

# Views from the Steering Room:

## A comparative perspective on bank board practices

Stilpon Nestor and Konstantina Tsilipira<sup>1</sup>

### I. Introduction

---

This paper is about board governance in large banking organisations. Using a sample of 32 international “best practice” banks and a series of interviews with bank board leaders and senior supervisors, it examines the way bank boards organise themselves to effectively deliver their tasks of directing and controlling the organisation they lead; and to take timely, effective decisions in this regard.

Banking organisations are often quite complex multi-divisional, multi-entity structures. Their oversight and “steering” require, first and foremost, a group of competent, well-organised and aptly-led directors. Secondly, board governance will not be effective if senior management is not organised in a two-way “conveyor belt” of information and decision making between the executive leadership and the board. Finally, boards play an essential strategic HR role: they need to ensure that, over time, the people that make decisions are of high quality, and that they fit the culture of the organisation. For this purpose, adequate incentives need to be in place combined with an effective performance evaluation mechanism. The oversight of conduct and the (often complex) mechanisms that embed and solidify the desired culture among the bank’s people need to remain under constant board vigilance.

The objective of the paper is to trace global best practice in board governance, defined along the above broad lines. In pursuing our objective, we recognise that best practice in many areas under investigation comes in many forms. Differences are due not only to jurisdictional idiosyncrasies but also to different philosophies, corporate origins and legacy. While common solutions do exist, very often we find that there are more than one ways to address board governance imperatives. This is why chapter II organises many of our findings as alternatives instead of seeking monolithic orthodoxy.

It is important to note that the initial version of this paper was commissioned by a client, a large European systemic bank, that wanted to benchmark its board governance to that of its peers. Our perspective is therefore practical, and our aim is to inform real change at corporate level. But there are some limitations that come with this scope: the choice of issues we investigate was, to a great extent, driven by our client’s needs. While the scope remains comprehensive, we would have liked to have gone more in-depth in some areas, for example culture or risk governance, but these were not within our mandate. The composition of our peer group of “best practice” banks was also conditioned by our client’s profile and needs<sup>2</sup>.

---

<sup>1</sup> Respectively Managing Director and Analyst at Nestor Advisors Ltd. Stilpon is also a non -executive director at Aktis Intelligence Ltd., a corptech/regtech start-up.

<sup>2</sup> A full list of the peers is included in Appendix A. We believe that the peer group includes a clear majority of what could be named “best practice” banks.

As mentioned, we develop our analysis along three themes: *board leadership* which includes board composition, nomination, functioning, dynamics, board committees, the board's approach to strategy and the digital challenge; and its oversight of group entities. *Board interface with management* reviews the structure, authorities, profile and reporting lines of senior management to the board. *Strategic Human Resources issues* explores ways in which boards hold members of senior management accountable, on executive succession planning, appointment and evaluation process; the board's oversight of culture, conduct and reputation as well as its role in defining senior management remuneration and incentives.

Our analysis uses several inputs. We reviewed relevant public disclosures from the 32 international banks that constitute our peer group<sup>3</sup>. Unless otherwise stated, the collection and aggregation of this information was performed using the Governance.Direct platform of Aktis Intelligence Ltd. ([www.aktisintel.com](http://www.aktisintel.com))<sup>4</sup>. We also conducted 14 interviews with board leaders, senior supervisors and company secretaries with significant practical experience in board governance. Our consulting practice allows us an intimate knowledge of the regulatory framework and supervisory expectations regarding governance in several jurisdictions, including the UK's PRA/FCA, the ECB's SSM and US regulators. Finally, the paper is also informed by our significant experience in assessing board effectiveness in various banks across several markets.

As noted above, in Chapter II, we developed 17 stylised "alternative approaches", briefly summarising how the same governance issues are addressed by best practice banks in different ways whilst identifying the trade-offs inherent in each of these stylised alternatives.

This remainder of the paper is divided into three chapters, each dedicated to one of the three broad themes of our research: board leadership, board interface with management and strategic human resources.

## II. Alternative approaches: a synthesis

---

As noted in the introduction, Chapter II identifies 16 areas in which alternative approaches have been developed by best practice banks. Often these approaches are due to culture, regulation and legacy. This fact does not make them less interesting from a normative perspective. Indeed, any jurisdiction can direct its firm towards new solutions to old problems through regulation or "nudges" by supervisors. And often, firms will see the wisdom of someone else's solution over their own legacy approach.

### A. Board Leadership

Board composition has been at the heart of the post crisis debate on the effectiveness of boards. The pre-crisis single-minded emphasis on independence (and narrow "fit-and-proper") was replaced with a more intense focus on the competences present on the board, the collective knowledge skills and experience. Diversity, especially

---

<sup>3</sup> The disclosure cut off point was June 6, 2019 and mostly consists of 2017 data.

<sup>4</sup> Aktis is a governance data provider specialising in the banking sector. Its "Governance Direct" platform includes more than 600 banks and covers 800+ data points.

gender, has also become an imperative. Most bank NomCos actively manage their profile through matrices. But there still are diverging philosophies as to what a good board looks like.

**Alternative A1:** Diverging **composition philosophies** can be stylised as “diversity vs. cohesion” approaches. Some boards seek the largest variety of skills and the broadest possible diversity among their members. They sometimes become congregations of specialists and experts who can perform very well in certain narrow areas, but sometimes do not have the broader capacity to “see the forest”. Other banks might have a fundamental preference for “all-rounders” with leadership experience, sacrificing specific expertise (e.g. cyber risk, other risk management skills etc.) for broader leadership experience. The two approaches can be — and are often — mutually compatible. But there is always tension at the margin.

**Alternative A2:** The presence of **executive directors on unitary banking boards** has been diminishing over time — a trend mostly driven by supervisors. CEOs are always there but what should the profile of the other executive directors be? There are two broad approaches. We will call them the “British” vs. the “Spanish”. The “British” approach (for example at LLOY) usually includes senior executives in specific functions with the CFO and the COO being the most prominent. This approach attributes the position to the holder of the function; it is less a decision about people and more about creating direct shareholder accountability for certain (in this case, two) key function holders in the CEO’s team. It works well if there is a certain degree of collegiality in the way the executive committee works; if not, the presence of the two might be somehow ineffectual as they might refrain from offering their personal perspective and prefer to “stick to the party line”. The “Spanish” approach goes “hand-in-hand” with the executive leadership being split between a CEO and an *executive* chair. In this world, the executive directors (other than the executive chairman) are not functional or business leaders within the firm but, rather, senior overseers with broad mandates. They are appointed as experienced persons rather than function holders — much like NEDs. For example, in the old SAN board, there was an executive director overseeing strategy while another was overseeing risk. Both were old SAN “hands”, but neither was the head of the respective executive function. They were there to support the chairman, not the CEO. Similarly, the current BBVA board includes, in addition to the deputy chair, a senior former central banker with a broad, “roaming” oversight brief over regulatory and strategic matters.

Board succession in large banks is always managed by the NomCo. The Committee never takes decisions — its role is advisory. The great majority of company laws reserve the ultimate board appointment decision for the shareholders. The chair of the board is almost always involved in the Committee’s work.

**Alternative A3:** There are two models for **organising board nominations** and the committees that support them; let us call them “Euro-American” vs. Scandinavian. In the US and most of Europe, boards take the initiative for identifying and nominating candidates to the AGM. A board committee of NEDs takes on the task with the close involvement of the board chair who is often the Committee’s chair as well. Some banks invest the board chair with significant responsibilities in selecting the committee’s nominee, while others assign the final triage among shortlisted candidates to the committee. The CEO is not a member of the committee but almost always offers his/her view at some point in the process. This approach places the initiative of selection to the people that know the needs of the board better. But it is also true that this is essentially a system of co-option that might constrain shareholders in their choice of candidate for the board, especially if the board / committee only uses its personal network for selecting candidates and does not expand the search using professional help.

In contrast, the Scandinavian approach focuses on promoting and protecting shareholder choice. NomCos are typically constituted at the AGM amongst the representatives of the largest shareholders. They do consult with the board chair (and, sometimes, the CEO) but in general keep the nomination process away from the board. This is a system that could work well under certain conditions. To function well, it requires a few competent shareholders with large enough stakes to “care” about individual appointments; and shareholder organisations with adequate competences that allow them to manage the selection and nomination processes. In the absence of such “Wallenberg” (or similar, private equity-like) institutions, the system would be much less effective and would also raise supervisory questions as to its integrity.

Turning to the subject of board tenure and refreshment, “stale” boards have been behind significant governance failures during the great financial crisis. Thus, “refreshing” the membership of the board has been a central concern for directors, shareholders and supervisors alike. At the same time, it is important that boards maintain a modicum of institutional memory and firm-specific knowledge at any point in time. As regards the process, most bank boards keep a board profile matrix and use search firms as an interface between themselves and potential candidates in the first rounds of the search.

**Alternative A4:** Looking at bank practices, two approaches on *tenure and refreshment* can be “stylised” as alternatives: let us call them “hard-wired” vs. “soft”. “Hard-wired” refreshment might take many forms: (i) absolute term limits, i.e. no one is allowed more than a certain fixed number of years/terms on the board; (ii) quasi-mandatory term limits: UK banks consider that directors who have been on the board for more than 9 years lose their independence — NomCos in practice rarely agree to NED nominations beyond this 9 year limit; (iii) annual re-election of boards which, even in the absence of term limits provides shareholders with a “safety valve” in case of significant failures by the board or some of its directors; and (iv) staggered boards enshrined in the articles or internal regulations which ensure that only a percentage of the board is subject to re-appointment in any given year. Hard-wired approaches provide clarity and make it easier on boards and their NomCos to achieve governance objectives of a balanced board over time. On the other hand, they can prove to be quite rigid, sometimes priming structure over the quality of individuals. “Softer” models are more flexible as regards retention of existing talent, aiming to achieve balance through closer management of the individual performance of directors. A prerequisite for success is that the board is ready to act on poor director performance. Such action requires a lot of courage from the chair and a decisive NomCo, backed by well-documented performance assessments that inform and substantiate relevant nomination decisions. At board level, this is quite a difficult — but not impossible — task. As regards institutional memory, the “soft” approach relies on the “natural” rhythm of departures and new appointments which over time, produces a “staggered” effect.

