

# 8<sup>th</sup> DFI Corporate Governance Group Meeting



**March 4-6, 2014**  
**Washington, D.C.**

# Synthesis of DFI Survey on Board Nomination



**Yannick Georges**  
*EIB -*



# Participants

- 31 Development Finance Institutions (DFIs).
- 9 Multilateral Financial Institutions  
14 International or Bilateral Financial Institutions
- **19 institutions fully completed** the questionnaire





# Methodology

- Online survey - from September to December 2013
- All signatories of the Corporate Governance Development Framework
- **Main Topics**
  - 1. Nomination practices**
    - a) Selection and Nomination process
    - b) Nomination Policy
    - c) Categories of Roles in Funds/Companies Representation
    - d) Appointment limits
    - e) Appointment Liability Insurance
  - 2. Exercise of Governing Responsibilities**
  - 3. Compensation / Remunerations**





# 1. Nomination practices

## 1. Nomination practices

### a) Selection and Nomination process

b) Nomination Policy

c) Categories of Roles

d) Appointment Limits

e) Appointment Liability Insurance

## 2. Exercise of Governing Responsibilities

## 3. Compensation / Remunerations

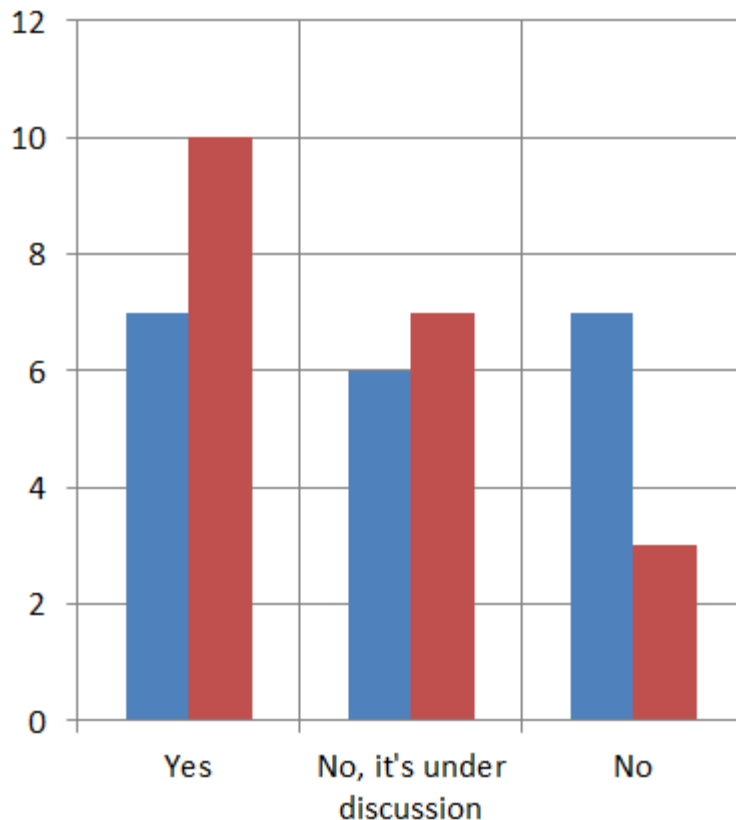




# 1. Nomination practices

■ Documented Selection process in place?

■ Documented Nomination Process in place?



Overall, there is a **trend to have formalised processes for selecting and nominating nominees.**



# 1. Nomination practices

- The **final approval on a nomination** is most often given by the Executive Committee/Management Board and/or the CEO/President.
- The nomination to a non-executive role may be delegated to 2<sup>nd</sup> level management (e.g. relevant sector/industry Director/Vice-President) and/or communicated to the Chief Compliance Office
- Nomination of a member of the management Board may require a Supervisory Board approval





# 1. Nomination practices

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## 2. Exercise of Governing Responsibilities

