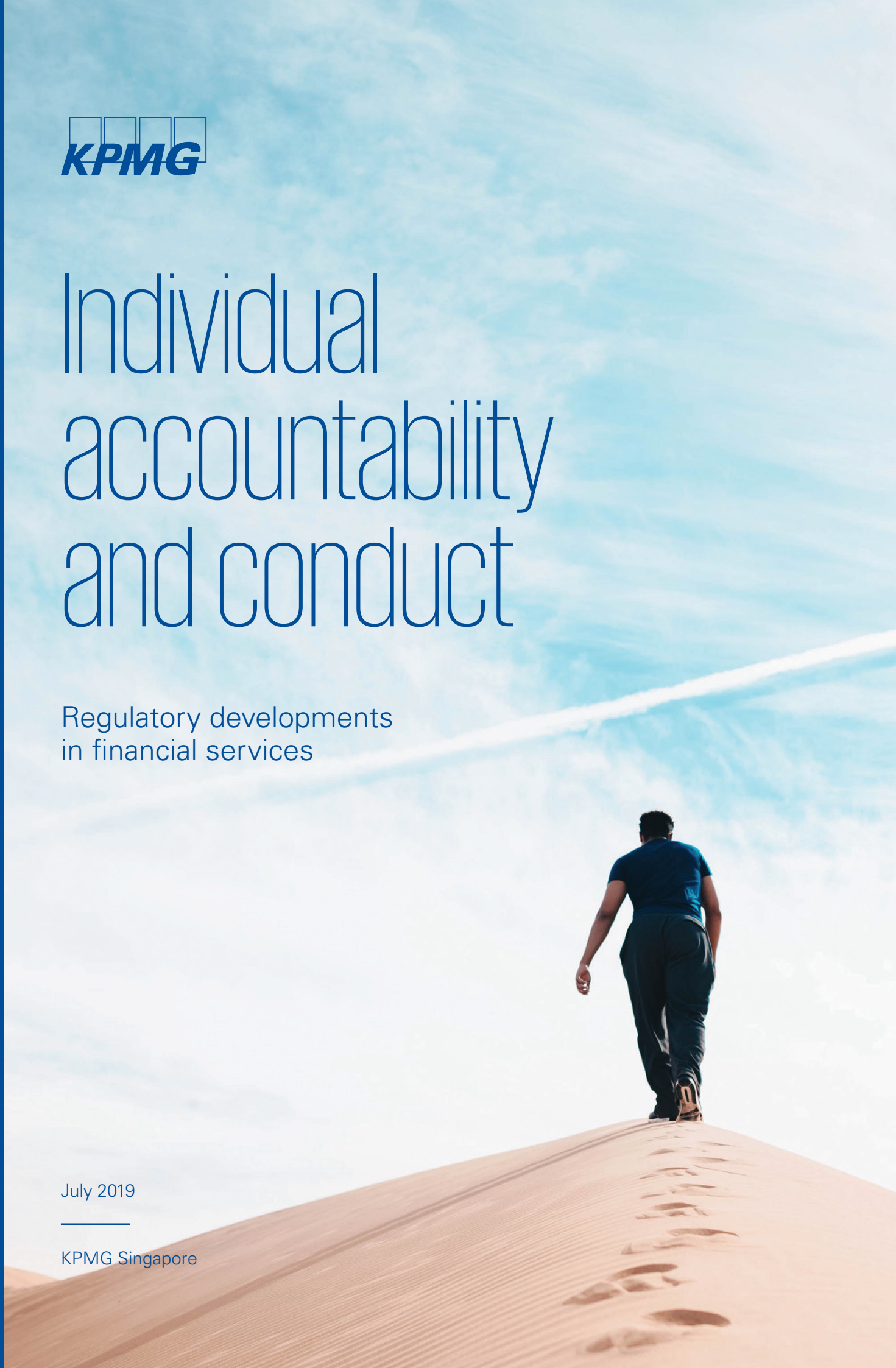
Individual accountability and conduct

Regulatory developments in financial services



July 2019

KPMG Singapore

Contents

01. Introduction

In recent years, Financial Institution (FI)[1] conduct remediation has demanded a focus on individual accountability and the way in which financial services companies carry out their business. Regulated firms are being required to identify and allocate responsibilities to senior managers, draw together responsibility maps for the firm, and ensure that senior managers (and in some cases a wider range of staff) are fit and proper for their roles and demonstrate appropriate conduct and behavior.

Individual accountability has already been a global concept for some years now and is becoming a regulatory focus area for global regulators, for instance, in Australia (the Banking Executive Accountability Regime), Hong Kong (the Manager-in-Charge regime), the UK (the Senior Managers and Certification Regime, the US (the latest guidance on the management of business lines and risk management), and in the Financial Stability Board's work on governance and misconduct. Refer to Appendix A for further details.

In April, Monetary Authority of Singapore (MAS) released a consultation paper on the proposed Guidelines on Individual Accountability and Conduct ("Guidelines"). These Guidelines are part of broader efforts to foster a culture of ethical behaviour and responsible risk-taking FIs.