Moving to individual director engagement, it is important to note at the outset that such engagement is predicated on knowledge and information. Turning the board room into a classroom from time to time helps to improve individual participation in board meetings.

**Alternative A5:** There are different approaches to *board development*: structured/centrally planned vs. individually driven/ad-hoc. The structured approach requires significant up-front planning for the year and is closely tied to the planning of board days. Typically, it would include a workshop in the evening before board and committee meetings start and several social events to allow board member exposure to management. The

workshop topics would be decided at the beginning of the period and be carefully distributed through the year to inform specific discussions on the board's rolling agenda. This is a rigorous approach that will satisfy supervisors, but it requires careful planning and might somehow "railroad" individual director needs. The "ad hoc" approach is one rather based on the latter, relying more often on coaching than on training workshops. This speaks to some directors' concern that they are better at learning "on the job" than being trained like schoolchildren. But if it is to be effective, it requires members that are eager to learn and a secretariat that has the resources to cater to them in a bespoke fashion. Combinations of the two approaches are of course possible. And the implementation of any director development programme needs a board budget.

It is important to underline that it is, first and foremost, the management's job to develop a strategy and a risk management system regarding IT/cyber. In this respect, specific personal responsibilities and reporting obligations are key. Most banks have also established collective instances, i.e. management committees, to support their IT leaders.

**Alternative A6:** But how should **the board's oversight over IT/cyber strategy development and risk management be organised**? There are two broad alternatives: advisory inputs vs. board member expertise — or a combination thereof. Director IT expertise is now a requirement in the US and can be deployed in different ways by the banks that have such expertise available. The board might establish a committee that allows its expert members, supported by less expert colleagues who might contribute other skills, to look at both strategy and risk management aspects of the digital challenge. But digital expertise is hard to come by at top level. The problem with experts on boards is that they are often "one-trick ponies", of limited use to the board's mainstream work. If there is no cyber expert as such, the board might be better served in having either one or two advisors on these issues — or setting up an advisory board (often also advising management).

The board's engagement on strategy is articulated at four different levels: the bank's long-term future positioning in a rapidly changing sector (i.e. where will we be in 5-7 years?); the multi-year (3-5 year) business and capital plan to achieve this long term objective including specific KPIs; the annual capital allocation and budget exercise with the corresponding risk appetite statement; and individual strategic transactions (M&A, new investments/licenses etc.).

**Alternative A7:** The first question one should ask is what the proper **venue for the strategy discussion** is: strategy committee vs. whole board. The default position for most banks is the whole board. There is clear downside in creating "second-class" board members by excluding some NEDs from the most important board discussions. Yet, some banks have established strategy committees for specific reasons: the board might be too big, or there might be confidentiality issues due to stakeholder representation. In the absence of such issues, it is difficult to justify the existence of a strategy committee.

**Alternative A8:** Two broad approaches exist on the **content of the board's strategic discussion**, especially as regards long-term strategy: options vs. single plan discussion. Some boards ask management to formulate strategic options on the bank's future which they then proceed to discuss during a dedicated "away" day. They usually segregate this discussion from the review of the business plan and the budget which is discussed later (typically in a regular board meeting or in a second away day) based on the outcomes of the long-term session. If properly informed (sometimes with inputs from outside experts), this approach can drive innovative thinking

and take the board out of its box. The risk is that it might become too abstract and, in the worst case, divisive. Its success relies on the close cooperation between chair and CEO – and on expert facilitation. The “standard” approach is that of a single plan, that has already been discussed by the executive committee, followed by an iteration with the chair. This is the safest approach, but it might lack in creativity. Some boards will bring outside experts to either “kick it around” or provide an “outside” view of the future.

All peer bank boards have at least 4 board committees, populated by NEDs. The chair often is a member or an observer, except for the BAC which is in most cases not attended by the chair. With the exception of the NomCo, committees are typically chaired by members of the board other than the chair, so that the individual responsibility in specific areas of board work is not consolidated in one person. Management attendance in key committees – including that of the CEO (except for BAC) – is the norm but best practice banks always ensure that committee members regularly meet on their own, preferably at every meeting. The BAC and the BRC have established various mechanisms to co-ordinate including overlapping membership, joint meetings or regular co-ordination among their chairs who are almost never the same person.

**Alternative A9:** When it comes to **board committee composition**, one can again postulate two models: the “old Goldman” vs. the “lean” model. The “old Goldman” refers to the approach of having all NEDs around the table in every committee (either as members — as in the pre-2008 Goldman Sachs board — or observers). This scheme has fallen out of favour with supervisors who prefer to see two layers of challenge to management initiatives: one at committee level and one before the final decision by the full board. Another downside of the “old Goldman” approach is that committee meetings get too crowded (and sometimes too informal). A third minus is that it is taxing on directors’ time — and these might have an impact on the attraction and retention of talent. The upside of “old Goldman” is that it allows the whole board to be informed fully of the workings of committees. The “lean” model, currently followed by the great majority of banks, sees fewer NED members in each committee, relatively limited membership overlaps, a smaller number of people in the room and a clearer individual responsibility of committee members vis-à-vis non-members. The downside is that it usually requires a larger board and an effort in establishing and maintaining a well-structured reporting process from committee to board.

“Lean committees” are often combined with membership rotation over time. Rotation allows fresh, out-of-the-box perspectives on committees — but it also requires an abundance of skills on the board. In contrast, committee membership is sometimes assigned at the initial appointment based on the candidate’s skills — and rarely change throughout his/her tenure. To avoid a “stale” outcome, such an approach should be coupled with a frequent refreshment of the whole board.

**Alternative A10:** There are also different approaches to **board committee authority**. The tension here is between a purely advisory role vs. delegated authority. In most European countries, committees advise the board in the areas under their responsibility but have no decision-making authority. But in the UK, some committees have extensive authority. For example, some UK RemCos approve the quantum of individual pay for several senior executives. This is also the case in the US — for a very good reason since boards are often chaired by the CEO.

**Alternative A11:** Given their often-overlapping general mandates as regards risk, two main philosophies have been developed as regards the **assignment of responsibilities to the BAC and the BRC**: we can call them “line of defence” distribution vs. core expertise. Until recently, most banks followed the core expertise approach by which the BRC focused on risk profiles of various “portfolios” and their translation into capital adequacy, and on forward looking risk appetite issues. Conversely, the BAC focused on events and processes around the identification and mitigation of operational risks. The BAC was responsible for the close supervision and guidance of IA and for a less direct oversight of Compliance which remained an essentially executive responsibility. This approach is driven by the availability of different skills in each committee: many BAC members would typically have an audit/accounting background and specific “forensic” competences; they are more focused on behaviour of individuals (and related failures). In contrast, BRCs are usually populated by senior bankers with less of an “event-driven” view of risk — in matters other than credit; theirs, is rather a portfolio perspective primarily informed by regulators and focused on the capital and liquidity consequences of portfolio strategies.

But many banks seem to have recently switched from the “core expertise” approach to a more straightforward “line of defence” approach, possibly at the behest of regulators e.g. the UK PRA/FCA. In this model, the BRC becomes the hub for all second line activities (including operational risk and compliance risk in their entirety) while the BAC (in addition to ensuring the integrity of accounts) is focused on being the third line “hub”. The benefit of this approach is that it is simple. The challenge is the development of a “dual”, portfolio cum “forensic” culture at the BRC, allowing it to oversee compliance and other areas of operational risk. Until this happens, there should be even more BAC-BRC co-ordination in these areas.

## **B. Board Interface with Management**

Most banks have developed templates for board-level documentation, and their chairs carefully plan member interactions with management – not only with the CEO. At the same time, they are careful in maintaining an arm’s length relationship and in avoiding interfering in management's own processes. Best practice boards often invite officials from 2-3 layers below the executive committee to make presentations thus getting a better sense of the bank's bench strength. Almost all want to hear from the CEO at the beginning of the board meeting even though it has become quite common to receive written monthly CEO reports via the board portal. Some banks have expanded this practice to CEO and CFO reports – but these reports need to be brief. Finally, most boards now approve all key disclosures of the bank, including many regulatory filings, and are building robust frameworks for them.

**Alternative B1:** While the general trend over the last few years has been **larger executive committees**, we have recently seen some banks choosing a different path, suggesting an option between smaller vs. larger executive committees<sup>5</sup>. SOCGEN is a good example in this respect: a very small, tightly knit team of four (expanded to five in 2019 - the CEO and his deputies) meets regularly to oversee a large group of functional and business leaders. In between, there are several cross-cutting committees that deal with aspects of strategy development and

---

<sup>5</sup> We generically use this term to describe the top management committee, including executive boards.

execution outside their hierarchical silos. This approach ensures operational responsiveness and efficiency while keeping the pyramid flat. The downside is that some significant functions (risk/compliance) are only represented at the top management table by their overseer — something akin to the “Spanish option” on executive directors discussed above or the traditional composition of German management boards. Inclusiveness is the reason for larger executive committees. But lower effectiveness might be the (often high) price to pay.

