IFC Board Toolkit

Charter Assessment Tool: General Board Charter



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2121 Pennsylvania Avenue, NW

Washington, DC 20433 USA

Internet: www.ifc.org

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Board of Directors Charter Assessment Tool for Nonfinancial Institutions:[[1]](#footnote-2)

|  | 1. Basic | **+** | | 1. Intermediate Practices | **+** | | 1. Good International Practices | **+** | | 1. Leadership |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| I. Purpose | 1. Establish specific responsibilities of Board and how it will operate within the applicable legal or regulatory framework 2. Establish Board’s responsibility for hiring and firing the Company’s chief executive officer (CEO)[[2]](#footnote-3) 3. Elaborate duties of care, loyalty, and confidentiality[[3]](#footnote-4) 4. Establish Board’s responsibility for reviewing and approving Company’s strategic plan and risk management framework | | 1. Same[[4]](#footnote-5) 2. Same 3. Same 4. Same 5. Establish responsibility and obligations of individual Board members 6. Distinguish responsibilities and privileges reserved to Board and those delegated to executive management, usually the CEO | | | 1. Same 2. Same 3. Same 4. Same 5. Same, *and establish rights of individual Board members* 6. Same 7. Monitor performance of Company and management against targets set in Company’s strategic plan 8. Establish Board’s responsibility for succession planning for executive officers | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same, *and ensure that climate awareness skills and experience are present on the Board* 9. Provide high-level advice and assistance to management, as requested by CEO, for execution of Company’s strategy 10. Establish Company as recognized leader in corporate governance | |
| II. Induction and Appointment Letter | 1. Written appointment letter 2. Term specified in appointment letter 3. All Boards (e.g., of subsidiary companies) included in main appointment specified in appointment letter to extent applicable | | 1. Same 2. Same 3. Same 4. Orientation program provided for all new Board members 5. Appointment package provided to new Board members, including Charter or Articles of Association, governing laws, recent financials, recent annual reports | | | 1. Same 2. Same, *and any particular duties or responsibilities to be fulfilled* 3. Same 4. Same, *and orientation program includes briefings on any rules and regulations governing the Company (including relevant jurisdiction’s corporate law); Company’s capital structure; information regarding Company’s operations, strategic plan, current business objectives* 5. Same 6. General fiduciary and corporate governance training provided to new Board members | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same | |
| III. Law and Ethics | 1. Expected ethical behavior of Board members explained 2. Board responsible for overseeing compliance with applicable laws and regulations | | 1. Include Board Ethics Policy or references that Company’s Ethics Policy covers Board members and extend these requirements to CEO and rest of senior management if they are not Board members 2. Same 3. Board members receive no other material benefits from the Company than those that Board has explicitly approved as appropriate remuneration for Board or Committee service | | | 1. Same 2. Same 3. Same 4. Integrate ethical standards into overall ethical framework for all employees 5. Board, at request of Chair or one-third of its members, has right to initiate an independent investigation into specific allegations of misconduct by executives or Board members | | | 1. Same 2. Same 3. Same 4. Same 5. Same, *and majority vote of nonexecutive Board members may initiate such investigation* | |
| IV. Structure and Composition | 1. Establish Board system—unitary or dual (where not imposed by law) 2. Establish minimum and maximum number of Board members 3. Establish terms of Board members and whether Board is classified[[5]](#footnote-6), where such boards are permitted by law | | 1. Same 2. Same 3. Same 4. Establish whether any shareholders are given specific nomination rights if not in law or Articles of Association[[6]](#footnote-7) 5. Establish ratios of executive, nonexecutive,[[7]](#footnote-8) and independent Board members;[[8]](#footnote-9) includes definition of independence | | | 1. Same 2. Same 3. All Board members elected annually 4. Same 5. Majority independent Board members | | | 1. Same 2. Corporate by-laws specify exact number of Board members 3. Same 4. No constituency Board members 5. Same, *and stricter definition of independence than local practice, based on world-class standards* | |