## 3. Compensation / Remunerations





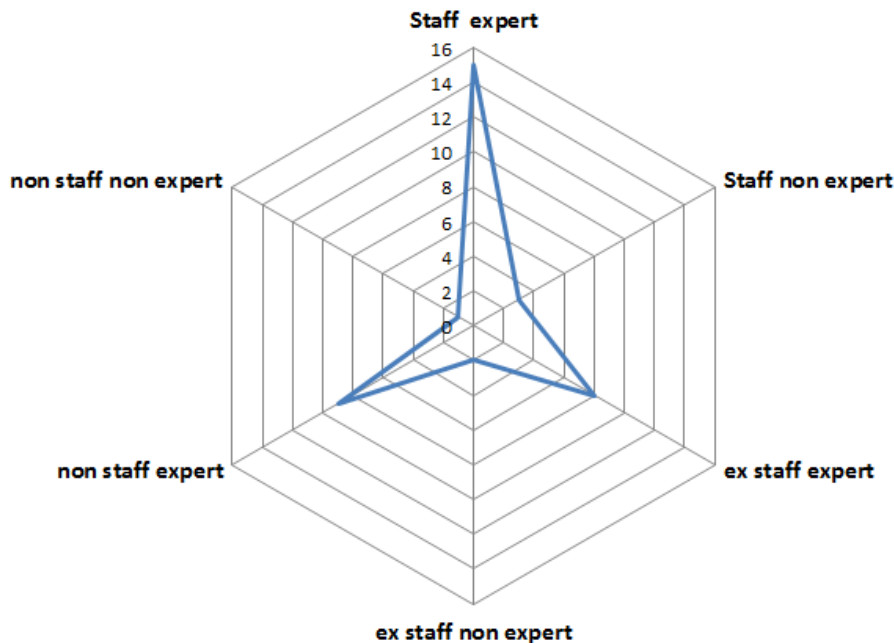
# 1. Nomination practices

*Does your institution nominate someone in an investee company/fund on a systematic basis?*

Answer Options	Response Percent	Response Count
Yes, when having such a right as a shareholder	76.2%	16
No, in some cases only (please specify when)	23.8%	5
	<i>answered question</i>	21
	<i>skipped question</i>	3

- Most institutions nominate **on a “systematic” basis** when they have shareholder rights.
- **When not systematic**, this may be dependent on; shareholding size, size of the company, whether it is listed, and the added value it can bring.

# 1. Nomination practices



Most institutions nominate someone with **financial/industry expertise**, preferably an **active staff member**.

The use of financial/industry experts, such as **retired executives** and/or **external service providers**, is considered in about 50% of the institutions.

*This may imply the importance of informal procedures and the absence of a formal definition and/or assessment criteria of expertise requirements in institutions that currently do not have a formal selection process.*





# 1. Nomination practices

- In most institutions, the nominee may be an active staff member who has participated in the design and appraisal of the investment operation.

*This may lead to potential governance issues if there are no specific conflict of interest rules in place to create effective information barriers/Chinese Walls.*





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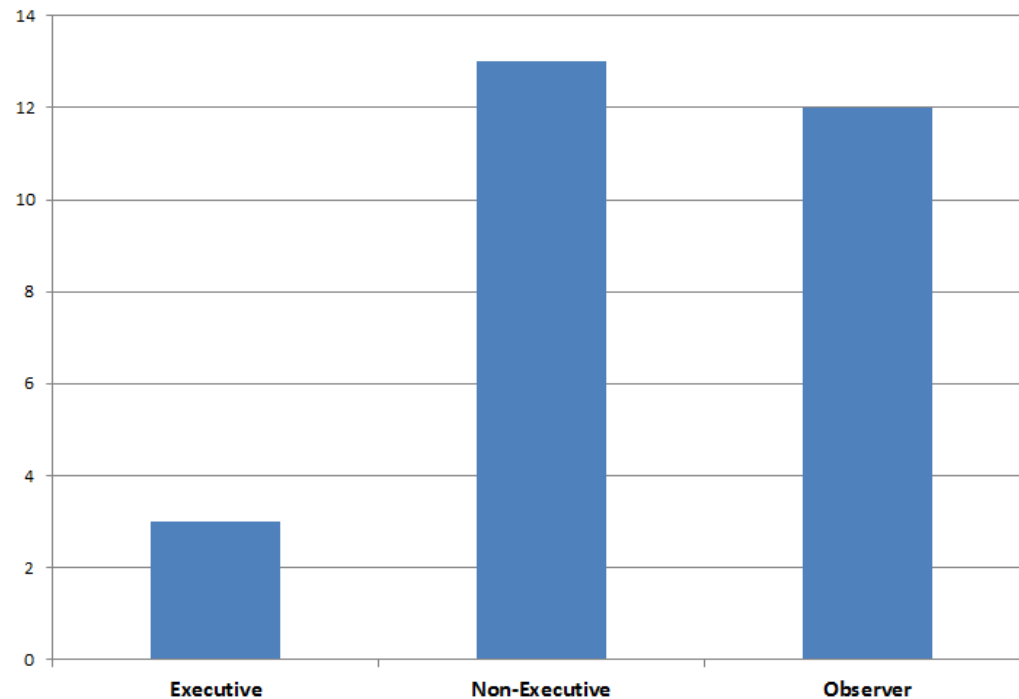
## 2. Exercise of Governing Responsibilities

