BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Responsibility Mapping

Exposure Draft

Applicable to−

1. Licensed banks
2. Licensed investment banks
3. Licensed Islamic banks
4. Licensed insurers
5. Licensed takaful operators
6. Prescribed development financial institutions
7. Financial holding companies

Issued on: 26 December 2019 BNM/RH/ED 028-13

This Exposure Draft sets out the Bank's proposals to clarify the roles, responsibilities and accountability of individuals holding leadership positions in financial institutions. The proposals complement the existing governance arrangements to promote a corporate culture which reinforces ethical, prudent and professional behaviour. Clarity on the expectations will encourage individuals in these positions to take greater ownership of the areas under their purview and set the appropriate tone from the top.

The Bank invites written feedback on the proposed requirements, including suggestions on areas to be clarified and alternative proposals that the Bank should consider. The written feedback should be supported with clear rationale, including accompanying evidence or illustrations where appropriate, to facilitate an effective consultation process.

Responses must be submitted to the Bank by 31 March 2020 to−

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Electronic submission is encouraged. Submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

In the course of providing your feedback, you may direct queries to the following officers at 03-26988044:
(i) Toh Ying Ying (ext: 8345)
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Issued on: 26 December 2019

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PART A OVERVIEW

1 Introduction

1.1 Good corporate governance is underpinned by a corporate culture that reinforces ethical, prudent and professional behaviour. This begins with the right "tone from the top", where the core values established by the board and senior management shape the conduct and behaviour of individuals in financial institutions.

1.2 Responsibility mapping is a fundamental pillar within the governance framework that accords focus on the role of individuals holding leadership positions in financial institutions to promote actions and decisions in areas under their purview that are consistent with good governance and sound risk management. It complements existing standards[1] issued by the Bank which promote the long-term financial soundness of financial institutions.

1.3 In recent years, the Bank has observed incidents where the span of control and influence at the senior management level has not been adequately translated into actions in practice, leading to heightened risks from inadequate oversight over the operations of the financial institution. This underscores the importance of ensuring responsibilities are clearly identified at the appropriate level of granularity and allocated to individuals at senior levels who have the competence, authority and accountability to effectively discharge them.

1.4 Responsibility mapping goes beyond clarifying normal job descriptions of individuals. Specifically, it aims to–

(a) ensure that responsibilities for key functions of a financial institution, including those prescribed by law or regulations, are clearly allocated to individuals at an appropriate senior level within the financial institution;

(b) clarify and strengthen the accountability of individuals to whom key responsibilities are allocated, in particular in circumstances where there are shared responsibilities, collective decision making and matrix reporting structures within groups; and

(c) encourage a financial institution to carefully consider whether the allocation of responsibilities to individuals within senior management is compatible with effective risk management practices, taking into account the size, scale and complexity of the financial institution's operations.

Clarity and transparency in governance and accountability, supported by clear documentation, also facilitates meaningful engagements with the board and regulators on the operations and decision-making process of the financial institution.

1.5 The Bank expects the individual accountability framework to ultimately drive better ex-ante decisions by strengthening incentives for good conduct and culture, and encouraging financial institutions to identify and address barriers

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[1] These include policy documents on *Corporate Governance*, *Fit and Proper Criteria* and *Employee Screening*.

that may prevent individuals to whom key responsibilities are allocated, from effectively discharging their obligations. Therefore, financial institutions should determine how their governance structures surrounding business operations, risk and control functions are organised, guided by the intended outcomes of this policy document.

1.6 Responsibility mapping is intended to exist in parallel with, rather than substitute, existing governance arrangements where decisions are made at designated collective decision-making forums. Therefore, financial institutions can continue to maintain collective decision making within formal committees/groupings, drawing on contributions from individuals with distinct expertise and experience as a means of discharging corporate responsibilities over areas that cover a broad span of control.

1.7 The Bank will implement responsibility mapping in a manner that is fair and reasonable, as the primary objective is to foster appropriate conduct and behaviour that reinforces a sound culture and promotes the safety and sustainability of the financial institution. Accordingly, the Bank looks to financial institutions to ensure that a material failure by responsible individuals is met with appropriate consequences. Except in cases of serious misconduct committed with intent, the Bank generally does not expect to take enforcement actions as an immediate response to events of individual misconduct or poor behaviour.

1.8 This policy document sets out four principles governing the responsibility mapping framework. A diagrammatic representation of these principles is provided in Appendix 1.

2 Applicability

2.1 This policy document is applicable to all financial institutions as defined in paragraph 5.2.

2.2 In the case of a financial institution which operates in Malaysia as a branch of a foreign institution, the requirements in this policy document shall apply only in respect of the Malaysian operations of the branch.

3 Legal provisions

3.1 This policy document is issued pursuant to–
- (a) sections 47(1) and 266 of the Financial Services Act 2013 (FSA);
- (b) sections 57(1) and 277 of the Islamic Financial Services Act 2013 (IFSA); and
- (c) sections 41(1) and 126 of the Development Financial Institutions Act 2002 (DFIA).

