



CORPORATE GOVERNANCE RULES AND REGULATIONS

2024

(4th Edition)

ROYAL MONETARY AUTHORITY OF BHUTAN

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Editions of Corporate Governance Rules and Regulations

1st Edition: Corporate Governance Rules and Regulations, 2011

2nd Edition: Corporate Governance Rules and Regulations, 2018

3rd Edition: Corporate Governance Rules and Regulations, 2020

4th Edition: Corporate Governance Rules and Regulations, 2024

PART 1: PRELIMINARY

Legal Basis

These Rules and Regulations are issued in pursuant to Section 202 of the Financial Services Act of Bhutan 2011.

Title, Commencement and Applicability

1. These Rules and Regulations shall:
 - 1.1 be called the Corporate Governance Rules and Regulations 2024, hereafter referred to as CGRR 2024;
 - 1.2 shall be read in conjunction with the Rules and Regulations for Accountability of Key Responsible Persons of Regulated Entities, Fit and Proper Guidelines, Penalty Rules and Regulations; and other relevant by-laws in force.
 - 1.3 come into force from the 1st Day of July 2024; and
 - 1.4 be applicable to regulated entities as follows:
 - 2.3.1. banks, insurance companies, CSI bank, pension and provident fund, and stock exchange shall comply with the provisions of CGRR 2024; and
 - 2.3.2 for other regulated entities, the Authority shall determine the extent of applicability of the CGRR 2024 provisions based on their sizes, business activities, and complexities as provided in *Annexure III*.

Purpose

2. The purpose of the CGRR 2024 is to promote sound corporate governance in the regulated entities under the jurisdiction of the Authority through adoption of high standards of corporate governance principles and practices.

Interpretation

3. The power to interpret any provision of the CGRR 2024 is vested with the Authority.

4. Construction with other rules and regulations, and guidelines

Where a regulated entity is a State-Owned Enterprise or subsidiary of a holding company, it may adopt the corporate governance guidelines, codes issued by the Government or the holding company in addition to CGRR 2024. However, where the provisions of the CGRR 2024 are in conflict or inconsistent with these guidelines or codes, the provisions of the CGRR 2024 shall prevail.

Amendment

5. The CGRR 2020 may be amended in part or in whole, by the Authority.

Supersession and Saving

6. The CGRR 2024 shall supersede the CGRR 2020. However, provisions implemented as per the CGRR 2020 shall remain legally binding, unless certain provisions are affected through separate orders issued subsequently by the Authority.

7. Penalty

The Authority shall impose penalty to the regulated entity as per the relevant provisions of the Penalty Rules and Regulations of the Authority in vogue for non-compliance to the CGRR 2024.

PART 2: BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Responsibilities of the Board of Directors

8. The board shall have the ultimate responsibility for the regulated entity's business strategy and financial soundness, key human resource decision, internal organizational structure, governance, risk management and compliance obligation.
9. The board shall understand that its primary responsibility is to protect the interest of the regulated entity, which shall include legitimate interest of depositors, policyholders, shareholders and other stakeholders.
10. A director representing the shareholders or stakeholders on the board shall have the same duties and responsibilities as other board members, to act in the best interest of the depositors, policyholders, other shareholders and stakeholders. In case of any conflict between his duty to act in the interest of the regulated entities and his duty to the shareholder or stakeholder which he/she represents, his/her duty to the regulated entity shall prevail.
11. The board of a regulated entity shall structure itself in terms of leadership, size and the use of committees to effectively carry out its oversight roles and other responsibilities. The organizational rules and procedures shall be described in the by-law set by the board and shall be periodically updated.
12. The board may delegate the functions to its committees or the senior management, but the board shall not abrogate its responsibility for the functions delegated. The board shall establish proper mechanisms for delegating the functions and monitoring them.
13. The main responsibilities of the board of directors are to:
 - 13.1 review and approve regulated entity's short-term and long-term business strategies and policies;
 - 13.2 review and approve the regulated entity's organizational structure and the division of responsibilities between the board and senior management;

- 13.3 define the main responsibilities of risk management, compliance, and internal audit functions;
- 13.4 establish the regulated entity's risk strategy, risk appetite, and risk tolerance;
- 13.5 oversee the regulated entity's adherence to the risk strategy, risk appetite, and risk tolerance;
- 13.6 set regulated entity's corporate culture and values that establish high ethical standards and integrity, professional conduct for the board of directors, senior management and the employees;
- 13.7 oversee the implementation of the regulated entity's governance framework and periodically review it in the light of changes to the regulated entity's size, complexity, business strategy, and to the regulatory requirements;
- 13.8 ensure that the transactions with related parties are reviewed to assess risk and are subject to appropriate restrictions (e.g.by requiring that such transactions are conducted at arm's length) and that corporate or business resources of the regulated entity are not misappropriated or misapplied;
- 13.9 adopt and oversee the implementation of key policies related to the regulated entity's capital adequacy assessment, capital and liquidity plan, management of risks, compliance policies and obligations, and internal control systems;
- 13.10 ensure that the CEO, other members of senior management and heads of the control functions are appointed with relevant qualifications, competencies, experience and integrity;
- 13.11 observe and oversee the enforcement of the *Code of Ethics*, given in *Annexure I*.

Board's Oversight Responsibilities of Senior Management

14. The board's oversight responsibilities of the senior management shall be to:

- 14.1 monitor that senior management's actions are consistent with the strategies and policies approved by the board;
- 14.2 meet periodically with the senior management;
- 14.3 question and critically review explanations and information provided by the senior management;
- 14.4 assess the knowledge and expertise of senior management given the nature of the business and the regulated entity's risk profile;
- 14.5 ensure that appropriate selection process and succession plan is in place for the CEO and senior management positions; and
- 14.6 assess the performance of the CEO annually and submit the performance report to the Authority.

