



FSI Governance
Board effectiveness
Insights & (emerging)
best practices

EcoDa
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Functioning and effectiveness of Boards

Board Composition (1/2)

	Size and Structure	Independence
	<i>Can have an impact on the quality of debate on the Board and on its effectiveness</i>	<i>Higher expectations with regard to the level of independence on the Boards</i>
Identified focus areas	<ul style="list-style-type: none"> • Large Board can hamper interactive discussions • Small Boards can face diversity issues • Lack of clarity in the definition of the scope structure and composition of Boards 	<ul style="list-style-type: none"> • Strengthen Boards' independence • Enhance its capacity to independently challenge senior management • Insufficient independency limits its oversight capacity
Requirements / Expectations	<ul style="list-style-type: none"> • The size should not affect the Boards' functioning • Internally assess the impact of the size on the Board's performances • Identifying measures to improve • Increase efficiency and allow deeper focus in specific area (structure) • Clear structure to avoid overlaps on topics 	<ul style="list-style-type: none"> • Sufficient number of formally independent Board members • "Formal" independence based on regulatory criteria and criteria determined by the company • Chair of Boards should be a non-executive Board member • Independence in "mind": avoid potential conflicts of interest • Continuous assessment by the Board of the conflict of interest framework and the integrity policy
(Emerging) Best practices	<ul style="list-style-type: none"> • Periodic in depth evaluations of the size and structure of the Boards and its committees. 	<ul style="list-style-type: none"> • Towards independent Boards? • Activation of independent directors in the participation of debate and challenging management • Clear expectations towards INEDS with regards to their role and expected contributions

Functioning and effectiveness of Boards

Board Composition (2/2)

	Collective knowledge and diversity	Succession planning
	<i>Composition of the Board as a collective body</i>	<i>Succession planning not defined or room left for improvement</i>
Identified focus areas	<ul style="list-style-type: none"> Improvement of the collective knowledge of the Board, some areas of expertise can be strengthened such as IT and accounting (within Board or via external advice?) Training and induction arrangements not always sufficient 	<ul style="list-style-type: none"> Difficulty to identify a pipeline with suitable & available (candidate) directors Concentration of Board members leaving within a short period of time
Requirements/ Expectations	<ul style="list-style-type: none"> All Board members should be in position to understand the business model of the institution and the regulatory framework Challenge executive members Identification of potential gaps of knowledge Define corrective actions 	<ul style="list-style-type: none"> Formalize a succession process Ensure adequate transition and continuity of the activities of Board members Develop and implement mechanisms when several members are leaving
(Emerging) Best practices	<ul style="list-style-type: none"> Appointment of new members with specific expertise or national background Development of in-depth training programs based on an expertise-matrix Small but useful things can make big difference (glossary, clear explanation of dashboard methodologies etc.) Collective knowledge and diversity: certain areas of expertise could be further strengthened (e.g. accounting, IT/cyber,...) 	<ul style="list-style-type: none"> Identification in advance of the profile of future candidates List of potential candidate as a precautionary measure

Functioning and effectiveness of Boards

Role and responsibilities and governance arrangements

	Role and responsibilities of the Board and its committees	Governance arrangements
	<i>Increasing</i>	<i>Governance arrangements in group context</i>
Identified focus areas	<ul style="list-style-type: none"> Increasing volume of work Impact of regulation on the balance of topics on the agenda/ in the debate Sometimes focus on monitoring & control rather than strategy. 	<ul style="list-style-type: none"> Increased regulatory activity and increased supervisory expectations Increased focus on adequate conflict of interests arrangements More focus on group context (subsidiary governance) A greater call for Board accountability by stakeholders
Requirements/ Expectations	<ul style="list-style-type: none"> Board of directors has a double role in terms of strategy and monitoring Board agenda should reflect both monitoring and strategic elements Specialized committees support the Board of Directors with its tasks. 	<ul style="list-style-type: none"> Keep track of regulatory requirements and supervisory expectations Conflicts of interest arrangements need to be in place Adequate stakeholder management & engagement (e.g.. with regulators)
(Emerging) Best practices	<ul style="list-style-type: none"> Clarity of roles and responsibilities and transparent distribution of decision-making powers (governance manual) Periodic review of the Boards agenda, frequency of Board meetings and duration considering the increasing volume of work and full agenda of the Board. Clear mandate for all the Board committees with definition of roles and responsibilities, including "hands-off" points (specifically important for the audit committee and the risk committee) Be vigilant about new legislations and avoid 'mission creep' by extending too much of the scope of activities of the committees 	<ul style="list-style-type: none"> Sound regulatory watch & follow-up Invest in the relationship with stakeholders Regular review of COI-arrangements and Board trainings to keep a high level of awareness with the Board members. The balance between group and subsidiaries reflects the substance and culture of the business, subject to meeting regulatory and supervisory requirements Top down internal governance reviews in (global) banking groups to identify pressure points, unnecessary variations in practices between countries, and opportunities to optimize management time

