



Bank of Papua New Guinea

Papua New Guinea Savings and Loan Societies

Code of Conduct For Directors and Committeemen.

Code of Conduct

This Code of Conduct was Developed by the Bank of Papua New Guinea with the assistance from the Federation of Savings and Loan Societies LTD to make clear the expectations for behaviour of officers of savings and loan societies. As part of Fit and Proper Person requirements (see page 7), each director and committeeman must submit to the federation a signed commitment to the code to acknowledge understanding of the contents and consequences of a breach.

For additional copies of this booklet, contact either the Bank of Papua New Guinea or the Federation of Savings and Loan Societies.

MESSAGE FROM THE GOVERNOR OF THE BANK OF PAPUA NEW GUINEA

Savings and Loan Societies play an important role in the provision of financial services and grassroots development in Papua New Guinea. Success depends on the integrity of those who hold office in the savings and loan society.

The Code of Conduct, for the first time, sets out the Bank's expectations that all directors, committeemen and management will commit to the highest levels of honesty and ethical behaviour. The Code forms part of the Bank's Fit and Proper Person requirements and breach may result in the removal from office.

L. Wilson Kamit
Governor

MESSAGE FROM THE PRESIDENT OF THE FEDERATION OF SAVINGS AND LOAN SOCIETIES LTD.

The Federation of Savings and Loan Societies Limited fully supports and welcomes the Bank of Papua New Guinea's initiatives in taking on the challenge of implementing the current Governments commitment to financial systems reform to create an efficient and stable financial system in Papua New Guinea.

The Federation sees the introduction of the Code of Conduct as a step in the right direction as this will go a long way to assist in governing the behaviour of directors and committeemen of savings and loan societies. Not only this, but, it will also compliment our endeavours to improve the confidence, quality of management and community standing of the Savings and Loan Industry.

Michael Koisen

President

Savings and Loan Societies

Directors and Committeemen

Code of Conduct

PURPOSE OF THE CODE

The Code provides guidance to directors and committeemen to assist them in carrying out their duties and responsibilities. The Code establishes standards of professional conduct that are expected of directors and committeemen of savings and loan societies.

Development and support of codes of conduct or statements of ethical standards provide tangible evidence of commitment to integrity and the interests of members. Given the current lack of confidence by the community in financial institutions, introducing a code of conduct at this time may have the following additional benefits:

- enhance the savings and loan industry's reputation for fair and responsible dealing;
- give all employees, members and potential office bearers a clear understanding of the high standard of behavior expected throughout the organization;
- gives the focus that the purpose of a savings and loan society is to serve its members and the community; and
- contribute to the development and culture of accountability and transparency and greater member confidence.

DEFINITIONS

DirectorS includes all directors and members of supervisory, loan and any other committees.

Society means a savings and loan society licensed under the *Savings and Loan Societies (Amendment) Act 1995*.

Associated person in relation to a director includes any spouse (including a *de facto* spouse), parent, child, brother or sister of the director or any company, corporation, partnership, trust or other entity owned or controlled by the director or in which the director

has a material personal interest.

Code of Conduct

Directors and Committeemen of Savings & Loan Societies

1. A director must act honestly, in good faith and in the best interests of the society as a whole.
2. A director has a duty to use due care and diligence in fulfilling the functions of office and exercising powers attached to that office.
3. A director must recognise that the primary responsibility is to the society's members as a whole but should, where appropriate, have regard for the interests of all stakeholders of the society.
4. A director must use the powers of office for a proper purpose, in the best interests of members and the society as a whole.
5. A director must not make improper use of information acquired as a director.
6. A director must not take improper advantage of the position of director.
7. A director must not allow personal interests, or the interest of any associated person, to conflict with the interests of the society.
8. A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the board of directors or committee on which the director serves.
9. A director must not disclose confidential information acquired as a director unless that disclosure has been authorised by the company, or the person from whom the information is provided, or is required by law.
10. A director should not engage in conduct likely to bring discredit upon the society.
11. A director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with principles of this Code.

Guidelines for the interpretation of the Principles of the Code of Conduct

The following guidelines are intended to assist directors and committeemen to comply with core principles of the Code of Conduct.

1 DUTIES TO THE SOCIETY

- 1.1 Each director should try actively to ensure that the functions of the board have been specified clearly, are understood properly and are discharged competently in the interests of the society and its members.
- 1.2 A director should try to ensure that the management of the society is competent and is devoting its time and energy to the interests of the society and its members.

1.3 In evaluating the interests of the society, a director should take into account the interests of the members as a whole, but where appropriate or required by law should take into account the interests of creditors and others.

2. DUTIES TO MEMBERS

2.1 Each director should try to ensure that the society is financially viable, managed properly and improved constantly so as to protect and enhance the interests of its members.

2.2 A director should seek to ensure that all members are treated fairly according to their rights.

2.3 A director should consider whether any benefit to be received by the director or an associated person requires the approval of the members, even if not required by law. Each society should develop and publish for directors and members clear guidelines on provision of benefits to directors and their associates.

3. DUTIES TO CREDITORS

3.1 There are situations when it is necessary to evaluate the interests of creditors. If the society's financial position is uncertain or where insolvency may be pending a director should urgently seek professional advice.