Accountability of the Board of Directors

15. The board of directors is collectively accountable for the governance of the regulated entity. The directors shall be individually accountable for his/her actions as a member of the board. A director shall exercise fiduciary duties which shall include:
 - 15.1 "*duty of care*": he/she acts on an informed and prudent basis with respect to the regulated entity; and
 - 15.2 "*duty of loyalty*": he/she acts in good faith in the interest of the regulated entity, avoids acting in his/her own interest, or in the interest of another individual or group, at the expense of the regulated entity, and its stakeholders (shareholders, depositors, policyholders, etc.).
16. The accountability of the board of directors of a regulated entity shall be as per the Rules and Regulations for Accountability of Key Responsible Persons of Regulated Entities 2022 and amendments thereof.

17. Specifically, in case of governance failure, the Authority shall take appropriate remedial actions ranging from changing the existing policies and practices, or requiring the replacement of the chairperson, board of directors, or CEO as per Section 38 of the Act.

Composition of the Board

18. The board of a regulated entity shall comprise members with a balance of diverse background, expertise, and experience to ensure fully informed, independent and objective decision-making. The regulated entities shall encourage woman directorship in the board.
19. The board of directors shall have:
 - 19.1 a range of knowledge and experience in relevant areas, including, but not limited to business, management, corporate governance, risk management, finance, information technology, regulation, and strategic planning;
 - 19.2 varied backgrounds to promote diversity of views;
 - 19.3 understanding of local, regional and global economic, legal and regulatory environment; and
 - 19.4 an attitude that facilitates communication, collaboration and critical debate in the decision-making process.
20. The board of a regulated entity shall have no more than seven directors including the chairperson of the board and the CEO, of which at least two shall be independent directors.
21. To enable adequate time commitment to the governance of the regulated entities, the non-executive board directors shall not hold more than three directorships in the public companies, **State Owned Enterprises, and Druk Holding and Investment companies.**
22. The CEO shall become the member of the board upon appointment as the CEO.
23. In order to provide effective oversight over senior management, there shall not be an executive director on the board of a regulated entity other than the CEO.

24. In order to maintain fair competition and level playing field, and to avoid conflicts of interest:
- 24.1 a board of director or an employee of one regulated entity shall not be permitted to serve as a director on the board of another regulated entity. However, the Authority may consider exception where the regulated entities are not in the same line of business; and
 - 24.2 not more than one member of a family, as defined in CGRR 2024, or an associate - (partner, employee, director) shall be in the board of a regulated entity.

Independent Directors

25. An independent director is a non-executive member of the board who, apart from receiving director remuneration do not have any other material pecuniary relationship or transaction with the regulated entity, its promoter, its management or its subsidiary and is not under any other undue influence, internal or external, political or ownership, that would impede his/her exercise of objective judgment.
26. The regulated entity shall ensure that any transaction between the regulated entity and the independent director is made under normal commercial terms as any other customer.
27. A director shall not be considered to be independent if he/she:
- 27.1 owns shares exceeding 2% of the total shareholding in the regulated entity concerned;
 - 27.2 has spouse who owns shares exceeding 2% of the total shareholding in the regulated entity concerned;
 - 27.3 has loan exceeding 1% of the capital fund in the regulated entity concerned;
 - 27.4 is employed by a company that has shareholding in that regulated entity or vice-versa;

- 27.5 was employed by that regulated entity and has not completed a minimum cooling period of one year;
 - 27.6 has family members in senior management position in that regulated entity;
 - 27.7 is affiliated with a significant customer or supplier of the regulated entity or its related parties;
 - 27.8 is affiliated with a non-profit organization that receives significant funding from that regulated entity; and
 - 27.9 has previously served as a director on the board of that regulated entity and has not completed a minimum cooling period of three years.
28. The board of a regulated entity shall assess annually whether a director is independent and shall notify the Authority if there is any change in the independence status.
29. An independent director shall not be removed from the board without the prior approval of the Authority.

Permanent Invitees to the Board

30. Permanent invitees to the board either from within the regulated entity or from outside shall not be permitted. The board may invite employees as and when required depending on the agenda of the meeting and such employees shall leave the meeting at the time the board deliberates and makes decision.
31. The board may also invite individuals from outside for professional expertise and advice as and when required depending on the agenda of the meeting.

Appointment and Removal of Directors

32. The regulated entity shall have a policy and procedure for the appointment of directors on the board, which shall be approved by the board.

33. In considering nominations for the appointment of directors, the board shall review that a director candidate:
 - 33.1 possesses the knowledge, skills, and experience relevant to the regulated entity's business and risk profile;
 - 33.2 has a record of integrity and good repute;
 - 33.3 has no conflicts of interest;
 - 33.4 has sufficient time to carry out the board's responsibilities;
 - 33.5 is not a politician or is affiliated to a political party in the country, unless he/she has deregistered from the party and has completed a minimum period of one year at the time of appointment; and
 - 33.6 is an employee of the regulated entity concerned who has not completed a cooling period of one year.
34. The regulated entity where the majority shareholding is owned by FDI, two-third of the total board of directors shall be Bhutanese.
35. The board shall issue an appointment letter to the new director with terms of reference that includes, but are not limited to, the responsibilities and accountability as specified in CGRR 2024. The appointment letter shall also mention director's fee and other compensations which are related to attendance to the board meetings, and other board related roles as set in the board's by-law.
36. A director may be replaced or asked to resign if:
 - 36.1 he/she is convicted in a court of law for a criminal offence;
 - 36.2 his/her conduct is found to be detrimental to the regulated entity;
 - 36.3 he/she infringes the code of conduct of the regulated entity;

- 36.4 he/she fails to attend two-third of the total board meetings held in a financial year. Emergency board meetings shall be excluded from the total number of board meetings for the purpose of determining the attendance; and
- 36.5 if it is part of the remedial actions required by the Authority, and any other reasons as stipulated in the Act or other applicable laws, rules and regulations.

