the ability to interpret and articulate risk in a clear and understandable manner and to effectively engage the Board and management in constructive dialogue on key risk issues. Interaction between the CRO and the board and/or risk committee shall occur regularly, and the CRO shall meet with the board or risk committee without executive directors being present.

12.4.5 Appointment, dismissal and other changes to the CRO position shall be approved by the Board or its risk committee. If the CRO is removed from his or her position, this shall be disclosed publicly. The bank or financial holding company shall also notify and discuss the reasons for such removal with the Central Bank. The CRO's performance, compensation and budget shall be reviewed and approved by the risk committee or the Board.

12.5 Risk Identification, Monitoring and Controlling

Risks shall be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure shall keep pace with changes to the bank's or financial holding company's risk profile, to the external risk landscape and industry practice.

12.5.1 The bank's or financial holding company's risk governance framework shall include policies, supported by appropriate control procedures and processes, designed to ensure that the bank's or financial holding company's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the bank's size, complexity and risk profile.

12.5.2 Risk identification shall encompass all material risks to the bank or financial holding company, on- and off-balance sheet and on a group-wide, portfolio-wise and business-line level. In order to perform effective risk assessments, the board and senior management, including the CRO, shall, regularly and on an ad hoc basis, evaluate the risks faced by the bank and its overall risk profile. The risk assessment process shall include ongoing analysis of existing risks as well as the identification of new or emerging risks. Risks shall be captured from all organisational units. Concentrations associated with material risks shall likewise be factored into the risk assessment.

12.5.3 As part of its quantitative and qualitative analysis, the bank shall utilise stress tests and scenario analyses to better understand potential risk exposures under a variety of adverse circumstances:

(i) internal stress tests shall cover a range of scenarios based on reasonable assumptions regarding dependencies and correlations. Senior management shall define and approve and, as applicable, the board shall review and provide effective challenge to the scenarios that are used in the bank's risk analyses;

(ii) reverse stress testing could provide additional insight into the risk position of the bank or financial holding company as well as potential future management actions;

(iii) stress test programme results shall be periodically reviewed with the Board or its risk committee. Test results shall be incorporated into the reviews of the risk appetite, the capital adequacy assessment process, the capital and liquidity planning processes, and budgets. They should also be linked to recovery and resolution planning. The risk management function shall indicate if and what action shall be required based on results; and

(iv) the results of stress tests and scenario analyses shall also be communicated to, and given appropriate consideration by, relevant business lines and individuals within the bank or financial holding company.

12.5.4 Risk identification and measurement shall include both quantitative and qualitative elements. Risk measurements shall also include qualitative, bank-wide views of risk relative to the bank's external operating environment. Banks or financial holding companies shall evaluate harder-to-quantify risks, such as reputational risk.

12.5.5 Banks or financial holding companies shall regularly compare actual performance against risk estimates (i.e., back testing) to assist in judging the accuracy and effectiveness of the risk management process and making necessary adjustments.

12.5.6 In addition to identifying and measuring risk exposures, the risk management function shall evaluate possible ways to mitigate these exposures.

12.5.7 Banks or financial holding companies shall have risk management and approval processes for new or expanded products or services, lines of business and markets, as well as for large and complex transactions that require significant use of resources or have hard-to-quantify risks. Banks or financial holding companies shall also have review and approval processes for outsourcing bank functions. The risk management function shall provide input on risks as part of such processes and on the outsourcer's ability to manage risks and comply with legal and regulatory obligations. Such processes shall entail the following:

12.5.7.1 A full assessment of risks under a variety of scenarios as well as an assessment of potential shortcomings in the ability of the bank's risk management and internal controls to effectively manage associated risks;

12.5.7.2 An assessment of the extent to which the bank's or financial holding company's risk management, legal and regulatory compliance, information technology, business line and internal control functions have adequate tools and the expertise necessary to measure and manage related risks.

12.5.8 If adequate risk management processes are not in place, a new product, service, business line or third-party relationship or major transaction shall be delayed until the bank or financial holding company is able to appropriately address the activity. There shall also be a process to assess risk and performance relative to initial projections and to adapt the risk management treatment accordingly as the business matures.

12.5.9 Effective risk identification and measurement approaches are likewise necessary in subsidiary banks and affiliates. Material risk-bearing affiliates and subsidiaries shall be captured by the bank-wide risk management system and shall be a part of the overall risk governance framework.