This increasing focus on individual accountability has been driven by three main factors. First, to constrain excessive credit and market risk taking, in particular by banks, through a focus on both heads of business lines and heads of control functions such as compliance, risk management and internal audit.

Second, together with the greater emphasis on culture, to mitigate retail and wholesale misconduct risks through a focus on conduct standards and on senior managers taking reasonable steps to prevent regulatory breaches in the areas for which they are responsible. This is also part of a wider focus of both regulators and FIs to restore trust in the financial sector.

Third, to hold individual senior managers to account (including through lower remuneration and disciplinary actions) when regulatory breaches and other failures do occur.

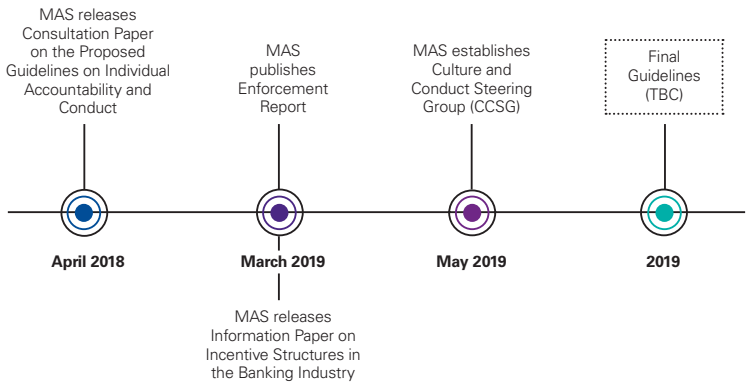
Firms have taken the shift to greater individual accountability seriously because of the potential consequences on individual senior managers of a failure to do so. Some firms have undertaken large-scale reviews and updates of governance structures, management reporting structures, individual responsibilities, governance maps, and management information.

[1] Broadly including banks, insurers, capital markets intermediaries and infrastructures on a group wide basis.

02. The proposed Singapore regime

Persistent misconduct and reckless risk taking is a systemic issue for the financial services sector globally, with poor culture a fundamental root cause. In Singapore, MAS' inaugural Enforcement Report released in March 2019 stated 42 FIs had received fines in total of S$16.8 million for market abuse, financial services misconduct and money laundering-related breaches. In addition, over 750 notices (comprising prohibition orders, reprimands, warnings, letters of advice and supervisory reminders) were issued to various individuals, companies and FIs relating to breaches of rules and regulations.

Timeline of Singapore developments:



MAS released a Consultation Paper in April 2018 to seek feedback on the proposed Guidelines on Individual Accountability and Conduct ("Guidelines"). These Guidelines aim to strengthen individual accountability of senior managers and raise standards of conduct in FIs.

Following the release of the consultation paper, MAS published the aforementioned Enforcement Report in March 2019 which outlined MAS' ongoing enforcement efforts and priorities to preserve the integrity of financial markets. It further sets out the actions taken against those who have breached MAS' rules and regulations, and their key initiatives moving forward.

In the same month, MAS also released an Information Paper on Incentive Structures in the Banking Industry. The Paper puts forth desired outcomes relating to performance evaluation, remuneration frameworks and ethical behavior, which banks are expected to benchmark themselves against. Refer to Appendix B for further details.

In May 2019, MAS established the Culture and Conduct Steering Group (CCSG) which will enable industry participants to identify best practices, monitor trends and identify emerging issues relating to conduct and culture. In addition, CCSG will work together with the industry and MAS to raise the standards of culture and conduct in the industry.

While the proposed Guidelines have not yet been finalized, it is clear that MAS is ramping up its efforts in this space as seen by the recent activities.

The proposed Guidelines

MAS is focused on intensifying their regulatory and supervisory emphasis on FIs' culture and conduct, via a three-pronged approach (Figure 1).

Similar to regimes in other financial centers (see Appendix A), the first aspect is for MAS to promote a strong culture of responsibility and ethical conduct within FIs. FIs are encouraged to adopt behavioral standards to mitigate conduct risks. They are to be concerned with the "integrity", "skill care and diligence" and "reasonable care" with which their employees conduct and organize the business and the fairness with which they treat customers and manage conflicts of interest.

FIs are expected to work towards five accountability and conduct outcomes (Figure 2), through implementing appropriate policies and processes to address MAS' expectations underpinning each outcome.

These proposed Guidelines set forth MAS' supervisory expectations of boards and senior management with respect to individual conduct and behaviour. The objective is to reinforce FIs responsibilities in three key areas:

— promote the individual accountability of senior managers
— strengthen the oversight of employees in material risk functions ("MRFs")
— embed standards of proper conduct among all employees

The second area of focus for MAS will be to continue its monitoring and oversight activities. The third component will involve MAS taking appropriate supervisory actions in instances where the FI and its Board and senior management do not meet expectations under the Guidelines, and/or demonstrate an unwillingness or inability to take remedial actions.

These include issuing warning or reprimand letters, or imposing conditions on the FI's activities, depending on the nature and severity of the deficiencies observed.

Senior managers

The key objective of the senior management element is to focus accountability on a small number of senior individuals, by specifying which senior managers are covered by the regime, what they are responsible for, and the steps they need to take to prevent a regulatory breach occurring in the area of the business for which they have responsibility.