Fit and Proper Requirement

37. The Directors of the Board, senior management, and control functions have the primary responsibility for sound corporate governance, risk management and oversight of the regulated entities. These persons identified as ‘Key Responsible Persons’ must have the necessary competencies, experience, financial soundness and personal integrity to perform their responsibilities to preserve the confidence of the stakeholders and safeguard the interest of the regulated entity.
38. The key responsible persons and significant owners shall have to undergo fit and proper to ensure that they have the required competencies, experience and integrity to perform their duties and responsibilities.
39. Fit and proper assessment of key responsible persons shall be required for:
- 39.1 Initial appointment and re-appointment of director of the board;
 - 39.2 Initial appointment and re-appointment of CEO;
 - 39.3 Initial appointment and re-appointment of the key responsible persons in senior management, control functions and material risk personnel of the regulated entity;
 - 39.4 When there is a change in the role of the key responsible person such as in the case of transfer from one key responsible position to another key responsible position; and
 - 39.5 Significant owners during the time of assessment of license application.
40. The regulated entity shall process the fit and proper of the key responsible as per the Fit and Proper Guidelines for the Key Responsible Persons of Regulated Entities 2022 and amendments thereof.

Tenure of Directors

41. An ordinary director of a regulated entity shall be appointed for a term not exceeding three years, which may be extended by another term. The Authority may consider the appointment of the director in the same regulated entity for one more term after serving two consecutive terms. H/she shall have to complete a minimum cooling period of one year after serving two consecutive terms to be appointed in the same regulated entity. However, he/she shall be eligible for appointment in another regulated entity after serving a minimum cooling period of six months.
42. An independent director shall be appointed for a term not exceeding three years in the same regulated entity. The Authority may consider re-appointment for one more term in the same regulated entity after reviewing his/her criteria of independence and performance.
43. The Authority shall review the performance of the director proposed for re-appointment in the same regulated entity or appointment in another regulated entity.

Board Orientation and Professional Development

44. A regulated entity shall ensure that new directors are provided with orientation within three months of their appointment. The programme shall cover at the minimum, about the regulated entity's nature of the business, corporate strategies, duties and responsibilities of the board, risks and risk management strategy, rules and regulations issued by the Authority and other compliance requirements of the regulated entity.
45. In order to enable the directors to perform their responsibilities effectively, a regulated entity at its expense shall periodically provide knowledge and skills development opportunities to them.

Board Meetings

Frequency and Attendance

46. The board of a regulated entity shall meet sufficiently frequent to fulfill its duties and responsibilities appropriate to the nature, size and complexity of the regulated entity.
47. The board shall meet at least once in every three months or at least four times in a financial year.
48. A director shall attend at least two-third of the total board meetings held in a financial year. Excused absences shall not be considered as attendance.
49. A director shall attend board meeting in person. However, if physical presence is not possible due to geographical location, the directors may attend the meetings via online mode. **Directors participating via the online mode shall keep their cameras on at all times unless there are connectivity issues and ensure that they are participating from a private space with no other observers. However, the director shall attend at least one meeting in person out of the 4 meetings or 25% of the total board meetings in a year.**
50. The number of board meetings and attendance of every director shall be made available to the Authority and shall be disclosed in the regulated entity's annual report.
51. The board meetings shall be held within Bhutan. The Authority may consider exceptions to the regulated entity based on acceptable justification to the Authority.

Quorum

52. A quorum for a board meeting shall be at least two-third of the total board of directors. No business may be transacted at a board meeting, unless a required quorum is met.

Information to the Board

53. The board of directors shall be provided with adequate, accurate and timely information prior to the board meetings and on an ongoing basis to enable them to fulfill their duties and responsibilities.

Minutes of the Board Meetings

54. The board of directors shall maintain appropriate record of its activity, such as minutes of the meetings, matters reviewed, recommendations made, and decisions taken.
55. Any concern or dissenting view raised by any director, particularly by the independent directors shall be discussed and recorded in the minutes of the meeting.
56. The records of the board meetings shall be made available to the Authority, as and when required.

Chairperson of the Board

57. The Chairperson of the board shall be a non-executive **director preferably an independent director.**
58. A regulated entity shall notify to the Authority about the appointment of the Chairperson of the board.
59. The Chairperson and the CEO shall not be the same person.
60. The Chairperson of the board shall:
 - 60.1 provide leadership to the board and is responsible for its effective overall functioning, including maintaining a relationship of trust with the directors;
 - 60.2 possess the requisite qualification, experience, competency and personal quality to fulfill the duties and responsibilities;

- 60.3 ensure that all relevant issues are included in the board agenda prior to board meeting;
- 60.4 ensure that the board is provided with accurate, timely, and clear information to assist them in making informed decision;
- 60.5 ensure that board decision is taken on a sound and well-informed manner;
- 60.6 encourage and promote critical discussion and ensure that dissenting view on contentious issues can be freely expressed and discussed within the decision-making process;
- 60.7 create a climate of trust between the independent directors and the other directors allowing the independent director to contribute to the board meeting in a professional atmosphere of constructive challenge;
- 60.8 dedicate sufficient time to the exercise of his or her duties and responsibilities;
- 60.9 assess the suitability of each director periodically, considering his or her performance on the board; and
- 60.10 review periodically the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary change, where required.

Company Secretary

- 61. The board shall appoint a Company Secretary to support the board in carrying out its duties and responsibilities effectively. The board shall ensure that the duties and responsibilities of the Company Secretary are clearly defined and is accountable to the board.
- 62. The Company Secretary shall ensure that the board procedures and applicable rules and regulations are complied with.

63. The Company Secretary shall attend all board meetings and associated activities unless the board instructs him or her to leave the meeting. He or she shall maintain accurate and adequate minutes and resolutions of the board meetings.
64. The Company Secretary shall be responsible for circulating the relevant resolutions/decisions of the board to the senior management and employees.
65. The Company Secretary shall not be removed without the prior approval of the board.

