FINANCIAL INSTITUTIONS COMMISSION

PRUDENTIAL REGULATION
FIC-PR-09

CORPORATE GOVERNANCE

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PART I: PRELIMINARY

1: **Short Title** – Corporate governance.

2: **Authorization** – The Financial Institutions Commission (the Commission) of the Republic of Palau (Palau) is authorized to promulgate regulations under Sections 12 and 80 of the Financial Institutions Act of 2001 (the Act) as amended. In addition, Sections 39 and 55 requirements relating to management, books of account, and corporate records.

3: **Application** – This regulation applies to all Palau banks and the branches of foreign banks licensed by the Commission to conduct financial activities in Palau (hereafter collectively referred to as "bank").

4: **Definitions** – Terms used within this regulation are as defined in the Act, as defined within this regulation, or as reasonably implied by contextual usage.

(a) **"Manager"** – means a natural person who serves in the capacity of chief executive officer, with or without title, and who exercises overall authority and responsibility for the affairs of a bank subject only to approval of the board of directors. For a branch of a foreign bank operating in Palau, the person who serves as branch manager or country manager or in a similar capacity shall be considered the manager.

(b) **"Non-executive director"** – means a member of the board of directors of a Palau bank who is not a full-time employee of the Palau bank regardless if having an official title or position.

PART II: STATEMENT OF POLICY

1: **Purpose** – This regulation is intended to ensure that bank administrators and boards of directors adopt and practice sound standards of corporate governance.

2: **Scope** – This regulation applies to all banks, all members of the board of directors and all administrators of banks licensed to conduct banking activities in Palau.

3: **Responsibility** – It is the responsibility of the board of directors of a bank operating in Palau to adopt sound standards of corporate governance and ensure that such standards are fully implemented and followed. The board may designate a committee or person to ensure compliance with such standards; however, delegation does not relieve the board of its duty to oversee the affairs of the bank and ensure compliance with this regulation.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

1: **Requirements** – The following requirements shall apply to all banks licensed to conduct banking activities in Palau unless specified otherwise:

(a) Policies and Committees: each bank operating in Palau shall adopt and implement formal written policies and establish committees as necessary to properly manage the affairs of the bank; at a minimum, each bank shall have policies and committees for audit and compliance, for lending/credit review, and for asset-liability/risk management.

(b) Competent management: the board of directors of each bank operating in Palau shall ensure that the bank has competent management and staff at all times to operate the bank in a safe and prudent manner.

(c) Conflicts of interest: the board of directors of each bank operating in Palau shall adopt and ensure compliance with a policy addressing conflicts of interest between a bank and its administrators, significant shareholders, and customers.

(d) Records: for each bank organized in Palau, including foreign bank subsidiaries, all records and books of account, including the daily ledger (balance sheet), income statement, accounting records, credit documentation, minutes of committees, board of directors' and annual shareholders meetings, charter, by-laws and amendments thereto, and the register of shareholders, shall (i) be prepared and maintained at the head office in Palau, and (ii) be in English and any official language required in Palau.

Branches of foreign banks shall (i) maintain in Palau such records and books of account as are necessary to reflect the activities of the branch, including the daily ledger (balance sheet), income statement, accounting records, credit documentation, and minutes of committee meetings, and (ii) be in either of the official languages required in Palau, i.e., Palauan or English.

(e) Board meetings: each bank organized in Palau, including foreign bank subsidiaries, shall hold meetings of the board of directors in Palau at intervals not exceeding two months and shall review at each meeting all material aspects of condition and performance for the bank including, at a minimum, the following:

(1) Balance sheet (month-end and previous month-end or year-end)
(2) Income statement (year-to-date and compared to budget)
(3) Key performance ratios
(4) Minutes of the previous board meeting
(5) New loans and investments approved, regardless if funded
(6) Large deposits, accepted or withdrawn
(7) Past due and non-performing loans and other assets
(7) Correspondence to or from regulatory agencies
(8) Committee reports (audit, compliance, risk management, asset-liability, etc.)
(9) Actions taken to comply with remedial orders or enforcement actions
(10)Any other items which are, or should be considered, significant to the bank

(f) Board of directors: at least one-third of the members of the board of directors of each bank organized in Palau, including subsidiaries of foreign banks, shall (i) be residents of Palau and (ii) be non-executive directors as defined in this regulation.

(g) Resident manager: each bank operating in Palau, including foreign bank branches and subsidiaries, shall have a manager, as defined in this regulation, who resides in Palau and works in the bank on a full-time basis.
(h) Branch visits: the chief executive officer of a foreign bank that operates a branch in Palau, or the executive officer at head office who is responsible for foreign branches of the foreign bank, shall make a visit to Palau at least annually to (i) review the operations of the branch and (ii) meet with the Commission to explain the overall condition, performance and strategic plans of the branch in Palau and the bank on a consolidated basis, and (iii) respond to questions from the Commission.

PART IV: CORRECTIVE MEASURES

1: **Remedial measures and sanctions** – If a bank, or any director or administrator of a bank, violates any provision of this regulation in a willful, negligent or flagrant manner which results, or is likely to result, in an unsafe or unsound condition for the bank or that threatens the interests of depositors, creditors or the general public, or if a bank, or any director or administrator of a bank, fails to comply with the instructions and reporting requirements in this regulation, the Commission may impose any one or more of the remedial measures or penalties provided in the Act.

PART V: EFFECTIVE DATE

1: **Effective date** – The effective date of this regulation shall be 1st September 2008.

Questions relating to this regulation may be addressed to the Financial Institutions Commission of the Republic of Palau.

Adopted July 23 **, 2008**

[redacted]
Governing Board
Financial Institutions Commission
Republic of Palau

Approved August 8, **2008**

[redacted]
Honorable President
Tommy E. Remengesau, Jr.