Core Management Functions ("CMFs")

In the proposed Guidelines, senior managers are defined as individuals employed in an executive capacity by the FI. FIs should clearly identify senior managers who are principally responsible for the day-to-day operations and management of the FI. This would include, but not limited to, the senior managers performing CMFs (see Table 1).

Material aspects of operations

In identifying the senior managers, FIs are also required to consider the extent to which all material aspects of their operations are subject to the appropriate management oversight. In determining materiality, FIs may consider various metrics in identifying functions which are material to their business, including but not limited to, the relative size of a function in terms of its number of employees, asset, profit or revenue contribution, capital attribution, gross premium contribution, or assets under management vis-à-vis other functions.

Extent of Board involvement

The proposed Guidelines clarify that senior managers with respect to the Board should only include directors with executive responsibilities (i.e. Executive Directors). The Guidelines do not envisage non-executive directors to be defined as senior managers (as the roles and responsibilities for these directors are captured in other legislation and guidelines as applicable to the FI).

Fit and Proper

In the proposed Guidelines, FIs must demonstrate that senior managers are fit and proper for their roles. The Fit and Proper Test has been set out in the Guidelines on Fit and Proper Criteria last revised by MAS in 2018. The criteria that FIs should consider include, but are not limited to the following:

- Honesty, integrity and reputation;
- Competence and capability; and
- Financial soundness

FIs should ensure robust standards and processes are implemented to assess the fitness and propriety of each senior manager prior to appointment and on an ongoing basis thereafter.

Governance frameworks

Boards of FIs are expected to approve the organizational structure and ensure that adequate corporate governance frameworks and systems are in place. This involves specifying responsibilities, defining reporting lines and relationships, and administering incentive, escalation, and consequence management frameworks to ensure senior manager accountability for their performance. Appropriate governance policies and processes will promote a strong culture of individual accountability and strengthen the FI's internal governance framework.

Employees in MRFs

MAS proposes to define employees in MRFs as those whose decisions or activities could materially impact an FI's risk profile. They include, but are not limited to employees in executive, business, risk management, control or support functions who are not senior managers. Such employees are vested with material decision-making authority, and thus the proposed Guidelines seek to subject employees in MRFs to more stringent oversight and higher conduct standards than employees in non-MRFs.

FIs are required to establish relevant criteria to identify these employees and assess their fitness and propriety prior to their appointment and on an ongoing basis thereafter. FIs are also expected to exercise appropriate supervisory oversight over employees in MRFs, subject them to the appropriate risk limits and mandates and provide them with training and incentives to encourage the desired conduct.

Conduct

The proposed Guidelines recognize the importance of organizational values in guiding the actions and attitudes of employees, and therefore the way in which an FI conducts its business. It further acknowledges the critical role Boards and senior management play in setting the tone from the top and embedding the desired conduct standards throughout their organization.

FIs are required to implement a framework that covers the expected standards of conduct, communication of these standards to employees, and enforcement of these standards. FIs may consider the following policies and processes to support their enforcement efforts:

- Regular monitoring, reporting and escalation to the Board and senior management
- Incentive structure which considers risk and control objectives
- Consequence management system
- Formalized whistleblowing channel

Key evidence

While the extent of oversight required to evidence individual accountability is not as formally prescribed as in other jurisdictions (such as the need to take 'reasonable steps'), better practice suggests reviewing and formalizing key structures, practices and reporting protocols to demonstrate the rationale in scoping, implementing and embedding 'appropriate' accountabilities and conduct standards relevant for the FI. This includes but is not limited to key evidence set out in Table 2.

Figure 1: MAS' three-pronged approach on culture and conduct

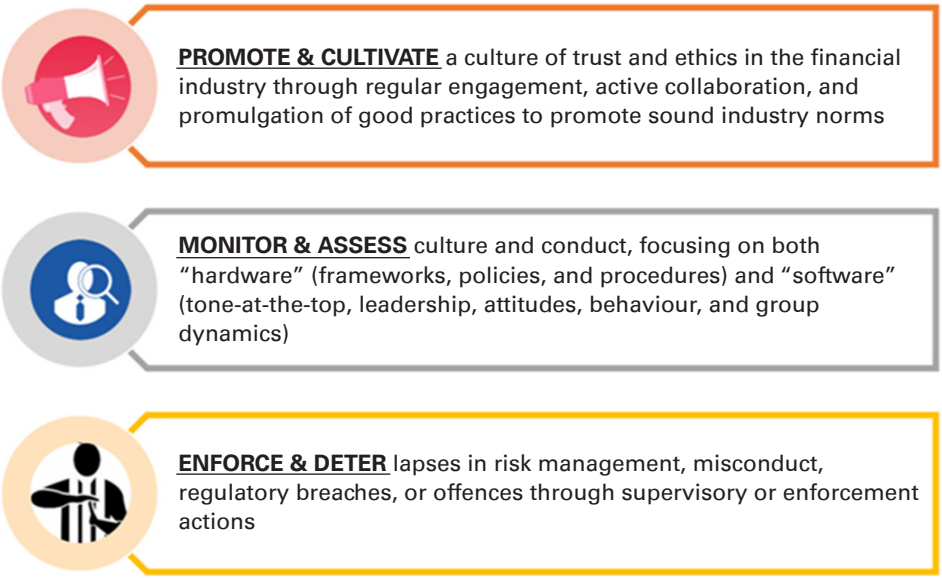


Figure 2: MAS proposed accountability and conduct outcomes

Senior managers who have responsibility for the management and conduct of functions that are core to the FI's operations are **clearly identified**.