Board Committees

66. Every board of a regulated entity shall establish an Audit Committee and Risk Committee.
67. The board may establish other committees depending on the size, the nature of the business and the risk profile of the regulated entity.
68. Each committee shall have its by-law setting out its mandate, scope and working procedures, including the reporting to the full board.
69. The board shall appoint a Chairperson for each board committee. The Chairperson shall be an independent director, where possible.
70. The Chairperson of the board may become a member of a board committee except for the Board Audit Committee.
71. Only directors shall be the members of the committees. The Company Secretary or the relevant functional head shall be appointed as the secretary of the committee. A board committee may invite other non-members and/or experts based on the agenda of the meeting.
72. Each committee shall maintain appropriate record of committee deliberation and decisions, such as meeting minutes, summary of matters reviewed, recommendations made and decisions taken.
73. A board committee is subordinate to the board; hence the board as a whole shall be responsible and accountable for the decisions.

Board Audit Committee

74. The regulated entity shall establish an Audit Committee comprising of non-executive directors. The Chairperson of the Audit Committee shall be an independent director.
75. The main duties and responsibilities of Audit Committee are to:
 - 75.1 approve, or recommend to the board or shareholder for their approval, the appointment, remuneration and dismissal of external auditor;
 - 75.2 frame policy on internal audit and financial reporting;
 - 75.3 oversee the financial reporting process;
 - 75.4 discuss the annual audited financial statement and quarterly financial statement with management and the external auditor and to report to the board;
 - 75.5 provide oversight and interact with the regulated entity's internal and external auditors;
 - 75.6 review and approve the audit scope and frequency;
 - 75.7 receive key audit report and ensure that senior management is taking necessary corrective action in a timely manner to address control weakness, non-compliance with policy, law, rule and regulation, and other problems identified by an auditor and other control function;
 - 75.8 oversee the establishment of accounting policy and practice by the regulated entity;
and
 - 75.9 review the third-party opinion on the design and effectiveness of the overall risk governance framework and internal control system.
76. The committee shall hold regular meetings and shall report to the full board.

Risk Committee

77. The regulated entity shall establish a Risk Management Committee comprising of non-executive directors;
78. The Chairperson of Risk Committee shall preferably be an independent director;
79. The main duties and responsibilities of Risk Management Committee are to:
 - 79.1 review and recommend to the board, the regulated entity's risk management strategies, policies and risk tolerance;
 - 79.2 review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
 - 79.3 ensure resources and systems are in place for risk management;
 - 79.4 ensure that the staff of the risk management function independently; and
 - 79.5 review regulated entity's reports on risk exposure, risk portfolio composition and risk management activities.
80. The committee shall hold regular meetings and shall report to the full board. The board of a regulated entity shall report significant risk events to the Authority.

Performance Evaluation of the Board

81. The board of directors shall put in place a procedure for annual evaluation of the board as a whole as well as performance of individual directors. The board may engage external evaluator to lend objectivity in the evaluation.
82. The regulated entity shall submit the evaluation reports of the board and the individual directors annually to the Authority.

Conflicts of Interest

83. The board of directors shall have a formal written conflict of interest policy and an objective compliance process for implementing the policy. The policy document *inter alia* shall include:
- 83.1 director's duties and responsibilities to avoid, to the extent possible, activities that can create conflict of interest or the appearance of conflict of interest;
 - 83.2 depending on the agenda of the meeting of the board or committee, a board of director shall declare any conflict of interest during the adoption of the agenda;
 - 83.3 a rigorous review and approval process for a director to follow before he or she engages in certain activity;
 - 83.4 a director's duties and responsibilities to promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
 - 83.5 a director's duties and responsibilities to abstain from voting on any matter where the director may have a conflict of interest or where the board of director's objectivity or ability to properly fulfill duties and responsibilities to the regulated entity may be otherwise compromised; and
 - 83.6 the way in which the board shall deal with any non-compliance with the policy.

Senior Management

84. There shall be a clear separation of duties and responsibilities between the shareholders and the management so as not to impede sound corporate governance. The CEO and other members of the senior management shall operate within the mandate given by the board.
85. To preserve an appropriate separation between ownership and management of a regulated entity, a significant owner shall not hold CEO or a senior management position in the regulated entities.

86. A board director of the regulated entity shall require a minimum cooling period of six months to apply for the post of CEO or a senior management position in the same regulated entity. However, the incumbent CEO shall be exempted from this requirement to reapply for the post in the same regulated entity.
87. The senior management shall have a clear and transparent decision-making process and organizational management structure designed to promote effective management of the regulated entity, including but not limited to the role, authority, responsibility and accountability of the various positions within senior management.
88. The accountability of the senior management and other key responsible persons of the regulated entity shall be as per the Rules and Regulations for Accountability of Key Responsible Persons of Regulated Entities 2022 and amendments thereof.
89. Senior management shall be responsible for delegating responsibilities to the staff, establishing a management structure that promotes accountability and overseeing whether the line managers and officers are carrying out their functions in specific business areas and activities consistent with policies and procedures set by the board.
90. The duties and responsibilities of the senior management shall include but not limited to the following:
 - 90.1 contribute to the regulated entity's sound corporate governance;
 - 90.2 provide adequate oversight of those they manage;
 - 90.3 ensure that the regulated entity's activity is consistent with the business strategy, risk appetite and the policy approved by the board;
 - 90.4 implement corporate plan, risk management system, risk culture, process and control for managing the risks approved by the board;
 - 90.5 provide the board with the information it needs to carry out its duties and responsibilities; and
 - 90.6 observe the *Code of Ethics*, given in the *Annexure I*.

91. The members of the senior management shall have the necessary qualification, experience, competency and integrity to manage the regulated entity.
92. The board shall ensure that there is appropriate selection process for the recruitment and appointment of members of the senior management, as well as the heads of the control functions.
93. The regulated entity shall not remove the heads of control functions without the prior approval of the board.