| V. Individual Committee Membership Qualifications | 1. Time and desire to fulfill obligations 2. Meet relevant requirements, if any exist in relevant sector | | 1. Same 2. Same 3. Combined industry, financial, legal, and other relevant expertise on Board—including literacy in environmental and social (E&S) issues | | | 1. Same 2. Same 3. Same, *and periodic professional education or training for all Board members and at least one board member possesses expertise in E&S issues in sensitive industries*[[9]](#footnote-10) 4. *At least one director experienced in analyzing and interpreting climate risks and opportunities; for sensitive industries, at least one director with relevant in-depth knowledge of climate risks and opportunities* | | | 1. Same 2. Same 3. Same, *and at least* *one board member with expertise in E&S issues regardless of industry* 4. Same 5. Less than 75% attendance at meetings in one year automatic threshold for non-reappointment 6. Limit on number of other Board memberships | |
| VI. Board Leadership | 1. Establish Board leadership positions (e.g., Chair, Vice Chair) 2. Chair elected from among Board members | | 1. Same 2. Specify that there is a difference between leading the Board and executive leadership of the Company; include authority framework and delegations to enable this distinction[[10]](#footnote-11) | | | 1. Same 2. Establish that Board Chair and CEO shall be two different individuals, with Chair having no executive functions | | | 1. Same 2. Same, *and independent Board member as Chair* 3. Chair of Board may not be Chair of any of Company’s Board committees | |
| VII. Responsibilities of Chair | 1. Preside over Board meetings 2. Set agendas, although any Board member may request an agenda item 3. Preside over shareholder meetings | | 1. Same 2. Same 3. Same 4. Ensure that appropriate orientation for new Board members is organized 5. Ensure effective functioning of Board, including scheduling meetings, ensuring adequate notice before meetings, and distributing appropriate materials in advance of any meeting 6. Facilitate separate meetings of nonexecutive Board members and establishing process for such meetings[[11]](#footnote-12) | | | 1. Same 2. Same, *and prepare Board’s annual meetings calendar* 3. Same 4. Same 5. Same 6. Same 7. Encourage appropriate level of deliberation on all topics 8. Seek input from individual Board members 9. Be available to CEO for consultation as needed 10. Ensure effective, regular process of evaluation of Board and Board committees[[12]](#footnote-13) 11. Supervise work of Board committees and liaise regularly with their chairs without interfering in their responsibilities | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same 9. Same 10. Same 11. Same, *and ensure effective, regular process of evaluation of individual Board members* 12. Same 13. Be available to shareholders where and when appropriate (e.g., at Annual General Meetings or between Board meetings), although such representation does not dilute the principle of collective responsibility | |
| VIII. Responsibilities of Individual Board Members | 1. Know Company’s legal status, fundamental business, business environment, and strategy 2. Stay informed 3. Participate in Board and Committee work and devote adequate time to fulfill this responsibility 4. Do not use or release confidential information | | 1. Same 2. Same 3. Same 4. Same 5. Abstain from compromising independence (if independent Board member) and disclose to Board if independence criteria are no longer met 6. Alert Board Chair if Board members have a conflict of interest and abstain when considering any agenda item that might represent a conflict of interest[[13]](#footnote-14) | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same | |
| IX. Rights of Individual Board Members | 1. Receive timely agendas and information to prepare for Board and Committee meetings 2. Access information about the Company in a timely fashion 3. Disagree, in writing, with any Board action or decision and record the dissenting vote 4. Place items on the agenda | | 1. Same 2. Same 3. Same 4. Same 5. Reasonably access senior management as needed, on a mutually convenient basis 6. Access in-house advice on all duties 7. Receive transparent, adequate remuneration | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same, *and access independent outside advice* 7. Same | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same | |