Senior managers are **fit and proper** for their roles, and held responsible for the actions of their staff and the conduct of the business under their purview.

The FI's **governance framework is supportive of and conducive to senior managers' performance of their roles and responsibilities**. The FI's overall management structure and reporting relationships are **clear and transparent**.

Employees in Material Risk Functions are **fit and proper** for their roles, and subject to effective risk governance as well as the appropriate standards of conduct and incentive structure.

The FI has a framework that **promotes** and **sustains** the desired conduct among all employees.

Table 1: Core Management Functions (CMF)

Chief executive officer	Chief data officer
Chief financial officer or head of finance	Head of business function
Chief risk officer or head of risk	Head of actuarial, appointed actuary or certifying actuary
Chief operating officer or head of operations	Head of human resources
Chief information officer	Head of compliance
Chief technology officer or head of information technology	Head of financial crime prevention
Chief information security officer or head of information security	Head of internal audit
	Chief regulatory officer

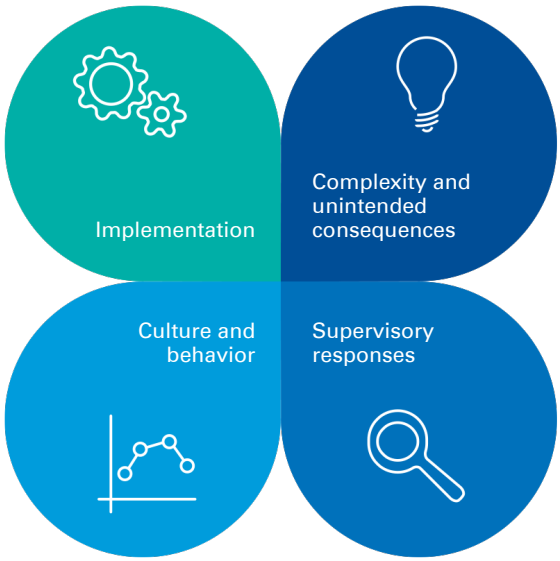
Table 2: Key evidence to support individual accountability

Structure	Execution	Information
Governance framework	Systems and controls in place	Management information
Policies and procedures	Appropriate delegations	Regular reporting
Reporting lines	Active management	Minutes of meetings
Committee memberships	Proactive participation in committees	Incident/breach escalation
		Regulatory correspondence and meetings/interviews

03. Key implementation challenges

FIs in other jurisdictions have reported obstacles relating to implementation of individual accountability and conduct guidelines. In particular, complex groups and the subsidiaries of overseas banks and insurers have encountered certain challenges.

This chapter focuses on key lessons learned from the experiences of banks and insurers in other jurisdictions vis-à-vis the proposed Singapore regime. It covers how FIs have approached the **implementation** challenge, what has changed in terms of **culture and behaviors**, the **complexity and unintended consequences** of the new regime, and the potential **supervisory responses**.



Implementation

Banks and insurers have taken a wide range of approaches to implementing accountability and conduct regimes.

At a minimum, some firms have simply "ticked the boxes" by producing sets of individual responsibilities for senior managers and an overall mapping of governance arrangements because these components are essential for gaining approvals for candidates for senior manager roles. Such firms are more likely to find that they have not allocated responsibilities with sufficient clarity or to sufficiently senior managers, have not covered all relevant business functions and activities, and have not provided sufficient information on governance arrangements (including reporting lines and committee structures and memberships).

In most cases, however, most firms have gone beyond this and increased engagement in the spirit of the new regime. The duty of responsibility on senior managers may have been a key reason for this shift. Firms at this end of the spectrum have taken the opportunity to review their governance arrangements, and to clarify and refresh roles and responsibilities, management information, reporting and escalation routes. These firms have followed a combination of:

- Establishing individual accountability programs with clear leadership and buy-in from the Chairman and CEO. Senior leadership has been fundamental in driving willing adoption and adherence
- Allocating ownership across a number of key functions with clear roles and responsibilities for meeting each element of the new regime
- Undertaking a gap analysis of their current state against the individual accountability requirements
- Reviewing their current allocation of responsibilities. In most cases this has led to changes in allocation and to a general "cleaning up" and updating of responsibilities, and in some cases to more streamlined and more effective management
- Reviewing governance structures, including senior manager structures, board and executive committee terms of reference and memberships, and individual and committee reporting lines. This has led to an overhaul of the governance framework in some firms
- Reviewing management information to assist senior managers in discharging their responsibilities. Some firms have overhauled their risk management system as it became clear that management information was inadequate and did not enable some senior managers to gain assurance that necessary systems and controls were in place and were working effectively
- Enhancing the training and development of current and candidate senior management (including board members), including on the nature and objectives of the individual accountability program
- Establishing quality assurance reviews of program deliverables (for example statements of responsibilities, reasonable steps framework and the firm's conduct breach methodology)
- Engaging proactively with regulators

Successful programs have also usually leveraged templates and documentation that were already in place and sought to align new processes and procedures with existing practices and IT systems, and recognized competing priorities, dependencies and stress points.