Chief Executive Officer (CEO)

94. The CEO is the highest position holder in the organization who is entrusted with the executive duties and responsibilities for the regulated entity's operations, compliance and performance.
95. The regulated entity shall appoint the CEO following an established process set out by the policy adopted by the board.
96. The CEO of a regulated entity shall be a Bhutanese residing in Bhutan. However, the Authority may consider exceptions to regulated entity that has FDI shareholding of 51% or more.
97. A CEO of a regulated entity shall be appointed for a term not exceeding the tenure specified in Section 35 of the Act, which may be extended for another term. The CEO may be eligible for the CEO position in another regulated entity after observing a minimum cooling period of six months.
98. A candidate for the CEO position of a regulated entity shall not be more than 65 years old at the time of applying for the position. The CEO shall resign upon completion of two consecutive terms or upon reaching the age of 70 years, whichever is earlier.
99. The regulated entity shall inform the Authority immediately of the vacancy of a CEO position due to resignation, completion of term/age limit or termination; and the interim

measure taken for day-to-day operations of the regulated entity. The board shall ensure that a CEO is appointed within three months from the date of vacancy.

100. To ensure the CEO's attention to the operation of the regulated entity is not affected, the CEO shall hold no more than three directorships in the public companies or other entities including the membership in the regulated entity's board where he is employed as the CEO.
101. A CEO of a regulated entity shall not be permitted to carry out any other business as per Section 36 of the Act.

Remuneration Framework for Board, Senior Management and Employees

102. The board shall set appropriate remuneration framework for the board of directors, the senior management and approve the general framework of compensation and remuneration for staff of the regulated entity within the law and legal framework applicable in the country.
103. The general remuneration for the board related functions shall include:
 - 103.1 sitting fee to the directors, company secretary and board committee secretaries for attending board and committee meetings; and
 - 103.2 other expenses to the directors for their participation in the board and committee meetings or any other board or committee related tasks including participation in the knowledge and skills development programmes.

Disclosure and Transparency

104. The governance of the regulated entity shall be adequately transparent to its depositors, policy holders, shareholders, and other relevant stakeholders.
105. A regulated entity shall provide a corporate governance report as part of its annual report. At a minimum, regulated entity shall disclose the following information in the report:

- 105.1 a statement of compliance with the CGRR 2024, including a full explanation of any deviation;
- 105.2 names of directors of the board, identifying independent, non-executive and executive directors, other board directorships held by any director;
- 105.3 the number of times in the year the board and each committee met and attendance details for each director and the remuneration;
- 105.4 a statement on the regulated entity's risk management and internal control systems;
- 105.5 disclosure of material related party transactions between the regulated entity, its subsidiaries or associates or affiliates and a director or key management person; and
- 105.6 the regulated entities shall publish the annual report on their websites.

Whistle-Blowing Policies

- 106. The regulated entity shall develop policies that protect employees who report in good faith and on reasonable grounds wrongdoing to the board or another designated function, such as the head of internal audit or compliance. Whistle-blower policies shall set out the responsibilities for the board of directors, the audit committee, senior management and control functions, such as internal audit and compliance, to maintain policies and procedures for employees to submit, confidentially, information about accounting, internal control, compliance, audit and other matters about which the employee has concerns.

PART 3: THE RISK MANAGEMENT FRAMEWORK

- 107. Risk management is an integral part of the internal governance involving all areas of a regulated entity and there is a strong link between good corporate governance and sound risk management. Each regulated entity shall have in place a proper risk management, covering all its functions and activities.

Risk Management Framework and Culture

108. A regulated entity shall implement a proper risk management framework following the “*three lines of defense*” model in which:
- 108.1 the business unit is the first line of defense: he takes risk and is responsible and accountable for identifying, assessing and reporting the risk within policy framework, procedure, limit and control;
 - 108.2 the control function is the second line of defense: made of the risk management function and compliance function fully independent from the first line of defense, he monitors risk and reports to the senior management and the board; and
 - 108.3 the third line of defense is the internal audit function. Fully independent, the internal audit reviews the quality of the internal control and risk governance, including the first and the second line of defense.
109. Every regulated entity shall develop an integrated and institution-wide risk culture, which is a key element of the risk management framework, through policy, example, communication, and training of staff regarding their duty and responsibility for risk.
110. The board and senior management shall be responsible for the desired risk culture through:
- 110.1 enabling an open and respectful atmosphere in which an employee feels motivated to speak up when observing new or excessive risk;
 - 110.2 clarifying the range of acceptable risks using a risk appetite statement; and
 - 110.3 aligning incentive with the objective and clarifying how breach in policy/procedure shall be addressed.
111. The board of regulated entities shall report significant risk events to the Authority.

The Risk Management Functions

112. A regulated entity shall have an effective independent risk management function, with sufficient stature, independence, resource and access to the board. The size of the risk management function shall be commensurate with the size, complexity and risk profile of the institution. The independent risk management function responsibilities are to:
- 112.1 oversee the risk-taking activity across the regulated entity;
 - 112.2 identify material individual, aggregate and emerging risk;
 - 112.3 assess these risks and measure the regulated entity's exposure to them;
 - 112.4 develop and implement the risk governance framework approved by the board;
 - 112.5 monitor on an ongoing basis the risk-taking activity, the risk exposures in line with the board-approved risk appetite, the risk limit, and the breach of limit;
 - 112.6 influence and, when necessary, challenge decision that give rise to material risk;
and
 - 112.7 report to senior management and the board risk management committee on all these items including, but not limited to, proposing appropriate risk-mitigating action.
113. The regulated entity shall appoint a senior officer preferably a Chief Risk Officer (CRO) as the head of the risk management function. The head of the risk management shall be responsible for overseeing the development and implementation of the regulated entity's risk management functions. The key duties and responsibilities of the head of the risk management shall include:
- 113.1 strengthen staff skill and enhance risk management systems, policy, process, and report;
 - 113.2 ensure that the regulated entity's risk management capability is sufficiently robust;

- 113.3 support the board in its oversight of the development of the regulated entity's risk appetite and risk appetite statement;
 - 113.4 translate the risk appetite into a risk limits structure; and
 - 113.5 monitor the risk-taking activity and the adherence to risk limit.
114. The head of the risk management shall be independent, his duties and responsibilities shall be distinct from other executive functions, and shall not have management or financial responsibility related to any operational business lines or revenue-generating functions.
115. The board shall approve the appointment, removal and other changes to the head of the risk management position.