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# 1. Nomination practices



**Most institutions allow for nomination to non-executive and observer roles.**

*Nomination to executive roles is a marked contrast with the rest of the institutions, which do not allow this.*





# 1. Nomination practices

*What is/are the primary role(s) of your non-executive/executive appointee in a governing body?*

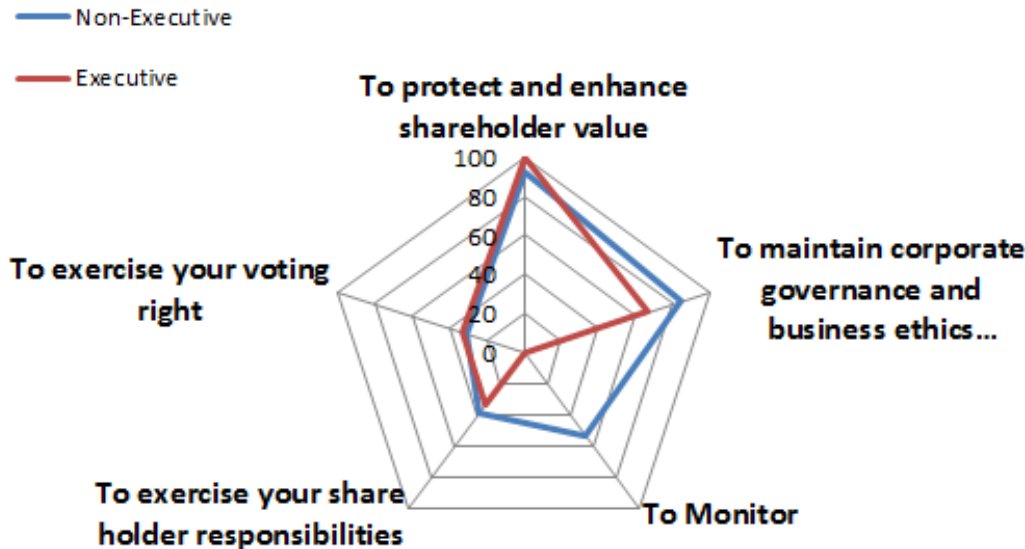
	Non-Executive	Executive
To act and vote independently, according to his/her own good judgment and conscience	69.2%	100.0%
To bring personal skills and expertise to the benefit of the investee company/fund	69.2%	100.0%
To support the monitoring of the management of the investee company/fund	53.8%	33.3%
To represent the views of your institution within the investee company/fund	46.2%	33.3%
To ensure fair representation of the shareholders	38.5%	66.7%
To monitor	23.1%	33.3%





# 1. Nomination practices

*What is/are the main driver(s) for nominating someone for a non-executive/executive position in an investee company/fund*