| X. Remuneration | 1. Establish general framework of remuneration of nonexecutive Board members 2. All nonexecutive Board members receive same Board fee[[14]](#footnote-15) | | 1. Same 2. Same 3. Prohibit payments to Board members other than those related to their directorship (prohibiting, e.g., finders’ fees, consultancies) | | | 1. Same 2. Same 3. Same 4. Sett criteria on which remuneration is based (e.g., comparables, performance of Company, timing) and basis for approval (whether shareholder vote required) 5. Board has developed climate-related targets for executives | | | 1. Same 2. Same 3. Same 4. Same 5. Same, *and executive incentives aligned to promote purpose, strategy, and long-term prosperity of Company and include climate-related targets and indicators in remuneration policies and executive incentive schemes* 6. Prohibit any change-in-control provisions benefiting any Board member without prior shareholder approval 7. Prohibit nonexecutive Board members from participating in any Company-sponsored pension or other retirement plan (although nonexecutive Board members may participate in plans deferring their Board remuneration) | |
| XI. Committees[[15]](#footnote-16) | 1. Provide possibility for Board to establish various committees, standing and ad hoc, to support its work 2. Provide possibility to delegate any Board function to a Committee[[16]](#footnote-17) | | 1. Same, *and set operating and reporting framework for various specific committees (e.g., Audit and Compliance, Risk, Corporate Governance or Nominations, Compensation, Sustainability and informal or ad hoc advisory committee on climate risks and opportunities)* 2. Same 3. Ensure existence of at least an Audit Committee with proper roles and independence | | | 1. Same 2. Same 3. Same 4. Climate change integrated into scope of specialized board-level committee such as Audit 5. Annually review adequacy, efficiency, and effectiveness of committee structure, including number and nature of committees and their membership and terms of reference (committee charters) (may be based on a review by Corporate Governance or Nominations Committee where such Committee exists) 6. Require full reporting by committees to Board, absent explicit Board authorization otherwise or in the case of an investigation that requires confidentiality 7. Set framework by which committees may access inside and outside experts and outside legal counsel | | | 1. Same 2. Same 3. Same 4. Same, *and Board Committee has explicit oversight of climate policy and greenhouse gas reduction strategy and is composed of a majority of nonexecutive directors, including the Chair* 5. Same 6. Same 7. Same, *and establish budget for expert opinions and outside legal counsel for committees* | |
| XII. Ongoing Training |  | | 1. Allow individual Board members to attend relevant education and training sessions at Company’s expense | | | 1. Same 2. Require ongoing training for all Board members with respect to the Company’s own needs and requirements and to external standards of competence[[17]](#footnote-18) 3. Regulatory or corporate governance developments are an agenda item at a minimum of one mandatory meeting a year 4. Provide customized training for Board members | | | 1. Same 2. Same 3. Same 4. Consider individual director training in individual Board member evaluations | |
| XIII. Functions and Authorities[[18]](#footnote-19) | 1. Review and amend, if necessary, Company’s strategic direction 2. Review effectiveness of executive management 3. Review Company’s overall performance 4. Approve Company’s annual budget(s) 5. Review Company’s business plan 6. Approve annual audited and interim financial statements, where required, before submitting for any shareholder approval 7. Approve delegation of authority (e.g., to approve transactions below a certain threshold) in a detailed chart based on level of materiality and provide for written delegation of authority below threshold limits | | 1. Same, *at least annually* 2. Same 3. Same, *and review relative performance against peer group* 4. Same 5. Same 6. Same, *and even where not legally required* 7. Same 8. Review and approve material related party transactions[[19]](#footnote-20) 9. Review goals, metrics, and benchmarks for strategic plan 10. Approve significant capital expenditures and material changes in capital structure of Company, material acquisitions and dispositions 11. Recognize that identifying, understanding, and managing risk are important competencies 12. Evaluate CEO and other senior executives at least annually | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same 9. Same 10. Same 11. Same 12. Same 13. Define succession planning for