



Our Ref: B1/15C

17 June 2011

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

**Communication of Supervisory Standards to Boards of Directors**

The recent financial crisis has served to refocus attention on the key role of corporate governance within financial institutions in ensuring prudent management of risk. In both international and domestic supervisory guidance, there continues to be strong emphasis on the role of the Board in ensuring effective risk management and compliance with regulatory standards. For the Board to perform its oversight functions effectively, it is important that its members, including the independent non-executive directors, keep abreast of developments in regulatory standards and supervisory expectations.

To assist in this regard, the HKMA will endeavour to format the covering letters that are sent to the Chief Executives of Authorized Institutions upon the issuance of each new or revised module for the Supervisory Policy Manual (SPM), so that they set out in plain language the principles underlying the development or revision of the module and its key terms and objectives. The covering letter should thus provide a ready reference for all directors to gain a swift understanding of the HKMA's regulatory standards and supervisory expectations and this should, in turn, assist the Board in performing its oversight responsibilities.

We would appreciate it therefore if in future (i) your institution, if it is a locally incorporated institution, could ensure that your company secretary (or other appropriate officer) provides copies of all covering letters relating to SPM modules to Board members in a timely fashion (if you do not already do so); (ii) your institution, if it is an institution incorporated overseas, could ensure that copies of all covering letters relating to SPM modules are provided to the person at your Head Office with responsibility for oversight of the operations in Hong Kong in a timely fashion (if you do not already do so). Obviously, this should be in addition to, and not as a replacement for, the conduct of regular briefings for Board members on regulatory issues. Also, it goes without saying, that a covering letter should not under any circumstances be regarded as a substitute for the SPM module to which it relates and Authorized Institutions will, of course, be expected to continue to have regard to the full and complete text of each module.

Should you have any questions regarding this letter, please contact Mr Keith Ho on 2878 1909.

Yours faithfully,

Karen Kemp  
Executive Director (Banking Policy)