Functioning and effectiveness of Boards

Organisation and Board dynamics

Organisation of Boards

Board's **practices** and **organization** play a vital role in the quality of debate

Interactions among Board members

Interactions among Board members and the ability of the chair to foster those interactions

Identified focus areas

- **Time** of debate is too **limited**
- Documentation is **not sent** sufficiently far **in advance**
- Board members are not sufficiently **proactive**
- **Asymmetries of information** among Board members

- **Domination** of debates
- **Information asymmetries** among Board members
- Capacity of non-executive Board members to challenge executive members (growing interest of regulators in the individual accountability of Board members)

Requirements/ Expectations

- Board and main committees need to **meet frequently** and for a **sufficient length of time**
- Board members to **prepare** thoroughly for meetings
- Board members expected to play a **proactive role**
- Develop practices to **facilitate interactions** among different committees (reduce asymmetries)

- Define measures to allow **open** and **critical** debate on Board
- Put in place measures which aimed at ensuring **regular reporting** by Board committee to the full Board

(Emerging) Best practices

- Board time optimization: identify opportunities for time optimization that may reduce the amount of time spent discharging basic statutory obligations and increase the time to look at more strategic issues
- Adequate preparation of Board agenda's: prepare **suggested topics** to be discussed, **Agenda-setting** across the year

- The chair of Board **fosters discussion** and **encourages** members to present different views
- Chair attributes topics to different Board members for in-depth preparation
- Board members **formulate specific requests** and action points
- Ask for **adjustments** in proposals

Functioning and effectiveness of Boards

Quality of documentation and oversight internal control framework

	Quality of documentation	Oversight of internal control framework
	<i>Documentation at the disposition of Boards may not always be relevant information</i>	<i>A further focus on the risk perspective and strengthening of control functions</i>
Identified focus areas	<ul style="list-style-type: none"> • Lack of conciseness of the documentation • Lack of clarity • Impact of data aggregation issues on quality of the risk reports • Insufficient details in minutes 	<ul style="list-style-type: none"> • Oversight by Boards of control functions should be further strengthened • Risk perspective should be further enhanced in Board discussions in most of the institutions
Requirements/ Expectations	<ul style="list-style-type: none"> • Clear and concise documentation • Executive summaries highlighting risks, opportunities, costs and benefits • The Board should maintain appropriate records of its deliberations and decisions • Adequate summary of matter reviewed, recommendations made, decisions taken and dissenting opinions 	<ul style="list-style-type: none"> • The Board should have full and direct access to heads of internal control functions • The head on the internal control functions should report regularly to the Board or its relevant committees
(Emerging) Best practices	<ul style="list-style-type: none"> • Concise management information: digestible and meaningful information, need for summaries, reporting on exception, focus on strategy, include key questions where upon reflection is expected • Timeliness of management information • Efforts to avoid information asymmetry between executives and (I)NEDS through adequate circulation of Board & committee documents 	<ul style="list-style-type: none"> • Adequate reporting from the chief compliance officer (CCO) to the risk committee concerning the main developments and risk area related to compliance • Quarterly reporting from the chief risk function to the risk committee • Discussions on the Board regarding the consequences of strategic topics in terms of risks (discussions on strategy definition, budgetary process, external acquisition, asset transfers, IT projects, etcetera,...)

Contact details

Caroline Veris



Partner
FSI Governance, Regulatory & Risk

E-mail: cveris@deloitte.com
Phone: + 32 2 800 2306
Mobile: +32 477 37 36 58

Marie-Elisabeth Bellefroid



Senior Manager
Expert Governance

E-mail: mbellefroid@deloitte.com
Phone: + 32 2 800 2504
Mobile: +32 478 77 76 21



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