12.5.10 Mergers and acquisitions, divestitures and other changes to a bank's or financial holding company's organisational structure can pose special risk management challenges to the bank. In particular, risks can arise from conducting due diligence that fails to identify post-merger risks or activities conflicting with the bank's strategic objectives or risk appetite. The risk management function shall be actively involved in assessing risks that could arise from mergers and acquisitions and inform the Board and senior management of its findings.

12.6 Risk Communication

An effective risk governance framework requires robust communication within the bank or financial holding company about risk, both across the organisation and through reporting to the Board and senior management.

12.6.1 Ongoing communication about risk issues, including the bank's or financial holding company's risk strategy, throughout the bank or financial holding company is a key tenet of a strong risk culture. A strong risk culture should promote risk awareness and encourage open communication and challenge about risk-taking across the organisation as well as vertically to and from the Board and senior management. Senior management should actively communicate and consult with the control functions on management's major plans and activities so that the control functions can effectively discharge their responsibilities.

12.6.2 Information shall be communicated to the Board and senior management in a timely, accurate and understandable manner so that they are equipped to take informed decisions. While ensuring that the Board and senior management are sufficiently informed, management and those responsible for the risk management function should avoid voluminous information that can make it difficult to identify key issues. Rather, information should be prioritised and presented in a concise, fully contextualised manner. The Board shall assess the relevance and the process for maintaining the accuracy of the information it receives and determine if additional or less information is needed.

12.6.3 Material risk-related ad hoc information that requires immediate decisions or reactions shall be promptly presented to senior management and, as appropriate, the Board, the responsible officers and, where applicable, the heads of control functions so that suitable measures and activities can be initiated at an early stage.

12.6.4 Risk reporting to the Board requires careful design in order to convey bank-wide, individual portfolio and other risks in a concise and meaningful manner. Reporting shall accurately communicate risk exposures and results of stress tests or scenario analyses and should provoke a robust discussion of, for example, the bank's current and prospective exposures (particularly under stressed scenarios), risk/return relationships and risk appetite and limits. Reporting shall also include information about the external environment to identify market conditions and trends that may have an impact on the bank's current or future risk profile.

12.6.5 Risk reporting systems shall be dynamic, comprehensive and accurate, and shall draw on a range of underlying assumptions. Risk monitoring and reporting shall not only occur at the disaggregated level (including material risk residing in subsidiaries) but should also be aggregated to allow for a bank-wide or integrated perspective of risk exposures. Risk reporting systems shall be clear about any deficiencies or limitations in risk estimates, as well as any significant embedded assumptions (e.g. regarding risk dependencies or correlations).

12.6.6 Banks and financial holding companies shall avoid organisational "silos" that can impede effective sharing of information across an organisation and can result in decisions being taken in isolation from the rest of the bank and financial holding company. Overcoming these information-sharing obstacles may require the board, senior management and control functions to re-evaluate established practices in order to encourage greater communication.

13.0 Internal Audit

The internal audit function shall provide independent assurance to the Board and shall support Board and senior management in promoting an effective governance process and the long-term soundness of the bank or financial holding company.

13.1 An effective and efficient internal audit function constitutes the third line of defence in the risk governance framework. It provides an independent assurance to the Board of directors and senior management on the quality and effectiveness of a bank's or financial holding company's internal control, risk management and governance systems and processes, thereby helping the Board and senior management protect their organisation and its reputation.

13.2 The internal audit function shall have a clear mandate, be accountable to the Board and be independent of the audited activities. It shall have sufficient standing, skills, resources and authority within the bank or financial holding company to enable the auditors to carry out their assignments effectively and objectively.

13.3 A member of senior management shall not serve in two positions at the same. There shall be no dual roles by the heads of these functions.

13.4 The Board and senior management contribute to the effectiveness of the internal audit function by:

(i) providing the function with full and unconditional access to any records, file data and physical properties of the bank or financial holding company, including access to management information systems and records and the minutes of all consultative and decision-making bodies;

(ii) requiring the function to independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes;

(iii) requiring internal auditors to adhere to national and international professional standards, such as those established by the Institute of Internal Auditors;

(iv) requiring that audit staff collectively have or can access knowledge, skills and resources commensurate with the business activities and risks of the bank;

(v) requiring timely and effective correction of audit issues by senior management; and

(vi) requiring the function to perform a periodic assessment of the bank's or financial holding company's overall risk governance framework, including but not limited to an assessment of:

(a) the effectiveness of the risk management and compliance functions;
(b) the quality of risk reporting to the Board and senior management; and
(c) the effectiveness of the bank's or financial holding company's system of internal controls.