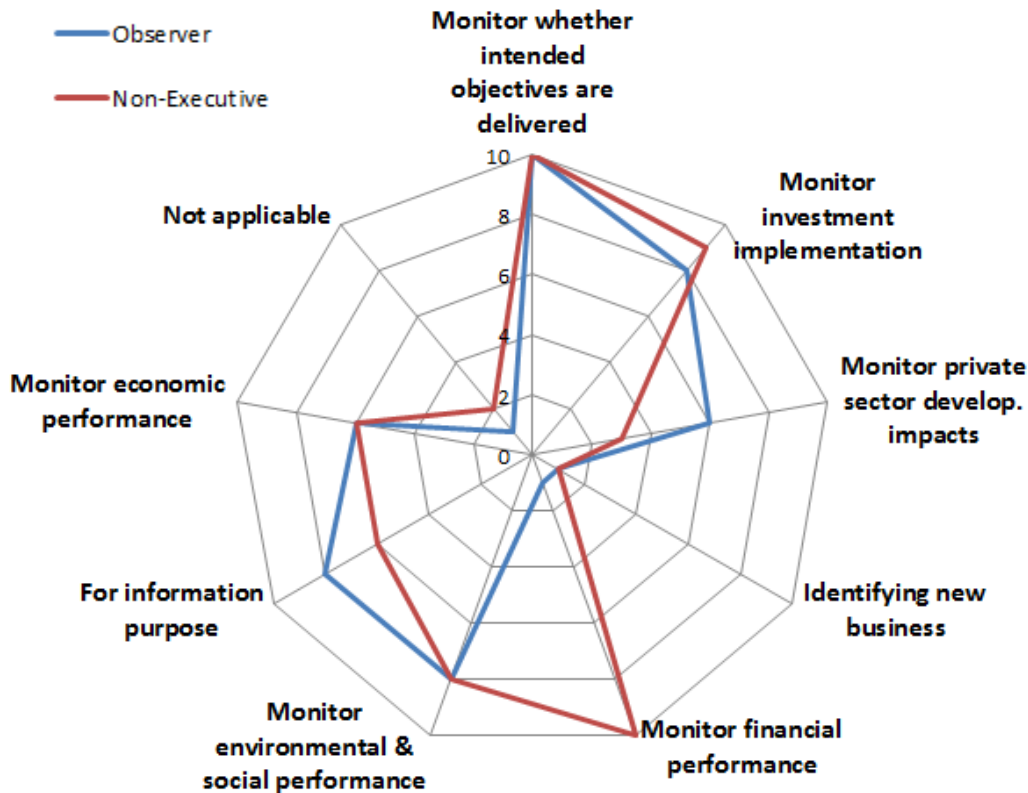


Although, monitoring is neither “the” primary role of an appointee nor “the” main driver to nominate appointees to executive and non-executive roles, **monitoring is a main driver for nominating someone to a “non-executive” position**



# 1. Nomination practices

*What is/are the main purpose(s) of monitoring in a non-executive role versus an observer role?*



Monitoring is the main driver for nominating someone to an observer role”.

Monitoring is a main driver for nominating someone to a non-executive role.

*There may be a need for further clarification on the respective monitoring priorities of these 2 roles.*





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# 1. Nomination practices

*Does your institution limit the number of external appointments that a staff member can hold?*

- **Most institutions** (72%) that have nominees in external organs **limit the number of Directorships** which may be held by their nominees at the same time.
- **Limits vary across institutions.**
- There is also **differentiation between** the appointment limits applicable to **staff** and **non-staff**.

*Does your institution seek to get nominees appointed for a defined period of time ?*

- Most institutions seek to **appoint nominees for a defined period of time**.





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## 2. Exercise of Governing Responsibilities

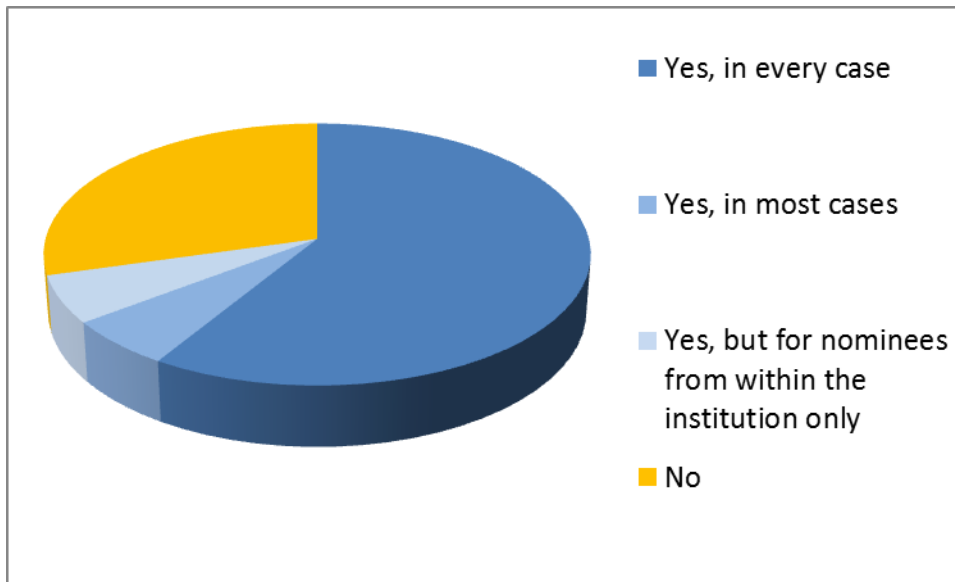
## 3. Compensation / Remunerations





# 1. Nomination practices

*Does your institution provide Directors Liability Insurance/Personal Liability Insurance coverage to its nominees?*