Risks Monitoring, Controlling and Communication

116. The regulated entity's risk governance framework shall include policy, appropriate control procedure and process, designed to ensure that the regulated entity's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the institution's size, complexity and risk profile.
117. Risk identification and measurement shall include both quantitative and qualitative element covering all material risks to the regulated entity (including concentration or reputation), on and off-balance sheet, and on an institution-wide, and business-line level.
118. The risk management information system (including data, IT) shall keep pace with financial position and revenue growth; consider the complexity of the regulated entity's business, its geographical expansion, the merger and acquisition, and the introduction of new product.
119. A regulated entity shall:
- 119.1 organize an ongoing communication about risk issues to develop a strong risk culture;
 - 119.2 promote risk awareness and encourage open communication;

- 119.3 communicate information to the board and senior management in a timely, accurate and understandable manner; and
 - 119.4 report without any delay to senior management and the board, as appropriate the information that requires immediate decisions.
120. The board shall regularly assess the relevance and the accuracy of the information it receives.

Compliance Function

121. A regulated entity shall have a compliance function. The regulated entity's senior management shall develop a compliance policy, which shall be approved by the board.
122. The Compliance Officer shall have appropriate seniority in the management of the regulated entity.
123. The main duties and responsibilities of the compliance function are to:
- 123.1 monitor the effective compliance of laws, rules, regulations and directives within the regulated entity;
 - 123.2 implement and ensure compliance of all matters relating to prudential rule, regulation and directive issued by the Authority;
 - 123.3 act as a focal point between the regulated entity and the Authority;
 - 123.4 collect information requested by the Authority from the regulated entity;
 - 123.5 check the correctness and promptness of the report submitted to the Authority;
 - 123.6 deal with any query or problem concerning the Authority returns and compliance with the prudential norms;
 - 123.7 report to the Authority on a quarterly basis the issues pertaining to non-compliance;

- 123.8 support corporate values through policy and process and advise the board and senior management on the regulated entity's compliance with applicable laws, rules, regulations and standards; and
 - 123.9 educate staff about compliance issues.
124. The board shall approve the appointment, removal and other changes to the Compliance Officer and it shall immediately notify to the Authority.

Internal Audit

125. A regulated entity shall have an internal audit that provides an independent assurance to the board of directors and senior management on the quality and effectiveness of a regulated entity's internal control, risk management and governance system.
126. A regulated entity shall have an adequate team of internal auditors, competent and professionally trained.
127. Internal audit shall:
- 127.1 have a clear mandate;
 - 127.2 be accountable to the board;
 - 127.3 be independent from the audited activity;
 - 127.4 require timely and effective correction of audit issue by senior management;
 - 127.5 perform a periodic assessment of the regulated entity's overall risk governance framework, including, but not limited to, an assessment of: the effectiveness of the risk management and compliance functions; the quality of risk reporting to the board and senior management; and, the effectiveness of the regulated entity's system of internal control;
 - 127.6 in the case of a serious breach such as fraud or embezzlement, report immediately to the Authority; and

- 127.7 submit reports and findings to the Board Audit Committee. However, on matter of exigency, an internal auditor may present the finding to the shareholders. Such report shall also be communicated to the Authority.
128. The board and senior management shall contribute to the effectiveness of the internal audit function; and respect and promote the independence of the internal audit function.
129. The board shall approve the appointment and removal of the head of the internal audit.

COMPLIANCE MONITORING AND REPORTING

130. The Authority shall monitor adherence to the CGRR 2024 through its regular supervision of the regulated entities;
131. The regulated entity shall be required to submit a compliance report including any non-compliance of the CGRR 2024 with such frequency that the Authority may notify to the regulated entity from time to time; and
132. The report shall also explain the reasons for non-compliance if any.

ENFORCEMENT

133. The Authority shall take remedial actions against the regulated entity that have not corrected the weaknesses or non-compliance issues identified by the Authority.

DEFINITIONS

136. In these Rules and Regulations, the following terms shall have the meanings indicated, unless the content clearly indicates otherwise.
- i. **“Act”** means the Financial Services Act of Bhutan 2011.
 - ii. **“Authority”** means the Royal Monetary Authority of Bhutan established under the Royal Monetary Authority Act of Bhutan 2010.
 - iii. **“Board”** or **“Board of Directors”** means the body that governs the regulated entity and supervises its management.
 - iv. **“CEO”** means Chief Executive Officer as defined in Sections 34 and 35 of the Act.
 - v. **“Companies Act”** means the Companies Act of Bhutan 2016.
 - vi. **“Control function”** means internal audit, risk management and compliance functions.
 - vii. **“Executive Director”** means a member of the board who also has management responsibilities within the regulated entity.
 - viii. **“Family member”** means a natural person and includes spouse, dependent children or other dependents of a person being of the same household.
 - ix. **“Independent Director”**, defined in section 371 of the Act, is further defined in this Rules and Regulations.
 - x. **“Non-Executive Director”** means a member of the board who does not have management duties and responsibilities within the regulated entity.
 - xi. **“Public Company”** has the same definition as defined in the Companies Act of Bhutan 2016.

- xii. **“Key Responsible Person”** has the same definition as in section 5.1.2 of the Rules and Regulations for Accountability of Key Responsible Persons of Regulated Entities 2022.
- xiii. **“Regulated Entity”** means bank, insurance company, pension and provident fund, fund management or any other entity as specified by the Authority as per the Act.
- xiv. **“Senior Management”** means Chief Executive Officer and senior officers appointed by the board for the day-to-day management of a regulated entity.
- xv. **“Significant Owner”** has the same definition as in Section 371 of the Act.

ANNEXURE I: CODE OF ETHICS

1. Scope and Application

The Code of Ethics shall apply to the board of directors, officers and employees of regulated entities.