One key implementation challenge that has emerged relates to the ownership of the regime and the transition from implementation to business as usual. At the implementation stage, and for the business as usual operation of the senior managers' element of the new regime, most firms have allocated ownership to the CEO's office. For the business as usual operation of the program, firms have allocated ownership more evenly between the COO/CEO office, Compliance and HR.

The importance of HR, and of an effective working relationship between HR and a firm's control functions, has become clearer in firms with a large number of certified persons, where the firm will be responsible for assessing their fitness and propriety on an annual basis, and for conducting enhanced checks at the recruitment stage. Some firms have introduced technology to facilitate data collection, reporting and record keeping in this area. HR functions in some firms are challenging themselves on whether they have the right skills and capabilities to run these regimes on a business as usual.

Culture and behavior

Most of the senior manager accountability regimes implemented in other jurisdictions are fairly new, and so FIs may not have sufficient insights into the impact on culture. However, preliminary reports suggest that these regimes have led to improved governance in banks and insurers.

Senior managers have reviewed and challenged their own personal responsibilities and considered whether these are appropriate. Even where the accountability regimes largely codified existing responsibilities, a much brighter spotlight has been targeted on senior manager accountability.

Senior managers have become wary of the possible sanctions on them for regulatory breaches in their areas of responsibility, and this has promoted greater control and scrutiny over their respective areas. But, as a result, senior managers have become more empowered by this clarification of accountability and delineation of responsibilities. Similarly, there have been reports that senior managers have become more involved at board, board committee and executive committee meetings, with more active participation and discussion. The downsides of this may be (a) a corresponding decision-making paralysis at lower levels, with lower level management becoming more reluctant to make decisions themselves and escalating more to senior managers and to senior manager level committees; and (b) committees becoming an advisory panel for the (senior manager) chair of the committee.

Some firms have linked to some extent the individual accountability requirements with other initiatives on culture, values and behaviors. Conduct risk has become better integrated within the overall risk framework, and training on conduct has become more of a business as usual activity than it used to be.

Appropriate incentives

A key mechanism driving behaviors is the way in which performance is linked to remuneration and incentives. The reports from the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry issued in February 2019 highlighted that the traditional balanced scorecard approach containing a mix of financial and non-financial metrics was a root cause of many instances of misconduct. It found that performance metrics were heavily weighted towards financial metrics (such as sales and revenue growth) to the detriment of customer needs.

In addition, MAS released the Information Paper on Incentive Structures in the Banking Industry in March 2019. This sets out the results MAS derived from a series of thematic inspections on incentive structures in banks, and notes key observations and areas for improvement. The paper focuses on four key themes: (1) Governance over incentive structures; (2) Performance evaluation; (3) Remuneration frameworks; and (4) Consequence management, and highlights MAS' expectations and desired outcomes for each theme. Refer to Appendix B for further details.

Complexity and unintended consequences

Firms have struggled with the implementation of accountability and conduct regimes in four key areas.

First, some firms and senior managers have found it difficult to understand fully their obligations in a number of areas. Many firms have found it difficult to define the extent of evidence required to demonstrate they have taken actions to avoid regulatory breaches, and the extent to which second and third line of defence control functions and internal audit should be involved in monitoring this and providing assurance that the appropriate steps have been taken.

A more recent challenge here relates to the roles and responsibilities of a firm's chief of operations, not least in the context of the many issues for firms emerging from fintech, operational continuity, and legacy IT systems and cyber security.

Second, some firms have found it difficult to establish the identification and role of group entity senior managers and the application of the "other overall responsibility" senior manager function. Some banks and insurers with overseas parents have struggled to identify and to allocate a clear set of responsibilities to group level senior managers (including not just business managers, but also in cases where risk and compliance functions are provided in part at parent level), and to define how responsibilities will be shared with a matrix management structure.

Firms are also often unclear about how many senior managers should be allocated to the group entity senior manager function – some firms may have identified too many senior managers to this function, and in some cases have identified managers who are too junior (in both cases this blurs accountability).

Third, firms have faced a series of operational challenges, such as resourcing issues, particularly in Compliance and HR functions; the cost associated with tailored training for different cohorts of senior management and certification regime staff; preparing and maintaining documentation, and ensuring consistency between the management responsibilities map and individual statements of responsibilities; communicating the change in an effective way across the entire organization; and obtaining and providing regulatory references.

Finally, some firms have struggled to implement the individual accountability program at the same time as introducing organizational change as a result of other regulatory requirements, mergers and acquisitions, or other group restructurings.