**Alternative B2:** Another issue where approaches differ is the *way management processes connect to the board’s work*. In principle, all significant board inputs should first be discussed by management. For this purpose, the “funnel” between board and management might be single or double/parallel. While maintaining a specific risk committee architecture (ALCO, Capital, Ops Risk etc.), some banks channel all information to the board (including risk information) via a single funnel, their executive committee. This might save on time and complexity but might not achieve the “different frame of mind” that the “parallel” option seeks to achieve through the establishment of a firm-wide Management Risk Committee (MRC). The MRC will usually be chaired by the CRO, investing her/him with more gravitas, and its composition will slightly differ from that of the executive committee. It is the MRC that usually reviews the material that goes to the BRC, while the executive committee focuses on the Board’s agenda as whole.

**Alternative B3:** An important determinant of managerial and governance culture in a bank is the *structure of authority delegation*. There are two essential alternatives for unitary boards: full vs. partial/hybrid delegation to the CEO. Under the “full” approach, the CEO receives all authority (except for the retained authorities of the board) which he/she then proceeds to further delegate. Executive committees have no authority as such in this model. Even though their responsibilities are precise in their terms of reference, executive committees exist to advise the CEO (or other executives) as their chair(s). This is a simple approach in which responsibility and accountability are clear. The downside is a risk of abuse of the extensive power of the CEO, and a certain opacity on who decides what at board level. That is why the “full” approach should always be coupled with a clear chart of authorities (or a “responsibilities map” as per the UK regulators). Ad-hoc descriptions of individual responsibilities and authorities in job descriptions etc. will not suffice.

Partial approaches include board delegation of some authorities to executives other than the CEO, often combined with explicit collective authority for the executive committee (or other management bodies). This is a “page” from the two-tier board “book”, in which the CEO is the “spokesman of the management board” — *primus inter pares*. It will work only if it is part of the culture of the institution; and should be complemented by a significantly broader board remit to monitor and assess the performance of individual executive committee members. If these conditions are not in place, it risks undermining executive accountability to the CEO and weakening the control system.

### C. Strategic HR and Incentives

By “strategic HR” we refer to the key decisions that affect the quality of the bank’s leaders: their identification, their appointment, their performance assessment and their remuneration. Individual responsibility among the key personnel is also an essential component of strategic HR. Enveloping all of the above is, of course, culture and the way it is defined, steered and maintained.

**Alternative C1:** The *power to appoint the top management team* is an important element of the accountability structure. One can distinguish two options: the US vs. the European. In large US banks, the CEO (who often is also the chair) is appointed by the board and has sole authority to appoint his/her top team. There is tight individual accountability and personal loyalty to the CEO — and a lot of power in their hands. In contrast, most European boards would appoint the C-suite, and several would even go below that level in approving appointments. This approach affords more control by the board of the quality of the management team. However, in all cases that we know, management nominations are always at the proposal of the CEO. In other words, the board may only turn down a nominee — not go ahead and appoint its own. If not abused, this system can function as a reasonable safety valve without taking significant power from the CEO — and therefore undermining accountability.

**Alternative C2:** The *responsibility for executive succession planning at board level* is usually assigned to a board committee. Best practice banks have a documented policy and process in this respect, “owned” usually by the HR function. There is a choice between a powerful RemCo vs. a NomCo-led process. The powerful Remco is in fact an HR and remuneration committee and has significant delegated authority — as discussed above under Option A9. Powerful RemCos are often present when the CEO also has full delegated authority to appoint his/her team (the “US” option in C1); their job is to make sure that succession planning is properly carried out by the CEO. In other words, they are a necessary counterweight to significant CEO power. In contrast, in most continental European banks, it is the NomCo that follows the executive succession planning brief. Proposals are made by the NomCo to the board and often the discussion (especially for CEO appointments) takes place at the NED meeting of the board.

**Alternative C3:** Another key HR responsibility of the board is the monitoring and steering of the firm’s **culture**. This is important because culture drives individual behaviour, and individual behaviour is often behind significant, even existential, failures. But culture as a driver of behaviour is also behind sustainable success. The definition that a firm uses will determine how holistic is its view of its own culture. Again, one can frame the issue as two options, with “mix and match” possibilities: culture as a compliance and control matter vs. culture as a franchise strength issue. Banks that mostly espouse the former approach integrate culture into the compliance brief: culture and its governance are all about managing the risk of rogue behaviour. When a special committee of the board is handed the culture brief, it is usually a committee that looks after conduct, and has often been created as a remedy to past conduct failures.

In contrast, firms that look at culture as a franchise strength issue might keep it under the ownership of the whole board, integrating the values and culture discussion into their long-term strategy discussion. Banks that follow the “franchise strength” approach probably match board responsibility for cultural oversight with strong support from senior management who is tasked with developing methodologies and toolkits to assess and drive culture.

## A. Board Leadership

---

### A1. Board composition

In the wake of the 2007-09 financial crisis, banks saw a tsunami of board related regulation. In addition to specific processes prescribed for the “maintenance” of adequate knowledge, skills and experience (KSE) among board members, supervisors now expect specific skills for key board positions. Candidates for these positions are vetted and their competences are regularly reviewed in the context of supervisory reviews.

So, what skills are needed on a bank board? In line with the widely-held consensus that directors’ lack of banking expertise was a key contributor to the crisis, the 2009 Walker Review (the “Review”) recommended that “a majority of NEDs should be expected to bring [to the board materially relevant financial experience [...)].”<sup>6</sup> However, the Review also notes that “there will still be scope and need for diversity in skillsets and different types of skillset and experience”. The European Commission (2010)<sup>7</sup> reinforced this point, highlighting that, before the crisis, “members of boards of directors did not come from sufficiently diverse backgrounds”.

Banking experience on boards, although necessary, is not enough. Leading bank boards frequently include members who bring something other than banking knowledge. For instance, while about 45% of SOCGEN NEDs possess some banking experience (as per Exhibit 1), a broad array of non-banking complementary skills is also present on the board: there are four NEDs with non-banking financial services experience (e.g. the founder of an asset manager), four NEDs with marketing and customer services experience (e.g. the CEO of an online creative platform for entrepreneurs), and three NEDs with industry background (e.g. the chair of an aerospace, transport and infrastructure company). At BARC, where 36% of NEDs have banking experience, ten out of twelve NEDs also have experience in financial services other than banking while some NEDs bring experience from the regulatory policy area (e.g. former senior executives in the UK Treasury and the Prime Minister’s Office). The NDA board, where half of NEDs are former bankers, comprises four NEDs with non-banking financial services backgrounds (including a global head of an insurance holding), two NEDs with IT and digital expertise (e.g. the managing director of a technology investment company), one NED with significant legal experience (the chief legal officer of a multi-national), and one NED with industry background (the managing director of an oil company). Finally, at JPM, one of the most successful banks in the world, only 18% of the NEDs have banking experience; almost half of NEDs are non-financial industry leaders. This is quite representative of the US approach: bank boards have much lower levels of banking expertise and their supervisors seem to be more accommodating on this point than their European counterparts.

---

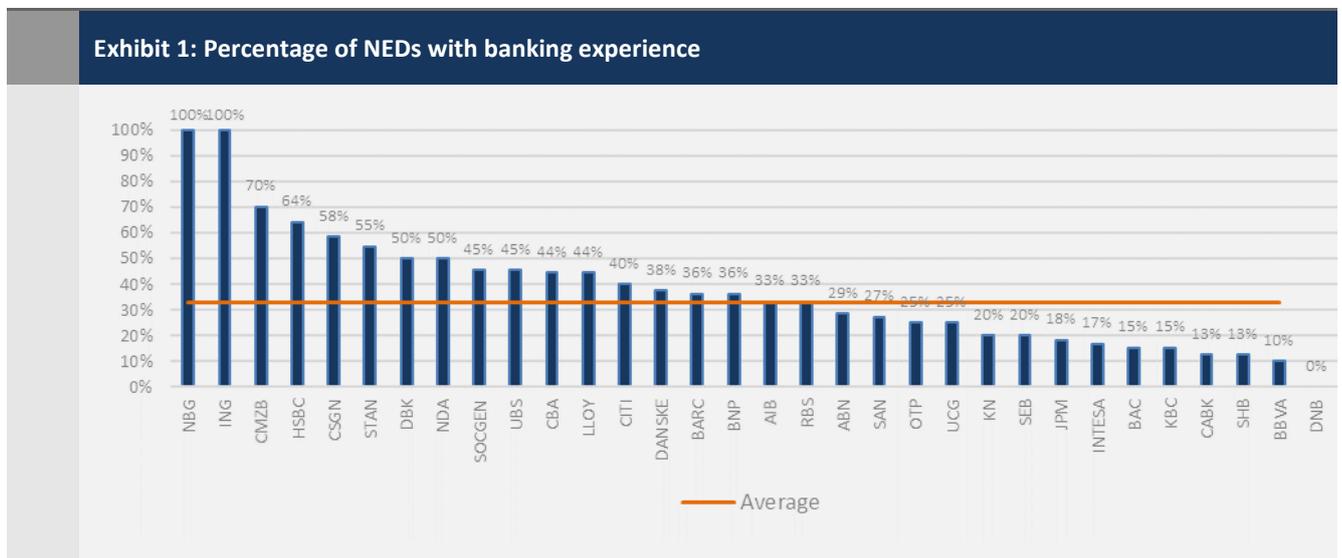
<sup>6</sup> David Walker, “A review of corporate governance in UK banks and other financial industry entities, Final recommendations”, 26 November 2009

<sup>7</sup> European Commission Green Paper, “Corporate governance in financial institutions and remuneration policies”, 2 June 2010

They might be right: an appropriate mix of professional backgrounds and profiles enable boards to consider strategic matters from various angles — including the angle of clients; to think out-of-the-box; and to avoid groupthink. In other words, diversity is good — not only gender but also skillset and cultural diversity.<sup>8</sup>

NBG and ING are the only banks in the peer group with a board composed entirely of members with direct banking experience (Exhibit 1). The average percentage of NEDs with banking expertise among the peers is 35%, a number that allows for a degree of balance between industry expertise and diversity of professional backgrounds.

