



GUIDELINES ON CONDUCT REVIEW COMMITTEE

1.0 Background

The Financial Services Commission (FSC) is moving towards a supervisory approach that relies on strong corporate governance. One of the areas of corporate governance that the FSC is seeking to strengthen is the supervision role that is performed by the Conduct Review Committee.

Section 59 A (1) of the **Securities Act** (the Act) stipulates that every company which is licensed under section 7 or 8 of the Act shall establish a Conduct Review Committee. In addition, Section 59 A (2) of the Act gives the FSC power to make rules with respect to the functions of the Conduct Review Committee.

This document outlines the proposed rules governing the establishment of the Conduct Review Committees by companies licensed as securities dealers or investment advisers. It is intended to provide the **minimum** standards licensees must follow. A breach of these guidelines will constitute evidence of failure to meet prudent practices and indicate that the entity is engaged in unsafe and unsound practices.

In developing the guidelines, the FSC examined the documents listed under the caption "Information Sources" at the end of the paper.

2.0 Duties and Responsibilities of the Conduct Review Committee (Committee)

The Conduct Review Committee functions to protect the interest of investors and other stakeholders. It plays a key role in corporate governance and internal controls of a licensee. It is responsible for assisting the Board of Directors/Management in its compliance with regulatory requirements.

The Committee should:

- Establish and maintain a code of conduct which shall be reviewed annually.
- Establish, maintain, and enforce policies and procedures to identify, manage and disclose conflicts of interest.
- Review those policies and procedures on an annual basis.

- Establish criteria and policy for the identification, review, approval and monitoring of all related party transactions, to ensure that they are appropriate and in the best interest of investors and other stakeholders.
- Ensure that all related parties, including those who are not directors disclose their interest in transactions involving the securities dealer.
- Review and identify any related party transactions that may have a material impact on the stability or solvency of the licensee and take the necessary action to mitigate any potential negative impact on the entity.
- Ensure that directors with conflicts of interest do not attend and vote at meetings where the transactions are being discussed, or exert any influence on the voting on the resolution in respect of the transaction.
- Provide approval in writing and reasons for the approval of related party transactions.
- Monitor the company's fiduciary functions to ensure that there are no self-dealings.
- Examine breaches of the company's established code of conduct by directors.
- Examine breaches of the company's standards of professional conduct.
- Consider matters in relation to the appointment, orientation, training, conduct, compensation and tenure of directors.
- Consider relevant complaints about the conduct of board members.
- Review and monitor legislation and/or litigation affecting the duties, responsibilities and potential liability of Directors;
- Include any other functions as may be determined by the licensee which are not inconsistent with the Act or any regulations made under the Act.

3.0 Committee Operations

3.1 Reporting

- The Committee should meet at least quarterly and records of such meetings should be maintained for at least 7 years. As a board sub-committee of the Board of Directors (Full Board), the Committee should report directly to the Full Board;
- After each meeting, the Committee is required to report directly to the Board on matters reviewed by the Committee.

3.2 Composition

- The Committee should be comprised of at least three Directors, and the FSC recommends that licensees ensure that at least one member is not affiliated with the company.
- Each Committee Member should be financially literate or become financially literate within a reasonable period of time subsequent to the appointment to the Committee. Financial Literacy in this context means, the possession of knowledge and understanding of financial matters. It is the ability to use knowledge and skills to manage financial resources effectively; making informed and effective decisions regarding financial resources.
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3.3 Appointment of Committee Members

- The appointment and reappointment of members of the Committee should be by the Full Board.
- Members should hold the position for the term/time period initially decided by the Committee.

3.4 Meetings

- The Chairperson of the Committee should be elected by the members of the Committee.
- Minutes of the Committee's meetings should be recorded and maintained by the licensee and presented to the Full Board if required by the Full Board.