Supervisory focus

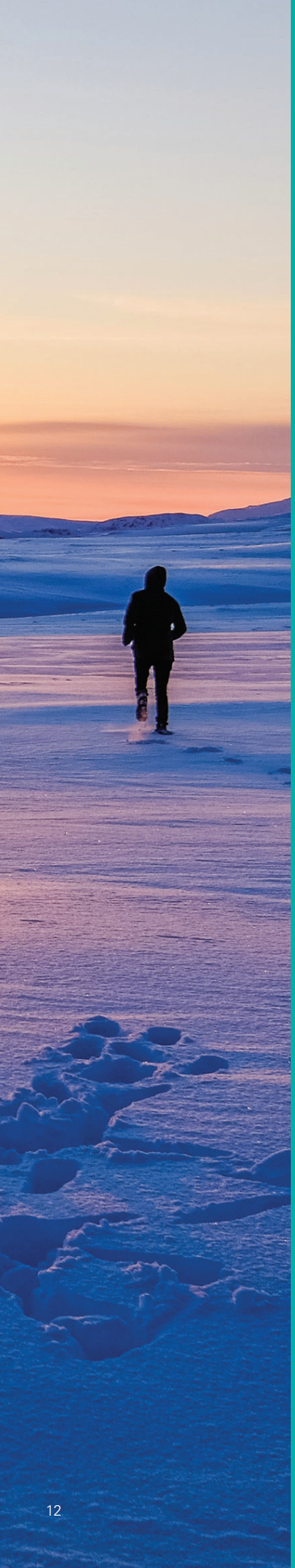
Typically, during the transition period phase, regulators reviewed and requested changes to the designation of senior manager roles, statements of individual responsibilities, and the management responsibilities map.

Supervisors have also sometimes asked for additional rationale for allocations of responsibilities that do not appear to be 'standard'. Other areas in which supervisors have expressed an interest include:

- 'Juniorization' of roles where senior-level positions are allocated to individuals with insufficient seniority
- Non-standard allocation of responsibilities
- Matrix management where individuals have dotted reporting lines into other entities

MAS has indicated in its inaugural Enforcement Report issued in March 2019, that it will focus its enforcement efforts to strengthen:

- Timely and adequate disclosure of corporate information by listed companies
- Business conduct of financial advisers and their representatives
- Financial institutions' compliance with Anti-Money Laundering/Combatting the Financing of Terrorism requirements
- Brokerage houses' internal controls to detect and deter market abuse
- Surveillance and investigations into suspected insider trading



04. How KPMG can help

KPMG member firms have spent the last five years helping banks, major investment firms and insurers on the design and implementation of individual accountability programs so that they can meet the requirements of the accountability regimes in various jurisdictions.

KPMG professionals have worked with a range of banks, major investment firms and insurers to support the design and implementation of accountability readiness programs, and to identify and address the typical challenges/issues that arise across governance, people, process and technology.

A structured approach

KPMG can assist you in reviewing individual accountabilities and conduct practices using a structured approach as outlined below:

Design and implementation

- Linking accountability regime implementation to wider initiatives such as governance effectiveness and cultural change
- Drafting role profiles and individual statements of responsibility
- Developing management responsibilities maps and ensuring overall consistency
- Formulating individual responsibility policies and procedures
- Facilitating training and awareness
- Development and implementation of technology solutions to aid compliance
- Preparing for senior manager approval interviews, handover meetings, files and induction
- Record keeping

Effectiveness

- Reviewing and designing of frameworks to support senior managers taking reasonable steps to avoid regulatory breaches
- Facilitating workshops to review, implement and embed a reasonable steps approach
- Conducting gap analysis against regulatory expectations and peers
- 'Scenario analysis' testing to ensure the outcomes are effective and as intended

Assurance

- Conducting a gap analysis against regulatory requirements and industry standards
- Reviewing policies and procedures – for both implementation and business as usual
- Providing internal audit support
- Conducting business as usual operational effectiveness reviews, including board effectiveness reviews

Remediation

- Providing support to deliver requirements following feedback from supervisors
- Providing support to deliver requirements from the outcomes of post-implementation internal audit reviews or other external assurance reviews

Culture assessments

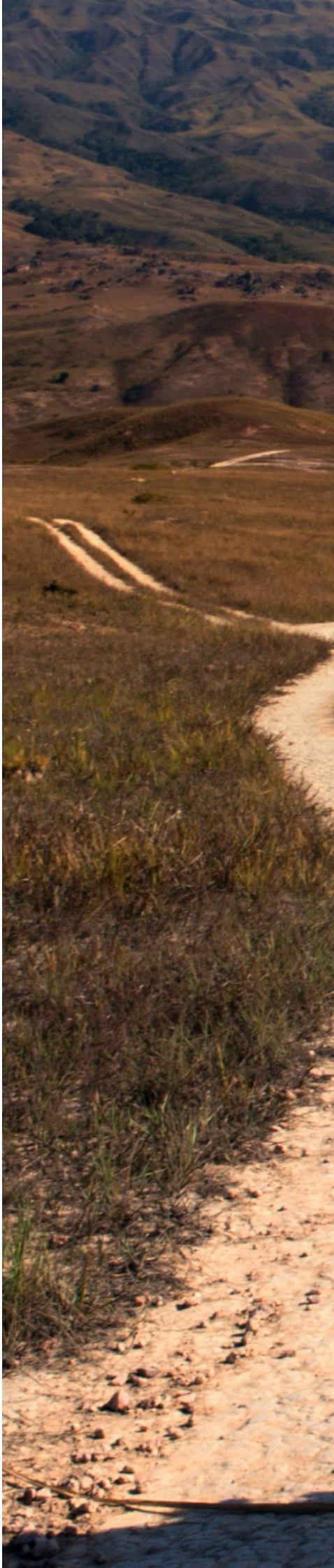
A key focus of the proposed Guidelines is to reinforce FIs' responsibilities in embedding standards of proper conduct among all employees. When embarking on such programs, it is important for FIs to evaluate accountabilities and culture simultaneously as each aspect influences the other and cannot be viewed in isolation.