This Code is intended to serve as a guide for the promotion of proper ethical standards, and sound and prudent business practices amongst regulated entities. Such a code of ethics shall not, however, restrict or replace the mature judgment of staff in conducting his or her day-to-day business. Where there is doubt over matters relating to the code of ethics, staff shall seek guidance from his or her supervisor or from the Authority.

A regulated entity may adopt additional in-house rules, which require ethical standards not below those required by this Code.

2. Principles of Ethical Conduct

The following principles must guide ethical conduct by a director, officer and/or employee of regulated entities:

- a. to manage conflict of interest;
- b. to avoid misuse of position;
- c. to prevent misuse of information gained through the regulated entity's operation, either for personal gain or for any purpose other than that intended by the regulated entity;
- d. to ensure completeness and accuracy of relevant record;
- e. to ensure confidentiality of communication and transaction between the regulated entity and its supplier and customer; and
- f. to ensure fair and equitable treatment of all supplier, customer and other who engage in business with the regulated identity.

3. Conflict of Interest

The directors and employees shall not engage directly or indirectly in any business activity that conflicts or competes with the regulated entity's interests. These activities include, but are not limited to:

a. Outside Financial Interest of Directors

The directors of regulated entity shall fully disclose to its board any commercial, financial, agricultural, industrial, or other business interest with which he or members of his immediate family may at any time directly or indirectly be interested and shall refrain from voting on any matter related thereto which becomes the subject of board action: provided that such an interest, if so disclosed, shall not disqualify the interested party for the purpose of constituting quorum.

b. Outside Financial Interest of Employees

Where an employee has a financial interest in a party that engages or proposes to engage in a transaction with the regulated entity, whether as a sole proprietor, partner, shareholder, creditor or debtor, such an interest must be disclosed immediately to his immediate supervisor. Thereafter, that person shall not be directly involved in the regulated entity's dealing with the counterparty so long as the interest continues to exist. This restriction does not apply in cases where persons have holding of publicly listed security, unless their immediate supervisor considers the interest to be material and likely to impair the objectivity of the person concerned.

c. Other Business Interest

It is a conflict of interest if an officer or employee conducts business other than the regulated entity's business during office hours. A conflict of interest also arises where there is the acquisition of any business interest, or participation in any business activity outside. The regulated entity and its office hours, demands excessive time and attention from the staff, thereby depriving the regulated entity of the person's best efforts on the job.

d. **Entertainment and Gift**

- i. a director or senior officer of the regulated entity shall not accept or offer any improper payment or benefit in connection with his role at the regulated entity. He shall not obtain or seek to obtain personal advantage from any person or entity dealing with the regulated entity;
- ii. gift and entertainment given and received with the intention of unduly influencing business decisions are a form of bribery and are prohibited. In particular, a director or senior officer must not solicit or accept any gifts or inducements where the value of such could make it appear the person giving the gift is attempting to influence the director or senior officer to gain advantage or to create a sense of obligation;
- iii. directors and senior officers of the regulated entity shall not seek to improperly influence others or official decisions by providing gifts or favors. The regulated entity shall not support the direct giving of political donations in cash or in kind to any political party or group; and

- iv. the board shall issue policies in relation to accepting, declaring and/or recording the receipt of gifts or benefits.

4. Misuse of Position

- a. a director, staff and immediate family and his relative, officer and employee shall not use the regulated entity's name or facility for personal advantage in investment or retail purchasing transaction, or in similar type of activity. A director and staff, and his relative must not use their connection with the regulated entity to borrow from or become indebted to customers, prospective customers or suppliers. The use of position to obtain preferential treatment, such as in purchasing goods or security is prohibited; and
- b. a director, officer and employee of regulated entity must not use the institution's facility or influence for speculating in commodities, gold, silver, foreign exchange or securities, whether acting personally or on behalf of relatives. A director, officer and employee must also refrain from "back-scratching" exercises with director, officer and employee of other regulated entity to provide mutually beneficial transaction in return for similar facility, designed to circumvent this ethical rule and regulation.

5. Misuse of Information

- a. a director, officer or employee shall not use any information which he/she may obtain in the discharge of his/her duties about the regulated entity itself, or any of its customers or suppliers, for his or another's personal or financial gain;
- b. a director, officer or employee shall not deal in the securities of any company listed or pending listing on a stock exchange at any time when he or she is in

- possession of information obtained as a result of his/her employment by, or his or her connection with the regulated entity, which is generally not available to shareholders of that company and the public, and which, if it were so available, would likely bring about a material change in the market price of the securities of the company concerned; and
- c. a director, officer or employee who possesses on-public information concerning a company is prohibited from influencing any other person to deal in the security concerned or communicating such information to any other person, including other director, officer or employee who do not require such information in discharging their duty.

6. Integrity of Records and Transactions

- a. a regulated entity must at all times maintain clearly, accurately and in complete form accounting record and report as are necessary to reflect the true state of its affairs, to explain its transactions and its financial position;
- b. regulated entity shall not make entries or allow entries to be made for any account, record or document of the regulated entity that is false or would obscure the true nature of a transaction, or mislead the true authorization limits or approval by the relevant person of such transactions; and
- c. all records and computer files or programs of the regulated entity, including personnel files, financial statements and customer information, must be accessed and used only for the purpose approved by the management.

7. Confidentiality

- a. a director, officer or employee must take precautions to protect the confidentiality of customer information and transaction. No director, officer or employee shall divulge information regarding any customer, or any correspondence, accounts or dealings of the regulated entity with its customers to any person other than Authority or judicial orders; and
- b. business and financial information about any customer maybe used or made available to third parties only with the prior written consent of the customer, or in accordance with arrangements for the proper interchange of information between regulated entity and Credit Information Bureau about credit risk, or when law requires disclosure.