13.5 The Board and senior management shall respect and promote the independence of the internal audit function by ensuring that:

(i) internal audit reports are provided to the Board or its audit committee without management filtering and that the internal auditors have direct access to the Board or the Board's audit committee;

(ii) the head of the internal audit function's primary reporting line is to the Board (or its audit committee), which shall also be responsible for the selection, oversight of the performance and, if necessary, dismissal of the head of this function;

(iii) if the Chief Audit Executive is removed from his or her position, the central bank shall be notified immediately and the reasons for such removal stated accordingly.

14.0 Compliance

The bank's or financial holding company's Board of Directors shall be responsible for overseeing the management of the institution's compliance risk. The Board shall establish a compliance function and approve the bank's or financial holding company's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.

14.1 An independent compliance function shall be a key component of the bank's or financial holding company's second line of defence. This function is responsible for, among other things, ensuring that the bank operates with integrity and in compliance with applicable, laws, regulations and internal policies.

14.2 The bank's or financial holding company's senior management is responsible for establishing a compliance policy that contains the basic principles to be approved by the Board and explains the main processes by which compliance risks are to be identified and managed through all levels of the organisation.

14.3 While the Board and management are accountable for the bank's or financial holding company's compliance, the compliance function has an important role in supporting corporate values, policies and processes that help ensure that the bank or financial holding company acts responsibly and fulfils all applicable obligations.

14.4 The compliance function shall advise the Board and senior management on the bank's or financial holding company's compliance with applicable laws, rules and standards and keep them informed of developments in the area. It shall also help educate staff about compliance issues, act as a contact point within the bank or financial holding company for compliance queries from staff members and provide guidance to staff on the appropriate implementation of applicable laws, rules and standards in the form of policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.

14.5 The compliance function is independent from management to avoid undue influence or obstacles as that function performs its duties. The compliance function shall directly report to the Board, as appropriate, on the bank's or financial holding company's efforts in the above areas and on how the bank is managing its compliance risk.

14.6 To be effective, the compliance function shall have sufficient authority, stature, independence, resources and access to the board. Management shall respect the independent duties of the compliance function and not interfere with their fulfilment. As previously noted, the Head of Compliance should not serve in two different positions at once.

15.0 Compensation

The bank's or financial holding company's remuneration structure shall support sound corporate governance and risk management.

15.1 The Board (or, by delegation, its compensation committee) is responsible for the overall oversight of management's implementation of the remuneration system for the entire bank or financial holding company. In addition, the Board or its committee shall regularly monitor and review outcomes to assess whether the bank-wide remuneration system is creating the desired incentives for managing risk, capital and liquidity. The Board or subcommittee shall review the remuneration plans, processes and outcomes at least annually.

15.2 The Board, together with its compensation committee, shall approve the compensation of senior executives, including the CEO, CRO and head of internal audit, and shall oversee development and operation of compensation policies, systems and related control processes.

15.3 For employees in control functions (e.g., risk, compliance and internal audit), remuneration shall be determined independently of any business line overseen, and performance measures shall be based principally on the achievement of their own objectives so as not to compromise their independence.

15.4 Banks and financial holding companies shall maintain a documented Remuneration Policy for the institution. The Remuneration Policy shall outline the remuneration objectives and the structure of the remuneration arrangements, including, but not limited to, the performance-based components of remuneration.

15.5 The institution's Remuneration Policy shall be approved by the Board.

15.6 Remuneration arrangements include measures of performance, the mix of forms of remuneration (such as fixed and variable components, and cash and equity-related benefits) and the timing of eligibility to receive payments.

15.7 In addition to any other objectives, the Remuneration Policy's performance-based components of remuneration must be designed to encourage behaviour that supports:

15.7.1 the institution's long term financial soundness; and

15.7.2 the risk management framework of the institution.

15.7.3 The performance-based components of remuneration must be designed to align remuneration with prudent risk-taking and must incorporate adjustments to reflect:

15.7.3.1 the outcomes of business activities.

15.7.3.2 the risks related to the business activities taking into account, where relevant, of the cost of the associated capital; and

15.7.3.3 the time necessary for the outcomes of those business activities to be reliably measured.

15.8 The Remuneration Policy shall set out who is covered by the Policy.

15.9 The Central Bank may determine that an individual or class of individuals shall be covered by the institution's Remuneration Policy.

15.10 Banks and financial holding companies shall ensure that staff within the same cadre or job family are similarly treated and compensated. This shall be assessed by the Central Bank from time to time.

15.11 Banks and financial holding companies' remuneration package shall be commensurate with staff job responsibilities.

15.12 The Remuneration Policy shall form part of an institution's risk management framework.

15.13 The Remuneration Policy of an institution shall be provided to the Central Bank.

15.14 Banks and financial holding companies shall submit its organogram on an annual basis to BSL or any other updates it makes within the period. Banks shall at all times seek approval from the Central Bank upon any amendments of its organogram. It shall ensure that the job designation in the organogram submitted must reflect the job description of staff.