4 Effective date

4.1 Except for paragraph 4.2, the requirements in this policy document come into effect [*1 year from date of issuance of final policy document*].

4.2 A financial institution must complete the documentation of each individual's responsibilities under Principle 4 no later than [*3 years from the effective date*]. The Bank expects the financial institution to take measures and demonstrate meaningful progress in meeting the documentation requirement during the transition period.

5 Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA, IFSA, DFIA or the policy documents referred to in paragraph 6.1, as the case may be, unless otherwise defined in this policy document.

5.2 For the purpose of this policy document–

"**S**" denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

"**G**" denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

"affiliate", in relation to an entity, refers to any corporation that controls, is controlled by, or is under common control with, the entity;

"board" means the board of directors of a financial institution, including a committee of the board where the responsibilities of the board have been delegated to such a committee;

"financial institution" refers to a licensed person, a prescribed development financial institution and a financial holding company;

"individual" refers to an individual who−

(a) is employed by, or acting for[2], a financial institution;
(b) is principally responsible for a financial institution; and
(c) has authority in the management of a financial institution;

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[2] For the avoidance of doubt, "an individual acting for a financial institution" refers to an individual who is employed by an affiliate of a financial institution and does not include any individual engaged by a financial institution or its affiliates under a contract for service.

"responsibility area" refers to a business, operational or control function, as the case may be, that is integral to the operations and affairs of a financial institution. This includes responsibilities arising from regulatory requirements issued by the Bank[3].

6 Related legal instruments and policy documents

6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular–

(a) *Corporate Governance;*
(b) *Corporate Governance for Development Financial Institutions;*
(c) *Fit and Proper Criteria;* and
(d) *Shariah Governance.*

[3] These include requirements issued in the policy documents on *Compliance*, *Stress Testing*, *Outsourcing* and *Internal Capital Adequacy Assessment Process*.

PART B POLICY REQUIREMENTS

7 Principles of Responsibility Mapping

S **Principle 1: The board shall oversee and ensure an effective process for identifying and assigning responsibility areas to individuals, as part of internal governance arrangements that promote sound management and decision making. This includes ensuring all responsibility areas are clearly identified and mapped into the organisational structure.**

S 7.1 The primary consideration for identifying responsibility areas in a financial institution is to minimise organisational blind spots or grey areas. A financial institution must have a robust mechanism in place to identify responsibility areas within its organisational structure, covering business, operational and control functions. This process must culminate in an organisational structure that clearly identifies the responsibility areas, their associated reporting lines and the individuals that are held to account.

S 7.2 The chief executive officer (CEO), in leading the management team, shall be responsible for ensuring the responsibility areas are comprehensively identified and cover all functions integral to the conduct of the operations and affairs of a financial institution[4]. In identifying these responsibility areas, the CEO shall have regard to the following:

(a) the distribution of responsibilities to individuals, taking into account the institution's size, scale, risk profile and complexity. These shall cover responsibilities beyond duties inherent within the functions[5];

(b) the appropriate level of granularity in which responsibility areas are identified and mapped to individuals, such that there is clarity of where accountability lies for any aspect of the financial institution's business or operations. The allocation should avoid opaque structures that make it difficult to determine where the responsibility for taking decisions actually rests;

(c) in areas governed by shared responsibility and collective decision making[6], whether they inappropriately dilute individual accountabilities given the nature and scope of decisions involved; and

(d) whether the assignment of responsibility areas is aligned with the performance and remuneration policies, as well as the consequence management framework of the institution.

[4] Refer to paragraph 16.1(b) of the policy document on *Corporate Governance.*

[5] This includes responsibilities that may be assumed on an interim or project basis, for example, specific short term projects and tasks with temporary deliverables.

[6] Including, but not limited to, the application of matrix management reporting and shared responsibility areas of individuals at a financial institution and those at the group level.

S **Principle 2: The CEO must ensure that all identified responsibility areas are allocated to individuals at an appropriate senior level, and who have the professional competence, authority and accountability to manage these areas.**

G 7.3 The allocation of responsibilities to specific individuals helps to set out the nature and scope of an individual's responsibilities beyond a basic definition of the role or function.

G 7.4 In allocating the responsibility areas, the CEO should conduct the necessary due diligence on the individuals to ensure that they are capable of fulfilling their responsibilities, and should have regard to how authority and accountability is distributed in practice rather than under formal designations.

S 7.5 Where a responsibility area is allocated to an individual outside of the financial institution, such allocation must be approved by the board. The CEO must not allocate responsibilities to an officer of an affiliate which is not a financial institution.