4. DUTIES TO OTHER STAKEHOLDERS

4.1 All societies and their directors must comply with the legal framework governing their operations and must be conscious of the impact of their business on the wider community. Without limiting the matters of concern to directors, attention should be paid to occupational health and safety, equal opportunity, industrial relations and other laws affecting business.

5. DUE DILIGENCE

5.1 A director should attend all board meetings. Where attendance at meetings is not possible, appropriate steps should be taken to obtain a leave of absence.

5.2 A director must acquire knowledge about the business of the society and the statutory and regulatory obligations affecting directors in the discharge of their duties contained in the *Savings and Loan Societies (Amendments) Act 1995*, associated regulations and the society's own rules.

5.3 To be fully effective, a director should insist upon access to all relevant information to be considered by the board. This information should be available to allow sufficient time for proper consideration of all relevant issues. If information is not provided, the director should make appropriate protest, if necessary abstain from voting on the particular matter and, if necessary, advise BPNG as regulator. Any abstention, and the reasons for it, should be included in the minutes. It may also be appropriate to vote against the motion or move to defer the vote until proper and full information is available.

5.4 A director should try to ensure that systems are established within the society to provide the board and committees, on a regular and timely basis, with necessary data to enable the board to make well informed decisions and so discharge the duties of care and diligence. An internal audit of systems by the supervisory committee or other internal audit function supporting the board should be conducted regularly.

5.5 A director should try to ensure that the auditors have direct and unimpeded access to the board. A director should be satisfied that scope of the audit is adequate and that it is carried out thoroughly with full co-operation from the management, supervisory committee and internal auditors.

5.6 A director should try to ensure that the society and all its directors comply with the law and the Code of Conduct.

5.7 A director from time to time may need expert advice (legal, financial or otherwise) in order to discharge their duties properly. The director should ensure that any advice obtained is independent of the society and its directors.

6. CONFLICT OF INTEREST

6.1 A director must not take improper advantage of the position as a director to gain, directly or indirectly, a personal advantage or an advantage for any associated person.

6.2 The personal interests of a director, and those of the director's family, must not be allowed to prevail over those of the society or its members. A director should avoid conflicts of interest wherever possible. Full disclosure of any conflict, or potential conflict, must be made to the board. In considering conflicts of interest, directors must take account of the size of the potential conflict for the society and possible negative publicity and other consequences if it is not handled properly. Where a conflict does arise, a director must consider whether to refrain from participating in the debate and voting, whether to be absent from discussions, whether to even receive relevant board papers or in the extreme resign from the board.

6.3 An executive director must always be alert to the potential for conflicts of interest between management's interests and the director's fiduciary duties.

6.4 The payment of "success fees" in situations of potential conflict of interest is unacceptable. In plain terms, a director or associated person should never receive a payment or commissions, either directly or indirectly, for work done on behalf of the society, purchase or sale of assets by the society or other business arrangement with third parties. The only exception may be where, on an arm's length basis, the society engages a director's company to undertake work, for example, where a director is a lawyer and his firm's services are engaged by the society. In these circumstances, no retainer should be paid and payments should only be made for work completed.

7. USE OF INFORMATION

7.1 A director must not make improper use of information acquired by virtue of their position as director. This prohibition applies irrespective of whether the director would gain, directly or indirectly, a personal advantage or an advantage for any associated person, or whether there is any detriment to the society or not.

7.2 A director who takes the serious step of resignation on a point of principle should consider whether the reasons for resignation should be disclosed to members or the BPNG as regulator. In deciding whether or not to make public the reasons for resignation, a director should have regard to the following:

- the duty not to disclose confidential information so as to damage the society, and
- the duty to act in the interests of the society and its members.

8. PROFESSIONAL INTEGRITY

8.1 An executive director should recognise that the position occupied is potentially sensitive. A director must be prepared, if necessary, to express disagreement with colleagues including the managing director. However, in the absence of a need to express disagreement, an executive director should be prepared to implement the decisions of the board and instructions of the managing director as a loyal member of the board.

8.2 If there is any doubt whether a proposed course of action is inconsistent with a director's fiduciary duties, then the course of action should not be supported. Independent advice should be sought as soon as possible to clarify the issue and, if necessary, referred to BPNG as regulator.

8.3 When a director feels so strongly as to be unable to abide a decision of the board, some or all of the following steps should be considered:

- make the extent of the dissent and its possible consequences clear to the board as a means of seeking to influence the decision;
- ask for additional legal, accounting or other professional advice;
- ask that the decision be postponed until the next meeting to allow time for further consideration and informal discussions and possibly referral to BPNG;
- table a statement of dissent and ask that it be included in the minutes;
- write to the chairman, or all members of the board, and ask that the letter be filed with the minutes;
- if necessary, resign, and advise BPNG as regulator.

8.4 "Opinion shopping" and the search for loopholes in the law is unacceptable.

Fit and Proper Person Test

The Registrar may deem a person unfit if:

- that person either does not commit to, or breaches the Code of Conduct;
- the person or society has not met requirements of the Act; or
- the person has not undertaken adequate education and training to continue as an officer or employee.

Legislative Power

Regulation 1 of the Savings and Loan Societies (Amendment) Act 1995 states:

The Registrar may direct a society -

- (i) remove from office an officer or member; or
- (ii) remove from employment an employee

whom he thinks to be unfit for the discharge of his duties.