*In addition to banking expertise, other skills and backgrounds beyond banking are common among NEDs in bank boards.*



### Profiles of board chairs

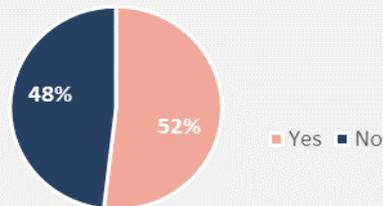
The chair of the board plays a crucial role in the quality of its composition and deliberations. He/she provides leadership and ensures effectiveness in the way the board discharges its responsibilities. Chairs need to possess special experience and have specific skills and competences. However, they need not necessarily be bankers.

Exhibit 2 shows that only in about half of the banks in the peer group does the chair have significant banking expertise (i.e. having previously worked in the banking industry).<sup>9</sup>

<sup>8</sup> S. Nestor, “Corporate Governance 2030: Thoughts on the Future of Corporate Governance”, December 2018, Harvard Law School Forum on Corporate Governance and Financial Regulation.

<sup>9</sup> Aktis considers a non-executive director to have recent *banking industry experience* if he/she has, in the past ten years, held a senior, full-time, executive position within the banking sector.

**Exhibit 2: The chair of the board has relevant industry experience**



Board chairs within the peer group show a variety of skills beyond banking. At LLOY, for example, the chair of the board possesses experience in the insurance industry, regulatory and public policy, property investment and development, technology and environmental analysis, strategy consulting and senior civil service. Similarly, the INTESA chair possesses a diversified skill profile including experience in the oil & gas and automotive industries, insurance, academia and economic research.

It is interesting to note that many chairmen of UK banks do not have banking expertise, in spite of the UK’s Senior Managers and Certification Regime (“SMCR”) which assigned specific responsibilities (and liability) to chairs. Even this strictest of regimes as regards individual accountability does not consider banking expertise to be a prerequisite of good chairmanship.

### International background among NEDs

Directors who are not nationals of the bank’s country of origin might be agents of cultural diversity.

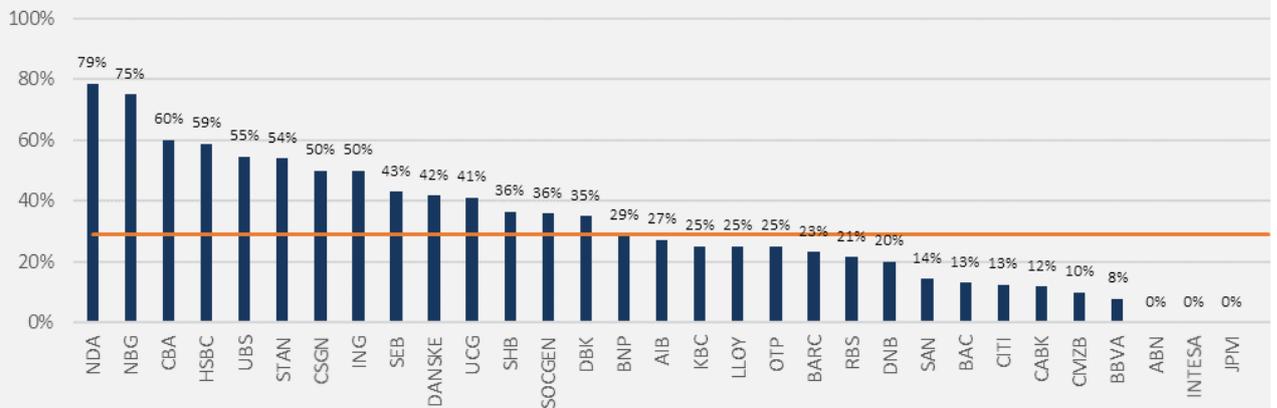
As per Exhibit 3, the norm is that “local” directors predominate. This is especially the case in banks whose business is primarily local. Most banks with international revenues of less than 40% (such as ABN, BNP, CMZB, DANSKE, INTESA and JPM) have few “international” directors.

International directors fill on average a third of board seats and are mostly present in banks with significant revenues outside their domestic market (Exhibit 4). Board composition in two banks is counterintuitive in this respect: At SAN, only 14% of NEDs have international experience despite 85% of their assets being non-domestic; NBG and CBA are exactly the opposite i.e. there is a high percentage of international NED experience (75%) despite a low proportion of international assets (14%).<sup>10</sup>

*The presence of international directors is limited and roughly proportionate to the international exposure of the relevant bank.*

<sup>10</sup> Nordea is an outlier due to its unique origin as a multinational Scandinavian bank.

**Exhibit 3: Percentage of NEDs with international experience**



**Exhibit 4: International assets v. international experience of NEDs<sup>11</sup>**



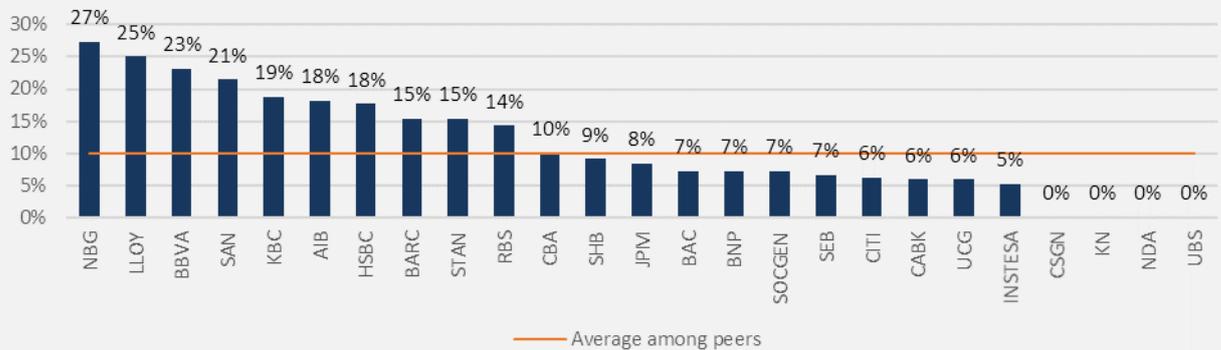
### Presence of executive directors on the board

Currently, most unitary boards<sup>12</sup> include few executive directors on the board. It did not use to be that way. The first UK Corporate Governance Code argued for a “significant minority” of executive directors. Maybe that is why most UK banks still have an above average executive presence on their boards. But over the last 15 years, there has been a general trend in the banking sector of fewer and fewer executive directors — including in the UK. As Exhibit 5 suggests, only 4 bank boards had more than 20% of their boards composed of executive directors in 2018.

<sup>11</sup> The data on “international assets” do not come from Aktis.

<sup>12</sup> In two-tier systems in which a separate management board has statutory responsibilities, laws usually prohibit executives from sitting on supervisory boards.

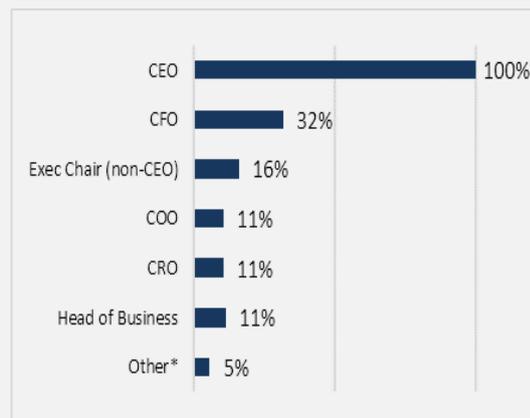
**Exhibit 5: Percentage of executives on the board**



The inclusion of executives on the board is usually underpinned by a specific rationale: a director’s position should be important enough to the business for him/her to have a voting seat at the top table and, more importantly, to be directly accountable to the shareholders. The requisite weight is functional rather than personal, i.e. rarely one sees executives on boards *regardless* of their position in the bank.

As one would expect, banks with executives on their boards always include the CEO (Exhibit 6). CFOs are the second function more often represented at board level since the integrity of reporting and adequacy of capital management are a key concern of bank shareholders — and supervisors. COOs are a relatively recent arrival on boards and are usually there to emphasize the importance of IT/cyber risk. CROs are also a recent addition, while the traditionally significant presence of heads of businesses has been recently receding.

**Exhibit 6: Breakdown of executive members of the board<sup>13</sup>**



\*“Other” includes the Director of Global Economics, Regulation and Public Affairs of BBVA

<sup>13</sup>Exhibit 6 includes only unitary bank boards with an executive presence.

LLOY, a bank with relatively high “executive content”, has three executives on its board: the CEO, CFO and COO. BBVA has a more intriguing balance: it includes an executive chair (like its compatriot, SAN) and a former central banker with broader regulatory and broader economic policy responsibility.