Most responding institutions provide **Directors/Personal Liability Insurance** coverage to their nominee.



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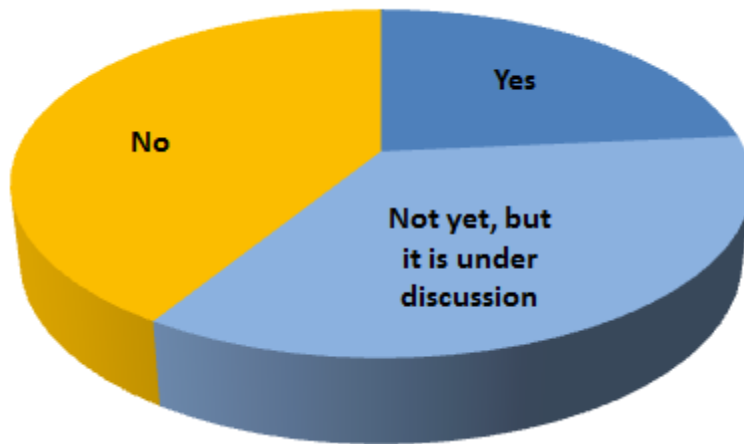
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## 2. Governing responsibilities

*Has your institution got a documented policy on how the nominee exercise governing responsibilities?*



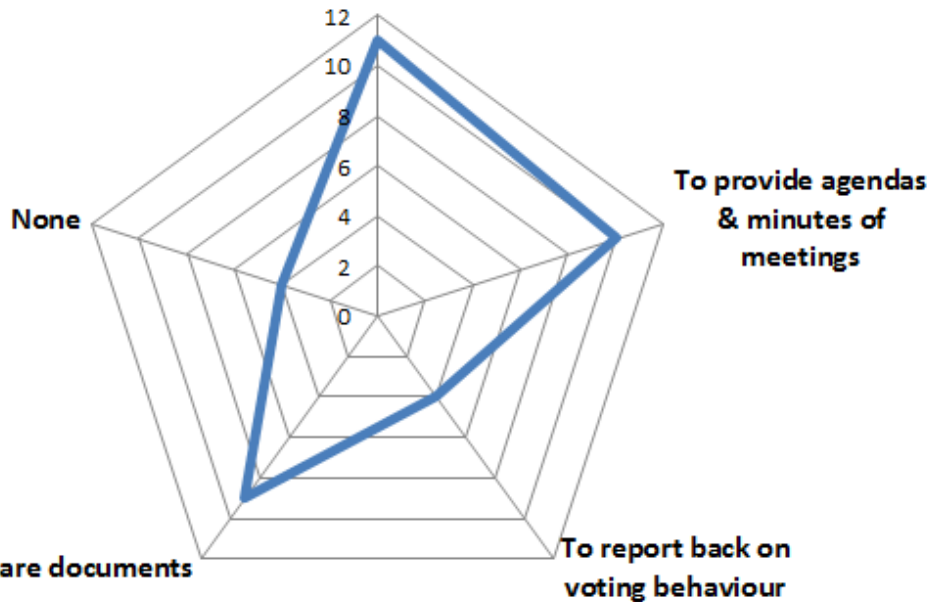
A documented policy on how the nominees **exercise governing responsibilities** is developed or under discussion in most institutions.