KPMG has been engaged to support FIs in recent years to evaluate the adequacy and effectiveness of risk culture framework with a key focus on accountabilities. The KPMG Risk Culture Framework is set out below. This highlights the importance of having clearly defined **Values** and **Core Beliefs** of the organization at the centre, with a focus on the following:

- **Leadership and direction** - The way in which senior leaders set expectations for the organization and the way in which strategy and direction influence conduct and culture
- **Individual commitment** - An employee's attitude and behavior towards the management of issues affecting conduct and culture
- **Joint ownership** - How different functions within the organization interact, cooperate and take joint ownership and accountability for the management of conduct and culture
- **Responsiveness and improvement** - What happens when there are conduct-related incidents and breaches within the organization, how issues are addressed and what lessons are learned for future improvement
- **Customer** - The extent to which customer-centricity is embedded in the culture

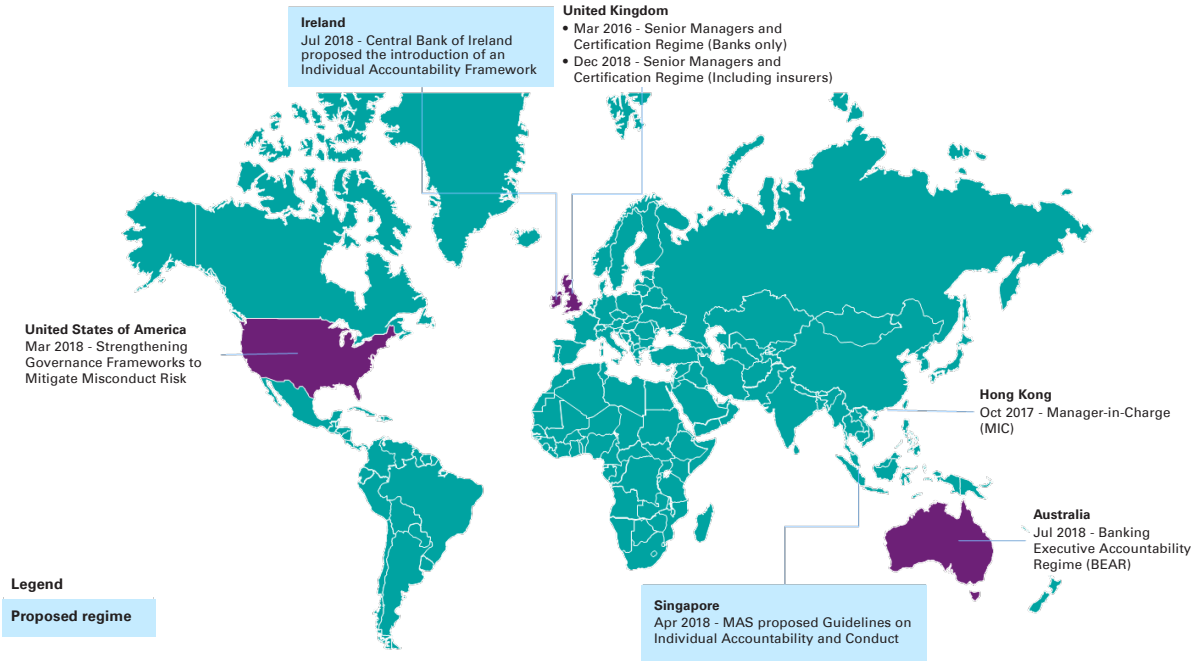
Source: KPMG Risk Culture Framework

KPMG adopts a multi-pronged approach in evaluating the risk culture framework. Such techniques include, but are not limited to, documentation review, quantitative analysis, exception validation, stakeholder interviews, stakeholder surveys and focus groups.



Appendix A: The wider international context

A number of countries are also introducing measures to reinforce individual accountability for senior managers, and in some cases, codes of conduct applicable to a wider range of staff. These measures are broadly similar to the proposed Singapore regime, although the details vary across countries and tend to be more prescriptive in nature.



Hong Kong

The Securities and Futures Commission (SFC) introduced the Manager-in-Charge (MIC) regime in October 2017, following a six-month transition period. Licensed corporations are required to appoint a MIC as the person primarily responsible for each core function – overall management oversight, key business lines, operational control and review, risk management, finance and accounting, IT, compliance, and AML and counter-terrorist financing. It is intended to drive better decision-making, and to heighten awareness of individual senior manager accountability, regulatory obligations and potential liabilities.