*There is limited and diminishing presence of executive directors on boards.*

## A2. Board committee composition and leadership

Boards have committees for three essential reasons: to allow for in-depth examination and understanding of certain key matters among the board’s significant responsibilities; to hold management for the above areas accountable in a more systematic way; and to segregate the discussion of matters in which conflicts might arise among different categories of board members, i.e. independent NEDs (“iNEDS”) vs. executive directors vs. other non-independent NEDs (e.g. major shareholder representatives, significant clients etc.). These three reasons drive choices on the profile of committee members in terms of independence, skills, knowledge and experience.

As Exhibit 7 shows, most banks tend to distribute members across the main committees relatively evenly. BRC and NomCo tend to be slightly more populous — 5 members on average — relative to the BAC and RemCo whose average size is 4.

Furthermore, across banks in our peer group, the median number of committee memberships per NED is 2 with the maximum number being 3.1 and the minimum 1. Most board committees in our peer group employ a relatively limited subset of the board. One rarely sees anymore the “old Goldman approach” of all NEDs sitting in all committees — although the Dutch banks show significant overlaps in committee membership. In at least one peer bank all NED attend all committee meetings as observers which has largely the same practical results as “old Goldman”. However, as we highlight later in this paper, EBA appears to discourage such full overlap.

“Old Goldman” practices are looked down upon by European supervisors for reasons of board dynamics and probity: they make for a crowded room, might be problematic for conducting in-depth discussions, and might create obstacles to the probing of sensitive issues. At a more general level, supervisors in Europe expect two layers of challenge: one at committee and one at board level. If all directors attend all committee meetings, the second layer of challenge is lost, and the board discussion essentially becomes a brief, rubber-stamping exercise.

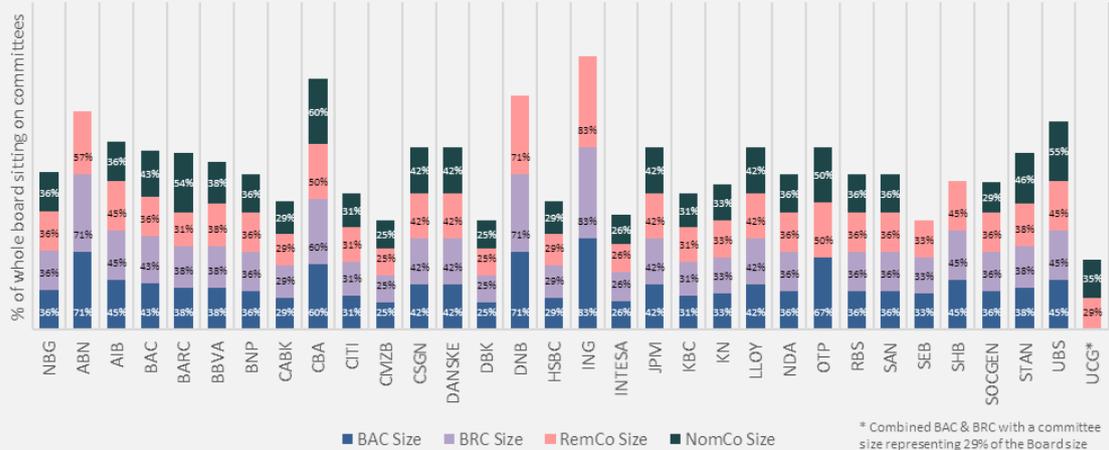
Some banks explicitly rotate membership in committees, a practice that is in line with the EBA Guidelines on Internal Governance (the “EBA Guidelines”) according to which “institutions should consider the occasional rotation of chairs and members of the committees, taking into account the specific experience, knowledge and skills that are individually or collectively required for those committees”.<sup>14</sup>

---

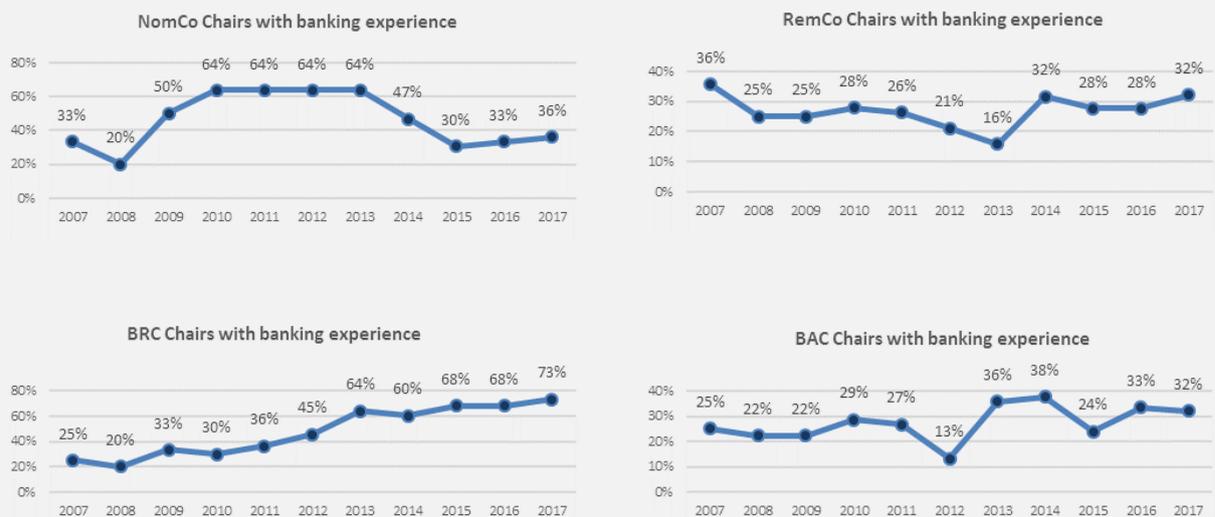
<sup>14</sup> European Banking Authority, “Final Report on Guidelines on internal governance under Directive 2013/36/EU”, 26 September 2017

The distribution of members across board committees is roughly even, while individual NED membership / attendance in all board committees is nowadays rare.

**Exhibit 7: Board size v. committee size**



**Exhibit 8: Committee Chairs with banking experience**



As regards skills required in specific committees, the EBA Guidelines provide that “members of the BRC should have, individually and collectively, appropriate knowledge, skills and experience concerning risk management

and control practices” while Directive 2006/43/EC stipulates that “At least one member of the BAC ... shall have competence in accounting and/or auditing”.<sup>15</sup>

Most boards assign to their governance and nomination committee the distribution of member skills across committees. One interviewee noted that “our NomCo spends a significant amount of its time [it meets four times/year] matching committee membership with skills.” Also, our experience suggests that candidates for the board are usually selected with an eye on their future committee contributions. The role of committee chairs is key, especially since they are usually expected to spend significant time in understanding the aspects of the firm’s activities that they oversee and in holding executives assigned to them accountable. Under the UK’s Senior Managers Regime, the chairs of the four main committees are held directly accountable for the effectiveness of their committees.

Exhibit 8 suggests that most committee chairs are not necessarily banking experts, with the significant exception of the BRC where banking expertise for the chair is the norm, at 73%. This has grown from 25% in the decade since the crisis!

As regards other skills, BAC chairs generally are “financial experts” as per the Sarbanes-Oxley (SOX) definition<sup>16</sup> which may derive from being a former auditor or the CFO of a large corporation. RemCo chairs in best practice banks are, more often than not, senior executives in various industries (but rarely in the financial sector, for conflict reasons). And, as discussed below, NomCos are often chaired by the chair of the board.

*Board chairs chair or are a member of the NomCo in most cases.*

### **A3. Board-level nomination and succession planning**

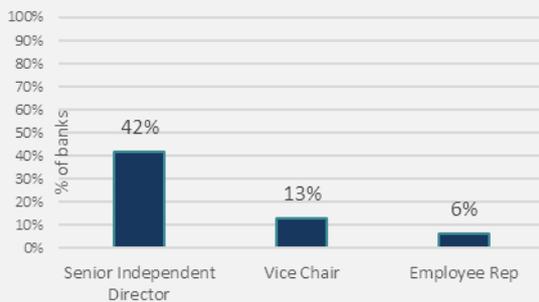
The NomCo’s main role is to follow board composition and plan director succession. In most jurisdictions (including the Eurosystem, the US and Australia), this is a key board responsibility given its significant impact on performance: it is rare, over time, that an incompetent board might oversee a performing firm. While shareholders eventually approve and can influence composition, the initiative is with the board.

---

<sup>15</sup> European Parliament & European Council, “Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts”, 17 May 2006

<sup>16</sup> Sarbanes-Oxley defines as an “audit committee financial expert” a person who has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant’s financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal controls and procedures for financial reporting; and (v) an understanding of audit committee functions.

**Exhibit 9: Other members sitting on the NomCo**



The chairman has primary responsibility for the effectiveness of the board which, in its turn, is linked to the quality of the people who compose it. It is therefore not a surprise that, in 61% of the peers, the chair of the board is a member of the NomCo; and in 73% of the cases where the chair is a NomCo member, the chair also chairs the NomCo. It should be noted that in some of the banks where the board chair is not a member of the NomCo, this is because he is also the CEO of the bank, e.g. BAC and JPM.

However, assigning to the board the responsibility for board composition is not a universal norm. In Sweden and Norway, it is the major shareholders that assume direct responsibility for board composition. In Germany, employees (who by law occupy half of supervisory board seats) sit in the NomCo. For instance, the NomCo of CMZB is made up of the chair of the Supervisory Board, two employees and two shareholder representatives.

Other members that normally sit on the NomCo are the Senior Independent Director or, alternatively, the independent Vice Chair (Exhibit 9). Their presence reflects the need to ensure the effectiveness of the chairmanship and the chair succession plan.