# 2. Governing responsibilities

*What are the reporting obligations of your nominee(s) in a investee company/fund?*

To report back on discussions and/or decisions of the Board/Committee



**In most responding institutions, nominees have reporting obligations on the exercise of their mandate.**

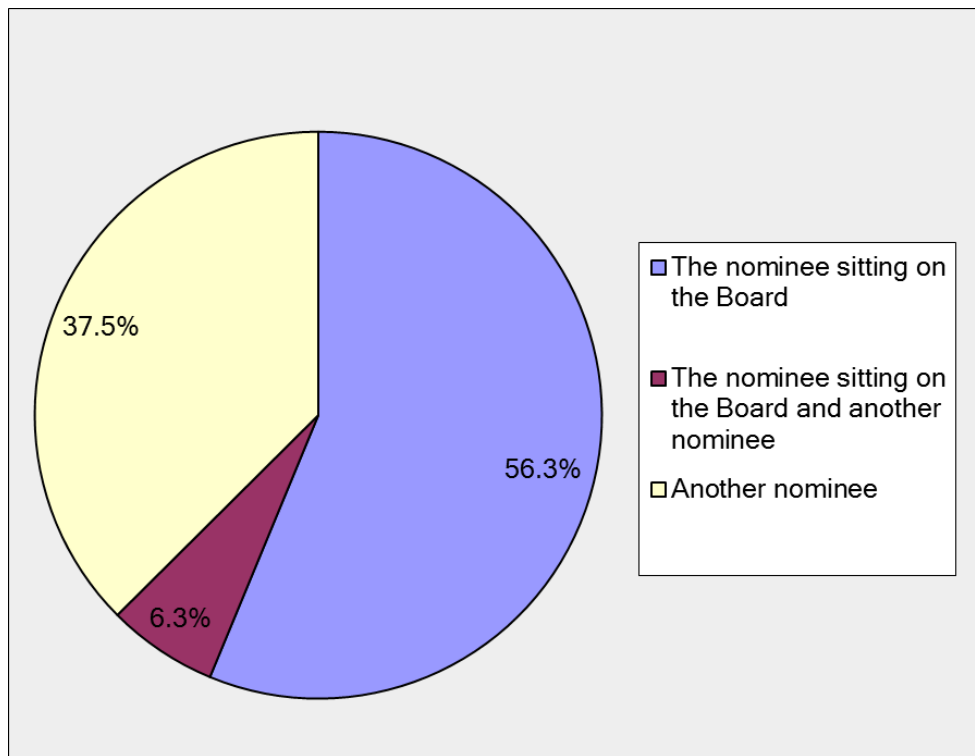
These reporting obligations vary significantly according to requirements of the applicable laws.





## 2. Governing responsibilities

*In general, who is your nominee(s) at the Annual General Meeting of the investee company/fund?*



**At Annual General Meetings:**  
More than 50 % of respondents stated their nominee at AGMs is their nominee sitting on the Board.

*This could imply an issue with nominee independence.*





# 2. Governing responsibilities

- Does your institution require consultation by the appointee in any of the following cases?

Answer Options	Response Percent	Response Count
If the appointee receives reliable evidence of any illegal activity by the company/fund	72.2%	13
Proposal to extend the investment period	61.1%	11
If the appointee is put into an unresolvable position of actual or potential conflict of interest	61.1%	11
If the appointee is not satisfied that the auditing, accounting and the bookkeeping of the company/fund is being carried out according to commonly accepted international accounting standards and the applicable domestic rules	61.1%	11
Any other decision with implications for risk management	50.0%	9
Proposal to set a waiver of the single asset contraction limit	44.4%	8
Never	5.6%	1
<i>answered question</i>		<b>18</b>
<i>skipped question</i>		<b>6</b>

Practice may differ between direct and indirect investments and/or between executive/non-executive roles.





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# 3. Compensation

- Remuneration policies for appointees vary: **Most institutions have not adopted internal guidelines for determining remuneration, but have guidelines for reimbursing costs.**
- **No institution provides specific financial compensation to active members of staff** (in addition to travel/mission expenses reimbursement). **Direct remuneration** (e.g. salary, allowances, and bonuses) **is the only kind of compensation** granted to staff nominees by the institutions.
- **Non-staff appointees** needed for the investee company/fund, **often get specific compensation.**





# Open issues

- **Role definition: Liabilities differ by jurisdiction**
- **Clarification of role requirements/duties**
- **There is evidence of common practices without formal policies/guidelines**





# Themes

- Diversity
- Nomination of internal staff vs. external people
- The role of observers
- Tenure
- Identification of potential Nominee Directors
- Voting and exercising proxies in shareowner assemblies
- remuneration

