

Governance Structures of Overseas Securities Regulators

There appears to be two common types of governance structures adopted by securities regulators over the world.

The first model is the one with a full-time Executive Chairman. This is currently adopted by all 15 members of the IOSCO Technical Committee, for example the Financial Services Authority in UK (FSA).

The second model is the one where the full executive authority is delegated to a Director-General and the Non-Executive Chairman is a political appointment, for example, the Monetary Authority of Singapore (MAS) and the Swedish Financial Supervisory Authority (FI). This model is practised in some emerging markets.

The respective governance structures of the FSA, MAS and FI are set out in more detail in this Appendix.

Financial Services Authority, U.K.

The Financial Services Authority (FSA) has been the single regulator for financial services in the U.K. since 1 December 2001. The FSA is governed by a Board appointed by HM Treasury. The majority of the Board members are non-executive. In addition to the Chairman and Chief Executive, there are currently three Managing Directors and 11 non-executive members of the Board, of whom one, the Deputy Governor (Financial Stability) of the Bank of England, is an ex officio director. One of the non-executive members is Deputy Chairman and "lead" non-executive.

The FSA is accountable to Treasury Ministers and, through them, to Parliament. Under the legislation, the FSA must report on the achievement of its statutory objectives to the Treasury every year. Treasury Ministers must then lay the report before Parliament.

The FSA split the top post when Sir Howard Davies stepped down as the FSA Chairman and Chief Executive in September 2003. Mr. Callum McCarthy was appointed as the FSA's Chairman and Mr. John Tiner was appointed as the Chief Executive in 2003. A paper setting out the division of responsibilities between the Chairman and Chief Executive has been agreed by the Board and is available on the FSA's website (see attached).

Although the FSA Chairman is not labelled as an executive Chairman, he is clearly one of the five Executive Directors of the FSA as described in FSA's Annual Report¹. As set out in FSA's Board Resolution of 21 April 2005 regarding the Governance of the Authority, the Chairman, Chief executive, or any executive board member may exercise any function of the Authority except the function is otherwise (i) reserved to the Board; or (ii) reserved to the Non-Executive Committee ("NedCo")²; or (iii) reserved to the Regulatory Decisions Committee; or (iv) required to be referred to the Board as the Chairman thinks fit. In addition, the Chairman, Chief Executive, and executive board members may exercise functions individually vested in each or any of them through a senior staff committee, known as "the Executive Committee" or "ExCo", which may include other senior members of staff. Therefore, the "executive" nature of the FSA chairmanship is very clear.

Although the FSA Chairman has no executive responsibility for the day-to-day running of the FSA, he receives substantial remuneration and has to spend most of his time at work answering to the British Parliament, managing the board, establishing priorities and policies and representing the FSA both domestically and internationally. The FSA Chairman is fully accountable for the activities of the FSA.

¹ See page 68 of FSA Annual Report 2003/04 regarding Directors' emoluments.

² NedCo is established under Schedule 1 of the Financial Services & Markets Act 2000. The members of the NedCo are all the non-executive members of the Board. One of its functions is to determine the remuneration of the FSA Chairman and other executive directors.

The Roles of the Chairman and the Chief Executive of the Financial Services Authority

Role of the Chairman

1. The Chairman has no executive responsibility for the day-to-day running of the FSA.
2. His key responsibilities are to:
 - i. establish and develop an effective Board;
 - ii. lead the Board as a team;
 - iii. plan and manage the Board's business;
 - iv. establish priorities for the FSA;
 - v. maintain and develop a productive relationship with the FSA Chief Executive, for whose recruitment he is responsible;
 - vi. with the Chief Executive, lead the communication of FSA policies with a wide range of constituencies. One purpose of this communication programme is to establish a clearer profile for the FSA, rather than one of an individual;
 - vii. represent the FSA on particular national and international financial institutions;
 - viii. establish and maintain high level contacts with the most important financial institutions worldwide;
 - ix. act as an accountability focus for the FSA, chairing its annual public meeting, giving evidence to select committees, and writing to the Chancellor (if needed) on the most significant issues arising under the formal exchange of letters of December 2000; and
 - x. represent the FSA in the most senior meetings of the Tripartite Standing Committee, alongside the Chancellor and Governor.
3. The Chairman discharges his responsibilities by ensuring:
 - i. the effectiveness of the Board in relation to (insofar as the Treasury can be influenced) the balance of Board appointments; the responsibilities, chairmanship and effectiveness of Board committees; the agenda for Board meetings; the relationship between executive and non-executive Board members; and the provision of appropriate, quality and timely information for directors;
 - ii. that the FSA's strategy is formulated clearly and is well understood internally and externally;
 - iii. that he provides a source of counsel and of challenge to the Chief Executive on how the FSA is run. This includes feedback to the Chief Executive on senior management performance, development and succession, and on organisational structure;
 - iv. regular evaluation of the performance of the Board, its committees and individual directors; and
 - v. that he is properly briefed on FSA business to enable him to discharge his duties as Chairman, and to represent the FSA publicly. The Chairman has an unlimited right to consult any FSA employee, require information on any aspect of FSA business, and attend any executive meeting within the FSA. He will not normally chair any executive committee.