In practice, the chair is involved in director nomination in all peer banks. In the UK, he/she clearly leads the process, being in most cases the chair of the NomCo. But even when this might not be the case, he/she acts in conjunction with the NomCo chair in the initiation and conclusion of the selection process. According to one interviewee, the NomCo reviews the résumés of candidates and agrees on a shortlist of two or three people. Subsequently, the whole committee, including the chair of the board, interviews the shortlisted candidates on a one-on-one basis. Another interviewee presented an alternative in which the chair interviews all the shortlisted candidates while the NomCo meets only with the final candidate.

In most of the banks, the CEO attends most NomCo meetings and provides committee members with his/her views on NED succession — but also on other important matters such as appointments in subsidiary boards that typically come under the mandate of the committee. For example, CSGN, UBS, CMZB and UCG all disclose that the CEO is a permanent invitee to their NomCos. One interviewee noted that the CEO is expressly requested to provide his views on the NED nominee short list.

However, some banks do not involve the CEO in the nomination process. One interviewee has told us that he is rarely invited at the NomCo.

*NomCos show differing levels of involvement in the selection of NED candidates but CEO views are almost always sought.*

Most large banks use recruitment consultants as a primary interface with actual and potential candidates in order to ensure an objective, well-considered nomination process. Most interviewees noted that their boards

always hire consultants to support the NED nomination process. The NomCo typically invites such consultants to present a long list of candidates out of which the committee selects the short list.

Even when candidates are sourced by alternative means — usually, informal networks — they typically would still go through the vetting process managed by board consultants. In this respect, it is important that the consultant’s incentives, approved by the NomCo, are conducive to promoting capable candidates who might not have been sourced by them.

*Most leading banks use external recruitment consultancies as an interface with the market and individual candidates., irrespective of the sourcing of such candidates.*

**Exhibit 10: Average director tenure (in years)**



Board succession planning is intimately linked to the tenure of individual directors. Exhibit 10 shows a relatively wide span of average tenure amongst peer banks, averaging 5.7 years.

There are three related types of rules that affect the tenure of the board. The first refers to the maximum time a director may sit on a board. The second is about gradual succession, in order to achieve a proper mix of continuity and institutional memory with fresh perspectives on the business. The third one concerns the relative power of shareholders to determine board composition.

Companies may set term limits, a practice that is used more in Europe and less in the US. According to the 2018 United States Spencer Stuart Board Index,<sup>17</sup> only 25 S&P 500 boards (5%) set explicit term limits for NEDs; they range from 9 to 20 years. A majority of existing US policies set term limits at 15 years or more. It is also worth

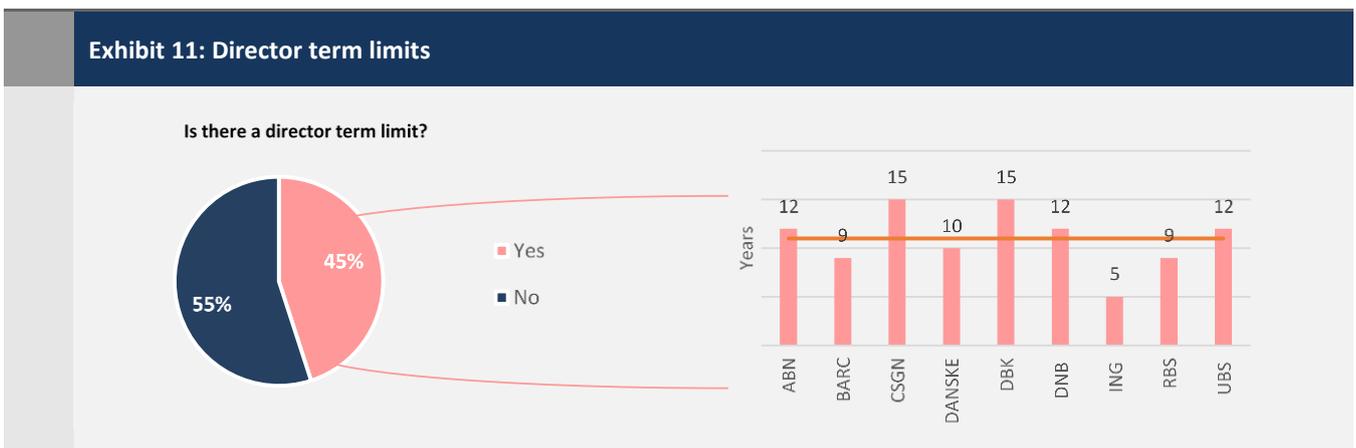
---

<sup>17</sup> 2018 U.S. Spencer Stuart board index

noting that the average tenure of S&P 500 iNEs is 8.1 years,<sup>18</sup> longer than average tenure in most European listed companies.

In contrast, several European banks set director term limits (Exhibit 11). Towards the lower end of the spectrum, ING sets the limit at 5 years; at the higher end of the spectrum, banks such as CSGN, DBK and ABN have limits set at 12-15 years.

The underlying reason for setting a term limit is to encourage board refreshment and the entry of “new blood” on the board that might bring fresh, out-of-the-box perspectives. There is also a softer way of encouraging refreshment: setting a limit above which directors are no longer considered independent. Indeed, best practice Codes consider that a director loses his/her independence if he/she has served on a board for too long a period. The European Commission recommends that independent directors serve a maximum of three terms or twelve years.<sup>19</sup> In the UK, the UK Corporate Governance Code provides that a board should explain, in its annual report, its reasons for determining that a director who has served more than nine years qualifies as independent.<sup>20</sup>



Investors are now quite alert at such board “refreshment” issues and expect explanations by companies that consider independent directors who have stayed on their board too long.<sup>21</sup>

Turning to the second issue, the interests of a bank are likely to be well served by having directors of varying longevity. The presence of “old hands” allows for deeper understanding of the organisation and its business; new arrivals bring with them fresh ideas and perspectives.

<sup>18</sup> 2018 U.S. Spencer Stuart board index, <<https://www.spencerstuart.com/-/media/2018/october/ssbi-2018-final.pdf>>

<sup>19</sup> European Commission, “Recommendation on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board”, 15 February 2005

<sup>20</sup> Financial Reporting Council, “The UK Corporate Governance Code”, July 2018

<sup>21</sup> Using a term coined at a 2009 Nestor Advisors’ publication, ISS, a leading global proxy advisor, brands non-refreshed boards “stale”.

In most banks, this tenure mix is achieved through the development of a nomination practice that aims at the constant renewal of the board, founded on a nomination policy that enshrines refreshment as an imperative.

Staggering board appointments is a way to hard-wire a balance of “freshness” and experience. It is organised so that groups of roughly equal numbers of directors come up for election on different years.

Across our peer group, 37% have a staggered board (Exhibit 12). The majority (60%) of peer group banks with staggered boards re-elect the full board every 3 years. Other peers do so every 4 years (20%) or every 6 years (20%). It is important to note that in some jurisdictions (i.e. the US) staggering is primarily viewed as an anti-takeover (“poison pill”) device.<sup>22</sup>

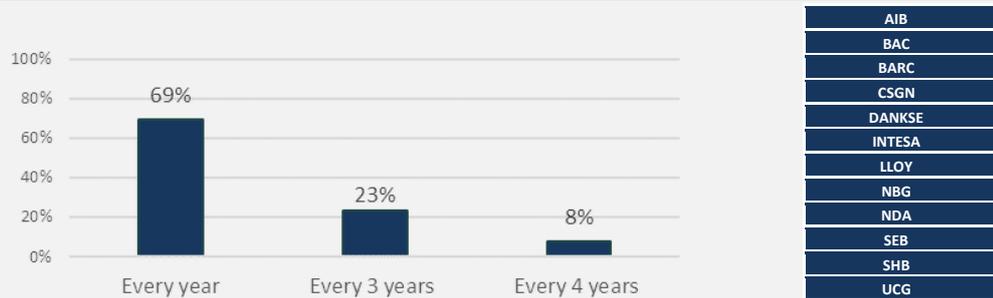
Turning to shareholder say, Exhibit 13 suggests that a majority of banks put their board up for shareholder “validation” through an AGM election every year, even if the “real” tenure cycle might be longer, driven by either hard or soft term limits. Shareholder annual votes are a relatively recent development originating in the UK and Switzerland. The purpose is to give a chance to the shareholders to express their dissatisfaction with specific directors on the board. It has rarely resulted in unexpected “firings”, but it does give an important signal to NomCos so that they may act in subsequent years.

*NED board tenure varies but a majority of banks have developed some form of board refreshment mechanism. The majority of banks allow their shareholders an annual opportunity to validate the composition of the board.*



<sup>22</sup> While a staggered board “poison pill” is a standard defence by a U.S. take-over target against a hostile bid, such a defence is not possible in most European jurisdictions where the board can be replaced at any time by shareholders, irrespective of the existence of staggering arrangements.

**Exhibit 13: Re-election of the full board in banks that do not have a staggered board**



#### A4. Improving director engagement and participation

Several methods are used in order to stimulate the participation and engagement of individual directors in board deliberations. A couple of our interviewee chairs call on specific directors, other than committee chairs, during board discussions. These are often recognised as the “resident” experts on a specific issue under discussion. For instance, an interviewee noted that during a board debate on culture and talent issues, a director who is a management professor with expertise on diversity and inclusion is often invited to contribute to the deliberations. Some chairs will call on a particular director who is more “shy” than others. Chairs might sometimes give prior notice to directors that they plan to call on and “set the stage”.

*Some board chairs call on specific directors, often based on their expertise, in order to make board deliberations more inclusive.*

But the key mechanism for enhancing and improving the quality of deliberations at board level is director continuous development. Board training through workshops and seminars is a standard practice among leading banks.