8. Fair and Equitable Treatment

All business dealings on behalf of the regulated entity with current and potential customers and suppliers and with members of the staff must be conducted fairly and equitably, without granting favored terms. A director, officer and employee must not be influenced by friendship or association, either in meeting a customer's or a supplier's requirements, or in recommending what transactions or procedures need to be conducted. Such decisions shall be strictly made on an arms-length basis. Any related party transactions must be in full compliance with applicable law, regulation and this code and must be based on normal business criteria and fully documented. All transactions with insiders or related parties must not be on preferential terms.

9. Addressing Suspected or Actual Illegal or Unethical Behavior

- a. board of directors of regulated entity shall promote ethical behavior by:

- i. encouraging company employees to talk to supervisors when in doubt about the best course of action in a situation that presents an ethical issue; and
 - ii. encouraging board of directors and employees to report violations of laws, rules, regulations or the company code of ethics to the chairman of the Audit Committee.

- b. the Chairperson of the board must keep confidential the source of information communicated to him or her concerning violation of laws, regulations or a code of ethics;

- c. a director or an employee shall not be subject to retaliation for reporting made in good faith of violations of laws, rules, regulation or a code of ethics; and

- d. the board shall ensure that credible reported violations of laws, regulations or a code of ethics shall be investigated by a person designated by the board and disciplinary action shall be taken inherent of any violation that is appropriate in relation to the gravity of the violation.

10. Recruitment of Employees by Regulated Entities

An employee terminated by any other regulated entity based on embezzlement of funds or fraud shall not be recruited in by any regulated entity. Before recruiting an employee, a prospective regulated entity employer must conduct due diligence of the candidate.

ANNEXURE II: EXTENT OF APPLICABILITY OF CGRR 2020 TO OTHER FINANCIAL SERVICE PROVIDERS

1. The financial service providers listed in this Annexure are expected to apply the general principles and practices of good corporate governance stipulated in the CGRR 2024. The extent of applicability and exemptions of CGRR 2024 to the financial service providers shall be as listed in the table below. (√) mark indicates that it is required to comply with the provision and (X) indicates that it does not need to comply with the provision.
2. The brokers, loss adjusters and private money lenders shall be exempted from the application of CGRR 2024.

	OTHER REGULATED ENTITIES			
CGRR Provisions	Deposit Taking MFI	Microloan Institutions	Credit Information Bureau	Fund Management Company
BOARD COMPOSITION				
The board of directors of a regulated entity shall have at least two independent directors.	Shall have at least one independent director.	Recommended to have one independent director.	Shall have at least one independent director.	Shall have at least one independent director but recommended to have two.
There shall not be an executive director on the board of regulated entity other than the CEO.	√	√	√	√

Not more than one member of a family, as defined in CGRR 2020, or an associate - (partner, employee, director) shall be in the board of a regulated entity.	√	√	√	√
To enable adequate time commitment to the governance of the regulated entity, the non-executive board directors shall not hold more than three directorships in the public companies.	X	X	√	X
FIT AND PROPER REQUIREMENTS				
Any person to be appointed or reappointed as a board of director or a CEO in the regulated entity shall obtain <i>No Objection Letter</i> on fit and proper from the Authority.	√	√	√	√
TENURE OF DIRECTORS				
An ordinary director of a regulated entity shall be appointed for a term not exceeding three years, which may be extended by another term. The Authority may consider the appointment of the director in the same	√	√	√	√

regulated entity for the third term after serving two consecutive terms. However, he/she shall have to complete a minimum cooling period of one year after serving two consecutive terms.				
An independent director shall be appointed for a term not exceeding three years in the same regulated entity. However, the Authority may consider the reappointment for one more term-based on review of his performance and criteria of independence.	√	√	√	√
BOARD MEETINGS				
The board shall meet at least once in every three months or at least four times in a financial year.	√	At least two meetings in a financial year.	√	At least two meetings in a financial year.
CHAIRPERSON OF THE BOARD				
A regulated entity shall notify to the Authority about the appointment of the Chairperson of the board.	√	√	√	√
The Chairperson and the CEO shall not be the same person.	√	√	√	√

COMPANY SECRETARY				
The board shall appoint a Company Secretary to support the board in carrying out its duties and responsibilities effectively.	Not mandatory but recommended.	X	Not mandatory but recommended	Not mandatory but recommended.
CHIEF EXECUTIVE OFFICER (CEO)				
A CEO of a regulated entity shall be appointed for a term not exceeding the tenure specified in Section 35 of the Act, which may be extended for another term.	√	√	√	√
A candidate for the CEO position of a regulated entity shall not be more than 65 years old at the time of applying for the position. The CEO shall resign upon completion of two consecutive terms or upon reaching the age of 70 years, whichever is earlier.	√	√	√	√
To ensure the CEO's attention to the operation of the regulated entity is not affected, the CEO shall hold no more than three directorships in the public	√	√	√	√

companies or other entities including the membership in the board where he is employed as the CEO.				
To preserve an appropriate separation between ownership and management of a regulated entity, a significant owner shall not hold CEO or a senior management position in the regulated entities.	√	√	√	√
BOARD COMMITTEES				
Every board of a regulated entity shall establish an Audit Committee and Risk Committee.	Shall have an Audit Committee.	Recommended to have at least an Audit Committee.	Shall have an Audit Committee.	Shall have an Audit Committee.
COMPLIANCE FUNCTION				
A regulated entity shall have an independent compliance function.	√ (may designate a staff as focal person to undertake the functions of compliance).	√ (may designate a staff as focal person to undertake the functions of compliance).	√ (may designate a staff as focal person to undertake the functions of compliance).	√ (may designate a staff as focal person to undertake the functions of compliance).
INTERNAL AUDIT				
A regulated entity shall have an independent internal audit.	√	√	√	√

RISK MANAGEMENT FUNCTIONS				
A regulated entity shall have an effective risk management function.	√ (may designate a staff as focal person to undertake the functions of risks).	X	X	√ (may designate a staff as focal person to undertake the functions of risks).
DISCLOSURE AND TRANSPARENCY				
A regulated entity shall provide a corporate governance report as part of its annual report.	√	√	√	√
The regulated entity shall publish the annual report on its website.	√	√	√	√