



Our Ref: B1/15C

14 August 2013

The Chief Executive
All authorized institutions

Dear Sir/Madam,

**Skills and Knowledge Development for
Directors of Locally Incorporated Authorized Institutions (AIs)**

In August 2012 the HKMA issued a circular *Training for Directors of Locally Incorporated Authorized Institutions*, requesting locally-incorporated AIs to complete a survey on training being made available to directors. In the same month, the HKMA announced that it would begin meeting selected applicants for appointment as director, chief executive (CE) and alternate chief executive (ACE) of locally-incorporated AIs under section 71 of the Banking Ordinance.

I am now writing to:

- (a) inform you of the broad results of the survey and our observations from meetings with candidates for director, CE and ACE appointments.
- (b) set out the approach the HKMA will take to enhancing the knowledge and skills of directors, CEs and ACEs.
- (c) announce the formation of an advisory group, led by the HKMA, to advise the industry on skills and knowledge development for directors.
- (d) make you aware of the launch by the Hong Kong Institute of Bankers (HKIB), of a programme to support skills and knowledge development for directors of AIs.

Survey results

The main results of the survey are:

- most locally-incorporated AIs provide training to directors. But the extent, structure and contents vary with AIs' size and the resources available. AIs which are the multinational banks usually have well-established training practices;
- most AIs do not have procedures to identify directors' training needs. Training is usually initiated in response to developments in regulatory or legal requirements that may affect the AIs' operations;
- a significant proportion of AIs rely on directors to express their own training needs;
- some AIs do not have structured mechanisms to evaluate the effectiveness of training;
- some AIs provide induction training to directors in the form of self-reading materials;
- most AIs provide "continuing training" to directors through internal regulatory or legal updates, and presentations or discussions in Board or committee meetings. While relevant, these are really part of the directors' normal working activities; and
- most induction and continuing courses are conducted by in-house staff of AIs and last for one day or less.

Meetings with director, CE and ACE candidates

While the programme is still at an early stage, generally speaking, we have found most candidates suitable for the roles applied for which suggests that there is a pool of qualified director candidates both locally and internationally. Not surprisingly, the larger institutions enjoy the best access to this pool. Smaller institutions may find it more difficult to appoint suitably qualified directors. To facilitate the ongoing enhancement of corporate governance quality among AIs, it is desirable that the pool of potential directors should be continuously refreshed.

Enhancing the skills and knowledge of directors

Module CG-1 of the HKMA Supervisory Policy manual *Corporate Governance of Authorized Institutions*, issued on 3 August 2011, states that AIs are required to provide orientation or induction courses and ongoing training to directors. As noted above, this is being done, but the extent and scope, and the resources available, vary.

The HKMA does not intend to take a prescriptive approach at this stage, nor do we think that a one-size-fits-all approach is appropriate. Newly appointed directors will require training on the duties and responsibilities of the board and its committees. More experienced directors joining institutions with which they have not been previously connected will require induction courses relevant to the institution. All directors will require continuing development programmes to keep them up to date with industry and regulatory developments.

The HKMA does not intend to make participation in specific activities a requirement or to set a minimum number of hours directors should spend in such activities each year.

The HKMA will take development activities undertaken by directors, CEs and ACEs into account in assessing the quality of corporate governance of AIs for the purposes of the Supervisory Review Process. To facilitate this, AIs should begin to require directors to submit to them records of the training, development and other activities they have participated in during the preceding year. This may include activities organised by the AI or external providers and activities undertaken by individual directors as part of relevant professional development. AIs should submit to their usual supervisory contacts a summary record for each director, including the CE and ACEs, no later than 1 month after the end of each calendar year. The first submission should be made by 31 January 2014.

In addition, the HKMA may conduct surveys similar to the one carried out in 2012 from time to time to gauge the extent and effectiveness of development activities provided to and undertaken by directors.

Director development advisory group

The HKMA will establish an advisory group, chaired by an Executive Director of the HKMA and comprising representatives of HKIB and a number of respected individuals connected with the industry. The roles of the group will be:

- (a) to advise the industry on the topics that should be included in induction and continuing development programmes for directors of AIs;
- (b) to outline the types of activity that may be counted as training and continuing development (e.g. classroom training, internal briefings on regulatory developments, participation in relevant discussion forums, publishing articles), the preferred format and delivery channels for such programmes (e.g. normal working activities should not be regarded as continuous training), and the need for a structured evaluation mechanism; and
- (c) where necessary, to facilitate the provision of centralised development programmes to ensure relevant assistance is made available and a degree of consistency in what is offered.

Programmes organised by the HKIB

As noted above, some AIs already provide structured development programmes to their directors. Others engage external service providers. However, smaller AIs clearly have fewer resources to devote to this and we see advantage in the provision of programmes to the industry as a whole. In parallel a number of AIs have independently approached the HKIB regarding development programmes for directors.

We have therefore invited the HKIB to develop induction and continuing programmes for directors. The first of these will take place on 4 September and 10 October 2013. This will be an introductory programme aimed at recently appointed directors and candidates for director, CE or ACE. The programme is however also open to more experienced directors, CEs and ACEs and senior staff who are interested. Similar programmes will be organised in future depending on demand. The HKIB will also organise continuing development activities on appropriate subjects and will make these available to the industry. While the programmes are aimed primarily at locally-incorporated AIs, they will also be open to senior staff and directors of overseas AIs, who wish to participate.

Participation will not be a prerequisite for appointment under section 71 of the BO or fulfilling the requirement in CG-1 for AIs to provide training to directors. Other forms of training and development, including those organised by AIs themselves and other providers, may be equally relevant. The intention of the HKIB programmes is to widen the range of resources available to the industry in this area.

Should you have any question regarding the content of the circular, you may contact Mr Trevor Keen, Head (Payment Systems Oversight & Licensing) on 2878 1128 or Ms Gloria Leung, Senior Manager (Licensing) on 2878 1509.

Yours faithfully,

Meena Datwani
Executive Director (Banking Conduct)