Appendix (cont'd)

4. The Chairman and Chief Executive will discuss all major issues and emerging policies through frequent and normally informal meetings.
5. The Company Secretary will report to the Chairman.
6. The Chairman will chair the Appointments Committee of the Board.
7. The Chairman will represent the FSA on the Court of the Bank of England, CESR and the Financial Stability Forum.

Role of the Chief Executive

1. The Chief Executive is responsible for implementing the strategy agreed by the Board, in whose formulation he will have played a major part. He has the executive responsibility for the FSA's business under authority delegated to him by the FSA Board.
2. The key responsibilities of the Chief Executive are:
 - i. reporting regularly to the Board with appropriate, timely and quality information so the Board can discharge its responsibilities effectively
 - ii. informing and consulting the Chairman on all matters of significance to the Board so that the Chairman and Board can properly discharge their responsibilities;
 - iii. developing and delivering the strategic objectives agreed with the Board;
 - iv. recommending to the Board significant operational changes and major capital expenditures where these are beyond his delegated authority;
 - v. assigning responsibilities clearly to senior management and overseeing the establishment of effective risk management and control systems;
 - vi. recruiting, developing and retaining talented people to work at the FSA; and in particular establishing a strong management team which is fairly and fully evaluated;
 - vii. communicating throughout the FSA the strategic objectives and the values of the FSA agreed with the Board, and ensuring that these are achieved in practice;
 - viii. sharing with the Chairman and with other members of the FSA senior management the responsibility for communicating the FSA's messages externally;
 - ix. represent the FSA on selected international financial institutions.
3. All FSA staff, other than the Chairman's immediate staff and the Company Secretary, report to the Chief Executive.

This section of the Report contains audited information.

Directors' emoluments comprise:

	Board fee	Salary	Performance related bonuses	Other emoluments and benefits	2004 Total	2003 Total
	£	£	£	£	£	£
Executive Directors						
Howard Davies (Chairman until 21.9.03) ^{1,3}	-	154,933	-	38,073	193,006	397,287
Callum McCarthy (Chairman from 22.9.03)	-	159,131	-	64,638	223,769	-
Michael Foot ³	-	262,500	39,000	44,675	346,175	322,017
Carol Sergeant	-	235,577	-	18,770	254,347	293,452
John Tiner ²	-	310,971	52,000	108,685	471,656	361,904
Non-executive Directors⁴						
Stewart Boyd (Deputy Chairman) ⁵	45,000	-	-	-	45,000	45,000
Moir Black ⁶	23,750	-	-	-	23,750	27,500
James Crosby	4,308	-	-	-	4,308	-
Tom De Swaan	20,000	-	-	-	20,000	20,000
Kyra Hazou	20,000	-	-	-	20,000	20,000
Deirdre Hutton	20,000	-	-	-	20,000	20,000
Sir Andrew Large ⁷	-	-	-	-	-	-
Gillian Nott	20,000	-	-	-	20,000	20,000
Christopher Rodrigues ⁸	13,846	-	-	-	13,846	20,000
Dr Shamit Sagar	20,000	-	-	-	20,000	20,000
Stephen Thieke	20,000	-	-	-	20,000	8,333
Sir Keith Whitson ⁸	3,333	-	-	-	3,333	20,000
Clive Wilkinson ⁶	23,750	-	-	-	23,750	20,000
	233,987	1,123,112	91,000	274,841	1,722,940	1,615,493
Of which fees for service as						
Directors	-	-	-	-	233,987	240,833
Remuneration as executives					1,488,953	1,374,660
					1,722,940	1,615,493

1 Howard Davies resigned as Chairman on 21 September 2003. The figure for other emoluments and benefits paid during the year includes £20,000 for the provision of advice during a three-month transitional period.

2 The total emoluments of the highest paid director during the year, John Tiner, were £471,656 (2003: £361,904), including a supplement of £47,741 (2003: £58,140), paid during the year towards the funding of his personal pension.

3 The prior year totals have been restated to include a revised estimate of the proportion of the costs of the car and driver with which the directors were provided.

4 The fee for a non-executive director was set by the independent panel, established with the approval of HMT, at £20,000 per annum with effect from 1 December 2001. An additional fee of £5,000 per annum is paid to any non-executive director (other than the Deputy Chairman) who has been appointed to chair a committee of the Board. There were none in this category during the year, as the Deputy Chairman or the Chairman chaired all relevant committees. Otherwise, the fee covers all duties as directors.

5 The fee payable to the Deputy Chairman was set by the independent panel at £45,000 per annum with effect from 1 December 2001.

6 Two directors chaired the Board of the FSA Pension Plan Trustee Ltd in the year; Moira Black from 1 April 2003 to 30 September 2003, and Clive Wilkinson from 1 October 2003 to 31 March 2004. The annual fee was set at £7,500 with effect from 1 April 2002 and was pro-rated between each director.