CEO and Chair of Board 14. Review corporate compliance policies and procedures and discuss any Audit and Compliance Committee review of internal control system at least annually 15. Review state of Company’s relationships with various stakeholders and shareholders 16. Review state of Company’s relationships with any relevant regulators | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same 9. Same 10. Same 11. Same 12. Same 13. Same 14. Same 15. Same 16. Same 17. Set framework for communication with key stakeholders and shareholders, allocating responsibilities to itself, CEO, chief financial officer, etc. 18. Develop and oversee Company’s sustainability agenda, including its E&S risk management system | |
| XIV. Oversight of Climate Mitigation and Adaptation | 1. Recognize importance of climate change and impact on business | | 1. Same 2. Ensure that climate risks and opportunities identified and assessed | | | 1. Same 2. Same 3. Integrate E&S and climate risks and opportunities into strategy and risk appetite 4. Ensure that business strategy, models, and financial planning in short, medium, and long term include broad, integrated consideration of environmental, social, and governance (including climate change) risks and opportunities 5. Ensure that management systems are in place to identify and manage climate risks, impacts, and opportunities | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Ensure that management assesses and manages short-, medium-, and long-term materiality of climate-related impacts, risks, and opportunities for Company on an ongoing basis and that Company’s actions and responses to climate change are proportionate to materiality of climate change to Company 7. Monitor and oversee progress against goals and targets for addressing climate-related issues 8. Ensure that Company has implemented an internal price on carbon to understand how climate change will affect Company in the future | |
| XV. Board Governance, Procedures, and Meetings | 1. Reference Company’s Articles of Association, Charter, or another governing document 2. Hold at least quarterly meetings, with additional meetings at discretion of the Chair 3. All Board members receive advance notice of all Board meetings with agendas and information packages (e.g., 2 days)[[20]](#footnote-21) 4. Establish quorum of at least half of Board members 5. Keep minutes[[21]](#footnote-22) 6. All Board members expected to attend all Board meetings; if a member cannot attend, they shall inform Chair or Corporate Secretary as soon as possible | | 1. Same 2. Same, *and one-third of Board members may request a meeting, which should generally be granted* 3. Same, *with minimum of 1 week’s notice* 4. Same 5. Same 6. Same 7. Hold meetings at time and place convenient to Board members or place selected for corporate purposes 8. Hold meetings in person or by electronic means, where permitted by law 9. Set minimal standards for periodicity of Board consideration of financial and operational performance and any compliance-related matters 10. Establish office of Corporate Secretary or other similar office to coordinate Board functions and provide other services as may be required by law, regulation, or Corporate Governance code 11. Nonexecutive Board members occasionally meet alone, without management present | | | 1. Same 2. Same, *but at least meeting every other month; External Auditor, Chief of Internal Audit, any Chief Compliance Officer may request a meeting* 3. Same, *with minimum 2 weeks’ notice; information packages should be received no less than 1 week in advance of meeting* 4. Same 5. Same, *and once approved, minutes, together with Board information package and any other submissions, shall be available to any Board member upon reasonable notice*[[22]](#footnote-23) 6. Same 7. Same 8. Same 9. Same 10. Same 11. Same, *but meet regularly* 12. Cover all issues pertaining to Board’s functions and authority according to a schedule, preferably annual, of meetings set for the whole year 13. Corporate Secretary accountable to Board, in the person of the Chair, for their performance; Board involved in hiring and firing Corporate Secretary 14. Corporate Secretary keeps official records of the Board 15. E&S and sustainability shall be recurring board agenda items | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same 9. Same 10. Same 11. Same 12. Same 13. Same 14. Same 15. Same 16. Climate risks and opportunities are recurring board agenda items; board approves climate strategy, policies, and targets 17. Conduct annual Board retreat to meet key executive personnel and discuss strategy | |