S **Principle 3: The individuals to whom responsibilities[7] are allocated are accountable for the management and conduct of the responsibility areas, including for the staff under their purview. In discharging this responsibility, an individual must exercise sound professional judgment, diligence and due care[8], adhere to the code of ethics of the financial institution and act with integrity[9,10]. Where a responsibility area is shared by more than one individual[11], all individuals shall be held jointly and severally accountable for that responsibility area.**

S 7.6 In discharging the assigned responsibilities, an individual must act in good faith, and take reasonable steps to ensure that the responsibility area is managed effectively and in line with relevant legal and regulatory requirements. This includes ensuring that his/her staff complies with both the internal policies and regulatory requirements.

S 7.7 Where an individual delegates his/her responsibilities, the delegation must be to an appropriate person and compatible with the inherent risks associated with the specific area of responsibility delegated. In any event, the individual continues to remain accountable for the responsibility area and must ensure the effective performance and discharge of the delegated responsibility.

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7 Including responsibility in collective decision-making forums.

8 At a level reasonably expected of an individual having the same responsibilities.

9 A financial institution should consider adopting professional and ethical standards recommended by standard-setting bodies such as those issued by the Financial Services Professional Board.

10 Examples of failure to act with integrity include authorising or omitting to act on material misstatements/misrepresentations, failing to address conflicts of interests and acting dishonestly in a manner prejudicial to customers.

11 This refers to situations where the same responsibility is shared between two individuals and both individuals are held to account for discharging the responsibility. This is distinct from responsibilities under collective decision-making forums where individuals may be assigned specific and different responsibilities in relation to decisions taken, for example, responsibility of a Chief Risk Officer in relation to credit decisions taken at a credit committee (refer to paragraph 7.11(f)).

G 7.8 The Bank expects the individuals to deal with the Bank and relevant regulatory authorities in an open and constructive manner.

S **Principle 4: The CEO must maintain a complete and up-to-date register of each individual's responsibilities, covering the individuals' responsibility areas across the institution and, where relevant, the group.**

G 7.9 Clear and comprehensive documentation of responsibility promotes clarity in the scope of responsibility and lines of accountability of an individual. This process also provides the opportunity for a financial institution to reflect on its existing governance arrangements and make the necessary changes to the structure or reporting lines in the event that gaps are identified.

G 7.10 The Bank expects the register to capture information that sufficiently articulates the individual's responsibilities, taking into account the institution's business model, size, scale, complexity and risk profile. The documentation of individual responsibilities should be prepared with the appropriate involvement of the individuals concerned to promote alignment and understanding of expectations of the individual, including how their responsibilities interact with others in the organisation. The documentation should clearly describe how an individual is expected to support the outcomes of the financial institution in his/her responsibility area, and identify the actions, decisions and outcomes for which the individual is responsible.

G 7.11 Generally, the documentation should go beyond a normal job description that depicts how the individual discharges his/her responsibilities or the generic competencies and skills required to perform that responsibility area. The documentation should include the following information:

(a) functional responsibility of the role or job, both at the financial institution and group level;

(b) responsibilities arising from regulatory requirements issued by the Bank;

(c) responsibilities that may be assumed on an interim or project basis, for example, where an individual's scope of work is expanded to temporarily cover for an unforeseen resignation;

(d) for a shared responsibility area, where relevant, explanation as to how this is applied to different individuals sharing the responsibility in practice;

(e) where relevant, explanation on the relationship between responsibility areas of individuals at a financial institution and those at the group level; and

(f) where relevant, responsibility of each individual in collective decision-making forums.

G 7.12 Each individual should acknowledge in writing the responsibilities that have been assigned to him/her. This gives the individual greater clarity as to his/her responsibility areas, and would help to reduce the scope of mismatched expectations between the individual and the financial institution.

APPENDIX 1 SUMMARY OF RESPONSIBILITY MAPPING PRINCIPLES

<table>
<tr><td rowspan="1">Board</td><td>Oversee and ensure an effective process for responsibility mapping, including–
having a robust mechanism to identify the responsibility areas; and
ensuring all responsibility areas are clearly mapped into the organisational structure
(Principle 1)</td></tr>
<tr><td rowspan="3">CEO</td><td>Identify responsibility areas that cover all functions integral to the conduct of the operations and affairs of the financial institution
(Principle 1)</td></tr>
<tr><td>Allocate responsibility areas to individuals, who–
are at an appropriate senior level; and
have the professional competence, authority and accountability to manage these areas
(Principle 2)</td></tr>
<tr><td>Maintain complete and up-to-date register of individual responsibilities
(Principle 4)</td></tr>
<tr><td>Individual</td><td>Be accountable for management and conduct of the responsibility areas, including his/her staff
Exercise sound professional judgement, diligence and due care
Adhere to the code of ethics of the financial institution
Act with integrity
Manage responsibility areas in line with legal and regulatory requirements
Act in good faith and remain accountable for responsibility areas, even if responsibility is delegated
(Principle 3)</td></tr>
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