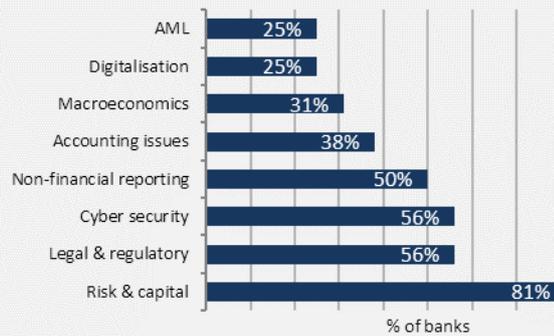
Most peers organise such workshops on a frequent basis throughout the year. Whether delivered by management or by external consultants, various interlocutors noted that training is part of the board agenda. In some banks, “board days” often start with a workshop organised at the eve of committee / board meetings. While many directors might argue that training “on the job” might be best for such senior, high calibre individuals, our experience suggests that a workshop environment, in which the objective is not taking decisions but asking questions, will yield very different levels of participation than a management presentation during a board meeting.

*On-going board development activity is now a must in the great majority of banks, usually through board workshops organised back to back with board meetings.*

As per Exhibit 14, the peers conducted workshops on various topics in 2017. The average number of board training events organized was 5.1. It is important to note that best practice boards usually organize seminars for

all board members. Committee-specific seminars are less effective as all board members are potential participants in any one of the committees of the board and they should all acquire the requisite knowledge dispensed even in technical seminars.

**Exhibit 14: Topics of board trainings**



## A5. Boards and the digital challenge

Everyone agrees that technology has become an intrinsic part of the business strategy at financial services firms. The risks and opportunities that come along with digital transformation are an increasingly present issue on board agendas in the financial sector. This is evidenced by the fact that 73% of the banks of the peer group disclosed that the board discussed issues of IT/cyber risk during the previous year. On the risk side, the EBA Guidelines on Information Communication Technology (“ICT”) Risk Assessment ask boards to approve a written risk management policy containing ICT risk appetite objectives and tolerances; monitor its implementation and follow up on findings. Banks approach the digital challenge in various ways.

**External Advisors:** Some banks engage external advisors and/or form advisory boards. For instance, the CBA board has hired external consultants to advise them on the digital challenge while SAN has an international advisory board that covers technology, innovation, cyber security etc. among other matters. It has the duty to cooperate with the bank in the design, development and, if applicable, the launch of the global business strategy by contributing and suggesting ideas, contacts and business opportunities particularly in technological and innovation aspects. CSGN has a “hybrid” Innovation and Technology Committee that is chaired by an external expert, composed by members of senior management and plays an advisory role to the board.

**Board committee on digital issues:** Relatively few banks (12.1%) have established a board committee dedicated to digital issues. Some committees have a more strategic perspective on technology’s impact and opportunities while others are more focused on digital/cyber risks. In the case of SAN, there is an Innovation and Technology Committee that assists the board in the approval of the strategic technology plan and assists the “risk supervision, regulation and compliance committee” (the BRC) in the supervision of technological and security risks. Interestingly, it also oversees the actual management of cybersecurity. The committee’s chair is the executive chair of the board and its membership includes six other directors, five NEDs and the CEO.

At RBS, there is a Technology and Innovation Committee which deals mostly with cyber risks and assists the board in the identification of key threats resulting from new business models, technologies, processes, products and concepts and makes recommendations on the Group’s strategic response. It consists of four iNEDs and has permanent management attendees to the committee such as the Chief Administration Officer, Chief Operating Officer, CFO, Director of Strategy & Corporate Development and CRO while the Director of Innovation and CEO are always invited.

At BBVA, the Technology and Cyber Security Committee deals with the oversight of technological risk and cyber-security management and stays informed of the technology strategy. The committee chair is the CEO and executive chairman. It consists of six directors, including one non-independent NED, one executive director and a majority of independent directors. The Committee maintains a direct contact with the executives responsible for the areas of Engineering and Cyber-security in the Group, for the purpose of receiving relevant reports.

The limited number of board ICT committees is to a degree explained by the fact that there are few digital experts on bank boards. It makes little sense to have a committee reviewing such a technical issue without at least one expert sitting on it to challenge management: it is a bit like having a BRC without a banking expert as a NED member.

**Digital experts on boards:** Few banks have appointed digital experts on their boards. The average percentage of iNEDs with cyber expertise on our peer group is 7%. But there are outliers (see Exhibit 15). There are technology experts on SOCGEN and BBVA. In the former, there is a NED who is the Chief Digital Officer of L’Oréal, while in the latter, one of its board members used to be responsible for IT at senior executive level at another international bank.

**Exhibit 15: Percentage of iNEDs with cyber expertise**

Bank	% of iNEDs with cyber expertise	Key experience examples
BBVA	40%	<ul style="list-style-type: none"> <li>❖ Vice president, Technology &amp; Systems Group, IBM</li> <li>❖ President &amp; CEO of a big US software company and VP at Oracle</li> <li>❖ Systems Engineer</li> <li>❖ Chief Information Officer, Group Head of Technology and Banking Operations of Standard Chartered Bank and Vice-president of Technology and Chief Information Officer at Dell</li> </ul>
DNB	33%	<ul style="list-style-type: none"> <li>❖ Chief technology officer in a major mobile operator across Scandinavia and Asia</li> <li>❖ Managing Director of a bid science and innovation centre</li> <li>❖ Graduate engineer with a Master of Technology Management</li> </ul>
ABN	20%	<ul style="list-style-type: none"> <li>❖ Member of the Dutch Cyber Security Council</li> <li>❖ Executive Vice President of Technical and Competitive IT team of Shell</li> </ul>
SOCGEN	18%	<ul style="list-style-type: none"> <li>❖ Chief Digital Officer of L’Oréal, Head of Innovation and Start-ups at Microsoft</li> </ul>
SAN	14%	<ul style="list-style-type: none"> <li>❖ Associate Scientist at CERN with more than 15 years of R&amp;D, strategic and operational experience security systems for national and homeland defence, navigation and positioning solutions, telecommunications and IT services</li> </ul>
BARC	10%	<ul style="list-style-type: none"> <li>❖ NED at Hewlett-Packard</li> </ul>

*Best practice bank boards address the digital challenge in multiple ways: some have a dedicated board committee, some engage external advisors and form advisory boards, and some have digital experts on the board.*

There is a good reason for this relative dearth of expertise on bank boards: digital experts might bring value in the specific area, but they often have little board experience and their contribution to the board might be poor in most other respects. This raises broader questions: should board members have general leadership experience and a capacity to understand but not necessarily master many complex subjects? Or should they be narrow experts, irrespective of their board experience?

**Management committees on digital issues:** Irrespective of specific, board-level expertise on digital matters, some best practice banks have established collective instances at management level that complement responsibilities of individual senior executives in the area of digitalisation. Peers such as OPT Bank, SOCGEN and KN have such management committees focused on digital transformation. In the case of KN, its “Operations and Information Systems management Committee” is chaired by the Chief Digital Officer, who reports to the COO, member of KN’s Senior Management Committee, delivering on the Technology and Digital ambitions embedded in the Bank’s strategic plan.

**Appointment of senior CIO:** Several peers address the digital challenge by appointing a very senior CIO, making him/her a member of the executive committee. This is the case at KBC, SAN, BAC, JPM and CBA.

**KPIs on digital transformation:** Finally, some of the most digitally savvy boards have developed specific KPIs to measure progress in carrying out digital transformation. For instance, KBC tracks digital interaction i.e. the proportion of clients who interact with KBC digitally and innovation i.e. how to launch innovative products / services faster than competitors to improve client experience. BBVA measures customer perceptions in comparison with peers as regards its digital offering.

*Management often establishes committees on information technology and digitalisation while COOs and CIOs often have a seat on the executive committee.*

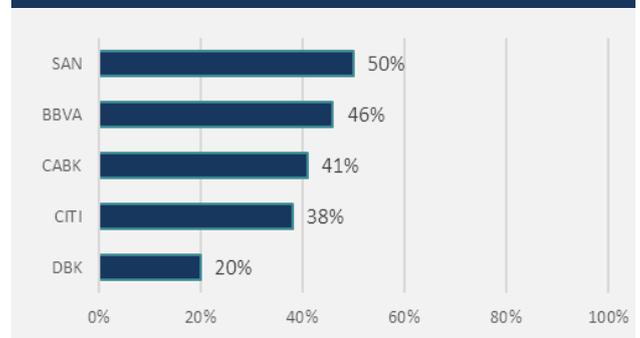
## **A6. The Board’s approach to strategy**

In most banks, it is the whole board that oversees strategy. Several of them conduct at least one strategy retreat per year, while some hold two. Others simply devote one whole meeting of the board to strategy. The business plan and the budget usually are not discussed during that meeting, which is often thematic and focuses on the long term. Rather, they are informed by this discussion and are presented to the board at a later stage.

**Exhibit 16: Board size of banks that have a board committee responsible for strategy**

Bank	Board size (members)
DBK	20
CABK	17
CITI	16
SAN	14
BBVA	13

**Exhibit 17: Percentage of board members sitting on the committee responsible for strategy**



Overall, 15% of peers have assigned responsibilities to a board committee in relation to strategy. There are 5 banks in our peer group that have a strategy committee, and most have boards that are larger than the peer average of 13 members (see Exhibit 16). Strategy committees are often responsible for scrutinizing large, sensitive transactions and a significant number of board members typically sit on them as Exhibit 17 suggests. For example, DBK has established a Board Strategy Committee which supports the Supervisory Board in fulfilling its oversight responsibilities relating to the bank's strategy, oversees the Management Board's implementation of the strategic plan and the execution progress against strategic milestones and goals, and discusses and advises the Management Board on divestures and merger and acquisition strategy including post transaction performance tracking.