7 Sir Andrew Large waived his Board fee in respect of the year.

8 The fees for James Crosby (HBOS), Christopher Rodrigues (Bradford and Bingley plc) and Sir Keith Whitson (HSBC Holdings plc) were paid direct to their employers, as shown in brackets. Christopher Rodrigues and Sir Keith Whitson retired during the year and their fees were pro-rated. James Crosby's fee is paid to charity by HBOS.

49. The Committee is accountable to the Board in respect of its procedures, policies and general arrangements, but this does not affect its independence in relation to its individual decisions.

Decisions by executive board members

50. The Chairman, Chief Executive, or any executive board member may exercise any function of the Authority except where:
- (a) the function is a legislative function reserved by the Act to the Board;
 - (b) the function is a non-executive function reserved by the Act to the Non-Executive Committee;
 - (c) the function involves a decision which the Authority's decision-taking manual reserves to the Regulatory Decisions Committee; or
 - (d) he considers that the matter requires to be referred to the Board.
51. The Deputy Chairman may discharge any such function in any case of urgency where it is not practicable for the Board, Chairman, Chief Executive, or other executive board member to discharge the function.
52. The Chairman, Chief Executive, and executive board members may exercise functions individually vested in each or any of them through a senior staff committee, known as 'the Executive Committee', or 'ExCo', which may include other senior members of staff.

Delegation of decision-making

53. The Chairman, Chief Executive, or any executive director with authority to make a decision may delegate that authority (and, if he chooses, the authority to make further delegations) to one or more individuals or committees.
54. Where functions vested in the Chairman, Chief Executive, or any executive director are exercisable by them through ExCo, ExCo may similarly delegate that authority to one or more individuals or committees.
55. Any new delegation must provide for:
- (a) decisions to be made at an appropriate level;
 - (b) a clear line of accountability to the Board;
 - (c) any person with authority to take a decision to be entitled instead to refer it to a person or committee which is more senior in the line of command;
 - (d) decisions to be taken in accordance with the Authority's decision-taking procedures.

Monetary Authority of Singapore

The Monetary Authority of Singapore (MAS), established on 1 January 1971, administers the various statutes pertaining to money, banking, insurance, securities and the financial sector in general. Following its merger with the Board of Commissioners of Currency on 1 October 2002, the MAS has also assumed the function of currency issuance.

The MAS operates under the direction of its Board of Directors, which is appointed by the President. The Chairman of the Board is appointed by the President on the recommendation of the Cabinet. The current Chairman is Mr. Goh Chok Tong, Senior Minister of the Government³.

The Board of Directors is responsible for the policy and general administration of the affairs and business of MAS and informs the Government of the banking and credit policy of MAS. The Board is ultimately accountable to the Parliament of Singapore through the Minister in charge of MAS.

The Board is assisted by the Chairman's Meeting, Monetary and Investment Policy Meeting, Audit Committee and Risk Committee.

The Chairman's Meeting makes decision on major changes to the regulatory framework and supervisory policies. The Meeting also approves major changes to policies and strategies relating to financial centre development, international and regional relations.

For day-to-day administration, the MAS Act vests the Managing Director with power to make decisions and exercise all powers that may be exercised by MAS. The current Managing Director is Mr. Koh Yong Guan, who is also a Board member.

³ He used to be the former Prime Minister of Singapore.

Swedish Financial Supervisory Authority, Sweden

The Swedish Financial Supervisory Authority, Finansinspektionen (FI), is a public authority, an integrated regulator and supervisor, responsible for authorizing, supervising and monitoring all companies operating in Swedish financial markets. The FI is accountable to the Ministry of Finance.

The Swedish Government appoints the Board of Directors of FI, which consists of nine members including the Chairman. All Board members, including the Chairman, are non-executive. As Sweden has very strict rules on conflicts of interest, no executives from financial institutions could be appointed as Board members. The current Chairman is the ex-leader of one of the main opposition parties in Sweden.

The Swedish Government also appoints the Director General (“DG”) (currently Ms. Ingrid Bonde). The DG is an executive responsible for the day-to-day running of FI’s operations but she is not a Board member, but participates in all board meetings. The DG may only be appointed and dismissed by the Government.

The remuneration of the Board members and DG is determined by the Swedish Government.

All powers are legally vested in FI and the division of responsibilities between the Board and the DG is documented in a Board decision.

Broadly speaking, the Board decides on matters of principal nature, such as important new regulations, applications of controversial nature, and sanctions of key characters. In addition, the Board discusses on strategic matters and key operational aspects such as evaluation of FI’s performance and financing needs.

The DG is responsible for making decisions on all matters except those are being dealt with by the Board, including all operational matters such as organisational issues and internal budget. The DG is the “public face” of FI in all circumstances and internationally. She is also the “accountable face” of FI and appears before the Swedish Parliament to answer questions on FI.