16.0 Appointment, Duties and Responsibilities of External Auditors

16.1 Introduction - The External Auditor's opinion lends credibility to the institution's financial statements and thereby assists in promoting confidence in the financial system. The need for Bank of Sierra Leone's approval of the External Auditor arises from the desire to ensure that the External Auditor appointed by banks or financial holding companies have achieved acceptable standards of both competence and independence.

Banks shall appoint external auditors for a period of three (3) but not exceeding five years.

16.2 Approval of Appointment and Approval Procedures

It is important to note that the nomination and subsequent appointment of an External Auditor by banks or financial holding companies is done subject to the approval of the Bank of Sierra Leone.

16.2.1 The application for the appointment of an External Auditor should contain the following information:

16.2.1.1 Names, qualifications and experience of each partner in the audit firm.

16.2.1.2 Physical and postal address of the audit firm including full details of the Head Office.

16.2.1.3 Names, qualifications and experience of the partners to be engaged in the audit.

16.2.1.4 Details of the External Auditor's experience in other institutions.

16.2.1.5 Details of any existing business relationship between the partner in charge of the audit and the bank.

16.2.1.6 Copy of the practice certificates of each of the partners in the firm.

16.2.1.7 Any other information considered necessary in support of the application.

16.3 Duties and Responsibilities

16.3.1 Principal Duties and Responsibilities

Traditionally, the principal role of the External Auditor is to express an opinion as to whether: -

16.3.1.1 All the necessary information and explanations for the audit have been obtained.

16.3.1.2 Proper books of accounts have been kept and maintained by the institution.

16.3.1.3 The accounts dealt with in the report are in agreement with the books of accounts and are in conformity with the International Accounting Standards/IFRS.

16.3.1.4 The financial statements derived from the books of accounts give a "true and fair view"of the institution.

16.3.2 Reports to Audit Committee

Each External Auditor that performs an audit for any institution shall timely report to the audit committee of that institution:

16.3.2.1 All critical accounting policies and practices used or to be used;

16.3.2.2 All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the institution, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the External Auditor; and

16.3.2.3 Other material written communications between the External Auditor and the management of the institution, such as any management letter or schedule of unadjusted differences.

16.3.3 Information to be submitted to the Bank of Sierra Leone

16.3.3.1 The External Auditor shall immediately report to the Bank of Sierra Leone if:
16.3.3.1.1 There has been a serious breach of or non-compliance with the provisions of the Banking Act 2019, guidelines or other matters prescribed by the Bank of Sierra Leone;

16.3.3.1.2 Any criminal offence involving fraud or dishonesty has been committed by the institution or by any of its officers or employees;

16.3.3.1.3 Losses have been incurred which reduce the core capital of the institution by fifty per cent (50%) or more;

16.3.3.1.4 Serious irregularities have occurred which may jeopardize the security of depositors or creditors of the institution; or (e) It is unable to confirm that the claims of the depositors and creditors of the institution are capable of being met out of the assets of the institution.

16.3.3.2 To submit to Bank of Sierra Leone a copy of the Interim Audit Management report.

16.3.3.3 The Auditor in addition is required to submit directly to Bank of Sierra Leone no later than three (3) months after the financial year end: -

16.3.3.3.1 A copy of the final audit management letter.

16.3.3.3.2 A confirmation that adequate provisions for loans and advances have been made. The external auditors must base their calculation for the required provisions for loans and advances debts as a minimum, on the prescribed reporting guidelines.

16.3.3.3.3 Information that indicates a material breach of the institution's own policies, Articles of Association and Memorandum of Association.

16.3.4 Additional Responsibilities

In order to enhance the role of the Bank of Sierra Leone, the External Auditor may also be required to:

16.3.4.1 Submit such additional information in relation to its audit as the Bank of Sierra Leone may consider necessary, from time to time.

16.3.4.2 Carry out any other special investigation.

16.3.4.3 Submit a report on any of the matters referred to in (a) and (b). The institution concerned shall remunerate the External Auditor in respect of the discharge of all or any of such additional duties.

17.0 Amendment

These Guidelines may be amended as and when determined by the Bank of Sierra Leone.

18.0 Effective Date

These Guidelines shall take effect immediately upon publication in the Gazette and shall remain in force until otherwise determined by the Bank of Sierra Leone.

Bank of Sierra Leone
November 20