Australia

The Banking Executive Accountability Regime (BEAR) came into effect for the largest banks in Australia on 1 July 2018, and will come into effect for other Authorized Deposit-taking Institutions (ADIs) a year later. The regime is designed to make senior executives in banks more accountable for their actions and for the outcomes arising from these actions. It applies to all ADIs and their subsidiaries, and any Australian branches of foreign owned banks.

United Kingdom

In July 2017, Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) extended the Senior Managers and Certification Regime (SMCR) to all Financial Service and Markets Authority (FSMA) firms - including insurers, investment firms, insurance and mortgage brokers, asset managers and consumer credit firms. The FCA coverage is slightly wider than the PRA's, reflecting the FCA's mandate for conduct of business and anti-money laundering. It also includes a Certification Regime that ensures that customer-facing and risk-taking staff below the level of senior managers are fit and proper, take personal responsibility for their actions, and meet the Conduct Rules that apply to all non-ancillary staff.

United States

The Federal Reserve proposed supervisory guidance on management of business lines and independent risk management and controls for large financial institutions in January 2018. This would apply to banks with assets of $50 billion or more, and to systemically important non-banks. The objective of the guidance is to delineate the roles and responsibilities of individuals and functions related to risk management – senior management, business line management, management of independent risk management and internal audit – and to set out core principles of effective senior management.

Ireland

The Central Bank of Ireland is considering the possible introduction of the Senior Executive Accountability Regime (SEAR) for financial institutions, in part in response to the conduct issues that have arisen with tracker mortgages in Ireland. The Central Bank is looking at the experience of the UK to assess the implications of introducing a senior manager accountability regime.

ECB

Although the European Central Bank (ECB) has not introduced an individual accountability regime as such, internal governance and risk management are key supervisory responsibilities for the ECB and failings in these areas drive the highest scores under the ECB's supervisory review and evaluation of banks. The ECB and the European Banking Authority (EBA) has published guidance on internal governance, and on fit and proper assessments of individuals.

FSB

The Financial Stability Board published in April 2018 a "toolkit" to strengthen governance frameworks to mitigate misconduct risk in both retail and wholesale markets. This supplements earlier FSB work on risk governance, remuneration, benchmark setting and culture; and an earlier FSB stocktake of efforts by international bodies, national authorities, industry associations and firms to strengthen governance frameworks to reduce misconduct risk.

Appendix B: Incentive structures

MAS carried out a series of thematic inspections on incentive structures of front office staff in the Private Banking, Global Markets and Corporate Banking businesses. The inspections involved evaluating banks' frameworks, policies and procedures, interviewing management and staff and walking through their processes amongst other assessments. The findings of these inspections culminated in the Information Paper on Incentive Structures in the Banking Industry released in March 2019.

While banks largely have in place frameworks, policies and guidance over performance evaluation, remuneration and consequence management, there remains room for improvement in the areas of design and practical implementation. The Paper centers on four key themes, outlined below:

— **Governance over incentive structures** which covers Board and management oversight of culture and conduct, policy alignment to FSB Principles and Standards, and trend analyses to facilitate ongoing monitoring and reporting.

— **Performance evaluation** which covers the assessment of financial and non-financial indicators, the involvement of control functions, the relationship between performance and compensation, and the celebration of role models.

— **Remuneration frameworks** which covers the linkage between performance evaluation and remuneration, deferral arrangements for variable compensation and remuneration adjustment tools.

— **Consequence management** which covers the composition of investigation functions, the assessment of misconduct severity and the implementation of effective disciplinary actions.

MAS' expectations and desired outcomes for the four key themes relating to incentive structures are laid out in the 10 boxes below. Banks can benchmark their incentive structures against these best practices to facilitate self-assessments and seek to address any gaps on a risk-appropriate basis.

Governance over incentive structures	1 Oversight by Board and senior management
	2 Adopting FSB Principles and Standards
	3 Mechanisms to monitor staff's conduct
Performance evaluation	4 Dual assessment of the "what" and the "how"
	5 Linkage between performance evaluation and reward
Remuneration frameworks	6 Behavior and conduct consideration in remuneration
	7 Aligning pay-outs with time horizon of risk
Consequence management	8 Investigation function and disciplinary committee
	9 Assessment of severity of misconduct and corresponding disciplinary actions
	10 Implementation of effective disciplinary actions

Notes

Key contacts

Chia Tek Yew
Head of Financial Services Advisory
e. tekyewchia@kpmg.com.sg
t. +65 6213 3726

Leong Kok Keong
Head of Financial Services, Audit
e. kokkeongleong@kpmg.com.sg
t. +65 6213 2008

Gary Chia
Head of Financial Risk Management
and Regulatory Risk
e. garydanielchia@kpmg.com.sg
t. +65 6411 8288

Grace Tan
Partner
Regulatory Risk
Risk Consulting
e. grace_tan@kpmg.com.sg
t. +65 6411 8531