



BANK OF THAILAND NEWS

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Policy Statement on Corporate Governance Practices of Commercial Banks

Mrs. Swangchit Chaiyawat, Assistant Governor, Financial Institutions Policy Group of the Bank of Thailand announces new measures to further strengthen financial institutions' corporate governance practices. This policy statement builds on the previously issued Thai Directors Handbook and is designed to improve the composition, qualification and responsibility of board of directors and its sub-committees to promote the overall safety and soundness of banking institutions.

In recognition of this, a **commercial bank board** shall consist of executive directors not exceeding one third of the board in addition to having at least 3 independent directors or in a proportion of 1 independent director to 4 directors, whichever is higher. The Policy Statement specifies that an independent director, who will play an important role in maintaining a proper balance among board members in exercising its roles and responsibilities, is a person: (1) other than an officer or employee of the bank; (2) who does not have a familial relationship with top executives or major shareholders of the bank; (3) whose direct and indirect shareholdings of the bank is less than or equal to 0.5%; and (4) who does not retain direct or indirect interest in related entities of the bank or that of its major shareholders. The Bank issued these objective standards to assist board of directors to better measure board independence and to provide greater transparency for the general public.

In addition to the above guidelines, commercial banks must establish an **audit committee** comprising at least three directors, two of whom must be independent directors, to oversee the internal audit and compliance functions. They must also establish a **risk management committee** comprising at least 5 members from board and/or executives to manage the overall risks of the institution.

Two other sub-committees, the nomination committee and remuneration committee, ought to be established based on institution specific needs and circumstances. Whereas the nomination committee oversees the selection of directors, members of various committees and top executives of the bank, the remuneration committee reviews compensation programs of bank executives, directors, and members of various committees. These committees, however, shall not consist entirely of executive directors.

The release of this Policy Statement affirms the Bank's view on the critical importance of an independent, informed, and active board of directors and its committees to the overall safe and sound operations of banking organization

Bank of Thailand

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