2121 Pennsylvania Avenue, NW

Washington, DC 20433 USA

Tel: +1 (202) 458-8097



www.ifc.org/corporategovernance

www.ifc.org/sustainability February 2023

1. Some topics addressed in this Board of Directors’ Charter Assessment Tool for Nonfinancial Institutions may be included in the company law of various jurisdictions, the corporate Charter, or the Articles of Association. [↑](#footnote-ref-2)
2. This function of the Board may be set out in the company law and the Company’s Charter or Articles of Association. [↑](#footnote-ref-3)
3. Duties of care, loyalty, and confidentiality are usually statutory but should be elaborated in the Board Charter. [↑](#footnote-ref-4)
4. “Same” indicates that the recommendation of the identical number in the column immediately to the left is carried over into the column. Should the recommendation be only partially identical, differences are *italicized.* [↑](#footnote-ref-5)
5. “Classified Board” refers to a Board structure with only a portion of Board members coming up for election each year. [↑](#footnote-ref-6)
6. A “constituency” director often represents the International Financial Corporation (IFC) (IFC has the right to nominate one or more directors, typically through a shareholder agreement) in various emerging market financial institutions, as may be the case of other large or controlling shareholders, although “constituency” directors should always act as if they represent **all** shareholders, not merely the constituency that nominated them. [↑](#footnote-ref-7)
7. In jurisdictions with a dual (two-tiered) Board systems, nonexecutive directors means members of the Supervisory Board. [↑](#footnote-ref-8)
8. Preferably requires a majority of nonexecutive Board members and, in all cases, enough nonexecutive Board members to allow the Board to fulfill the functions reserved for such Board members. [↑](#footnote-ref-9)
9. “Sensitive industries” include oil, gas, mining, heavy industry (steel, cement), chemical manufacturing, and large agro-commodity production or processing. [↑](#footnote-ref-10)
10. In the event that the Board still chooses to have a combined Chair and CEO, the Board should select a lead director from among the independent Board members with defined responsibilities. [↑](#footnote-ref-11)
11. In the case of a combined CEO and Chair, the lead independent director should do this. [↑](#footnote-ref-12)
12. For more information on Board and individual Board member evaluation, see the Corporate Governance and Nominations Committee Charter Assessment Tool of the IFC’s Advanced Methodology [(for Financial Institutions)]. [↑](#footnote-ref-13)
13. They should not vote on or participate in discussion of that item or count toward the quorum for that item. [↑](#footnote-ref-14)
14. Board fee does not include any additional fees for Board meeting attendance (sitting fees) or fulfilling additional responsibilities as a Board or Committee Chair. [↑](#footnote-ref-15)
15. Committees may also be established in Company Charter or Articles of Association or by Board resolution. Delegated duties and responsibilities of committees are ultimately duties of the full Board. [↑](#footnote-ref-16)
16. Such delegation does not relieve the Board as a whole from its duties and responsibilities. [↑](#footnote-ref-17)
17. Such training shall amount to at least 1 day per year. [↑](#footnote-ref-18)
18. Functions and authorities of the Board specified here are in addition to what is usually required by law or regulation. [↑](#footnote-ref-19)
19. There should be detailed policies or procedures and required information to determine the materiality of transactions. If it or they exist, the Corporate Governance (and Nominations) or Audit (and Compliance) Committee may play a role in this. [↑](#footnote-ref-20)
20. Advance notice of agendas and information packages may be waived with unanimous written consent. [↑](#footnote-ref-21)
21. Minutes will document processes and outcomes, rather than the Board discussion, unless the Chair otherwise directs. Notwithstanding, any individual Board member may request a statement be included in the minutes to explain their vote. Minutes of the previous Board meeting shall be included in the information package for the next Board meeting. [↑](#footnote-ref-22)
22. Board members may retain Board papers on a basis that protects confidentiality. [↑](#footnote-ref-23)