In some other banks — BBVA, CITI, CABK and SAN — it is the Board Executive Committee which is assigned with the responsibility of monitoring the strategic plan, the analysis of the main corporate transactions and projects in the course of the group's business, the approval of investments or transactions of any kind that are strategic in nature, the authority to vote on approval of lending transactions and related party transactions.

Our recent experience suggests that boards spend more and more time on strategic matters. Most banks conduct at least one strategy retreat per year. CSGN, INTESA, JPM, SOCGEN disclosed that they conducted such offsites in 2017. At least two of the above banks organise two annual board off-sites with different focus. Some of them also invited external advisors to present on specific subjects.

One interviewee chair described the process and steps that a peer bank takes in the run up to a two-day offsite on strategy:

- ❖ The chair and the CEO discuss strategy;
- ❖ The board puts forward ideas on the long- term to be discussed during the off-site strategy meeting;
- ❖ The strategic team at management level prepares options on strategy;
- ❖ There is a good background paper of changes in regulations and industry;
- ❖ The board discusses the multi-year business options and decides which one to pursue;
- ❖ Management prepares the business plan;
- ❖ Board discusses the business plan at the next board meeting.

The interviewee further noted that during the first day of the retreat the chair has a dinner with the CEO and iNEDs, gets the CEO's view on the options and socializes some of the thinking of the management team. On the second day, the whole board has dinner with all management present and at a later stage the chair has a dinner with the CEO alone to take stock of the situation and discuss the way forward.

KN does not go "away" for a day but its board dedicates a whole meeting on an annual basis discussing strategy and looking very closely at the bank and its aspirations/objectives for each of the business lines.

Most boards do not discuss options but rather a single strategic plan prepared by management. The board's role is to review and to challenge this plan. Upon its approval, a budget is developed which is in its turn reviewed and challenged.

We identify three layers of strategic planning: the first one is the long-term strategic vision, the second is the business plan (i.e. KPIs, on businesses and functions, capital plan, usually multiyear) and the third layer is the budget and specific capital allocation, usually annual.

Some best practice banks spread the discussion of their risk appetite, the recovery plan and the revue of their culture along these three layers. Specifically, during the long-term discussion of the bank's strategic vision, the board also addresses recovery planning issues (such as triggers) and the bank's risk capacity while, during the budget/capital allocation discussions, the board discusses the actual risk appetite statement. Culture could also fit into the discussion of the long-term strategic vision (see below section C).

Practice differs as regards the sequencing of the different layers. As Exhibit 18 demonstrates, CSGN approves the business plan and budget in sequential meetings while SOCGEN, KBC, INTESA and JPM follow a consolidated budget and business plan approval process. On the other hand, SOCGEN separates the discussion of long-term strategy (usually thematic, often with outside experts) from the discussion of the business plan and the budget, that is usually done at a board meeting.

All bank boards receive presentations from the heads of key businesses during the year. This not only provides information to the board but also serves as a key reporting milestone for these businesses. As one of our interviewees highlighted, at every board meeting or every second board meeting, there is a 2-hour discussion and review of the bank's different subsidiaries and business lines.

In most banks, management discussion of strategy would occur at executive committee level before reaching the board. Recently some banks have created more than one "strategy" committees at senior management level with responsibilities for different aspects of the strategy. For example, at SOCGEN there are three Strategic Supervision Management Committees namely a Group Strategy Committee that implements the group's strategy, reviews the portfolio of group businesses, and monitors the group's governance, culture, conduct and social and environmental responsibilities; a Cross-Cutting Oversight Group Committee which deals with large exposures, corporate accounts, mid-size accounts and monthly results and a Strategic Steering Committee of Business and Service Units which meets at least once per year for each Business or Service Unit to discuss strategic management of each unit. The work of all these three strategy bodies informs SOCGEN's General Management which prepares the business plan for the board's review.

*Only a small minority of the banks have a dedicated board committee on strategy, leaving strategy deliberations to the whole board. There are different paths to organising strategy setting by the board.*

#### Exhibit 18: Strategic cycles



### A7. Inputting committee work to the board: attendance and authority

#### Attendance and participation in committees

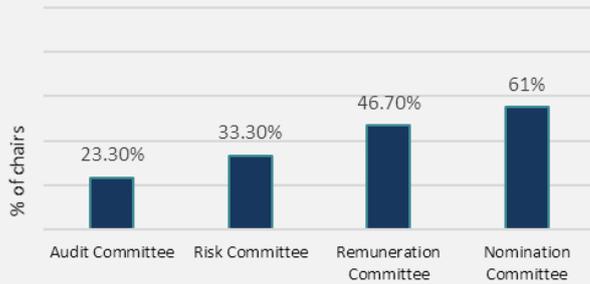
As noted earlier, board committees in some banks invite to their meetings all board members. This is not a common practice. We have already discussed issues related to board dynamics, independence and challenge as regards such practices.

All our interviewees noted that they do not encourage non-committee members' participation in committee meetings. Invitations to attend are issued only if the topic of discussion is of particular interest and the invitee's participation could add value. In contrast, all of them ask the chairs of the committees to report to the board after each meeting of the committee, and to prepare an annual summary of the work of the committee that is usually published in the bank's annual report.

The chairs of several boards in our peer group regularly attend board committee meetings in which they are not members. In some of the banks the attendance is systematic. However, this is not a uniform practice. For instance, one interviewee chair underlined the fact that he does not attend board committees in which he is not a member, in order to allow an effective and frank debate. For this reason, chairs do not often attend BAC meetings.

Board chairs are more likely to be members of some committees rather than others (Exhibit 19). The majority of peer bank board chairs are part of the board NomCo (61%), whilst relatively few are on the BAC (23.3%).

**Exhibit 19: Percentage of board chairs being members of board committees**

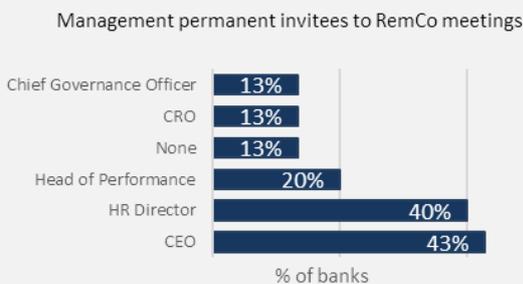


Management regularly attends board committee meetings, either as permanent invitees or on the basis of an ad-hoc invitation. At ABN, for example, the CEO regularly attends BAC and BRC meetings, the CRO attends BAC meetings and the CCO BRC, RemCo and NomCo meetings. In some banks, for example CSGN, the CEO and/or other executives regularly attend all committee meetings. But this is not a universal norm: at INTESA only the Chief

Governance Officer (along with the Secretary of the Board) are invited and may attend committee meetings; the CEO does not attend. In most banks that allow executive attendance of board committees, committee chairs schedule regular sessions of committee members alone, often reserving time for a member- only exchange at every meeting.

As per the Exhibit 20, the CRO (57%) and CFO (52%) are the members of management most commonly invited to BAC meetings on a permanent basis. The CRO (81%), CFO (62%), and CEO (57%) are the members of management most commonly invited to BRC meetings in the peer group. The CEO (43%) and HR Director (40%) are the members of management most commonly invited to RemCo meetings. The CEO (44%) and Chief Governance Officer (33%) are the members of management most commonly invited to NomCo meetings.

**Exhibit 20: Management permanent invitees to board committees**



## Authority of committees

In the majority of banks, board committees are purely advisory. They operate as “preparatory committees” for the full board.

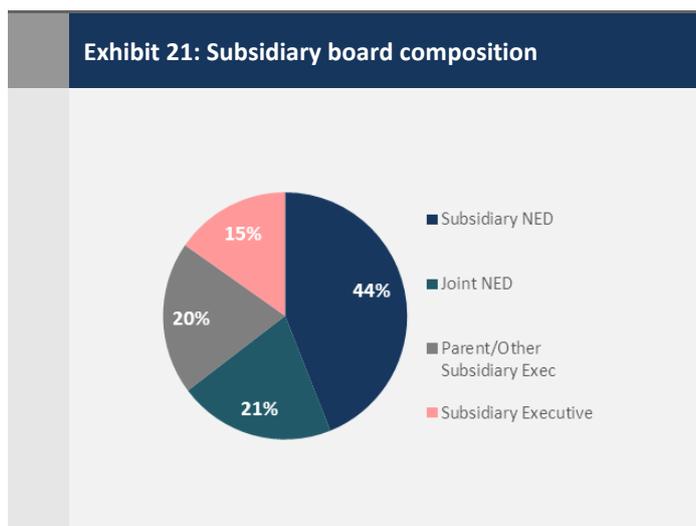
However, some banks vest board committees with significant powers. This is quite common in UK banks i.e. BARC, LLOY and RBS where different board committees have significant authorities in many areas of their mandate. For example, BARC’s RemCo approves the annual pay of executive Directors and Senior Executives while its BRC approves the stress test results, capital adequacy assessment, and senior management’s risk policies. Similarly, LLOY’s NomCo approves appointments of NEDs of the company as directors in subsidiary companies while RBS’s BAC approves the Annual Plan of Internal Audit (“IA”) and its budget.

*Most board committees are purely advisory while a few are vested with sometimes significant authorities.*

## A8. Board, committees and group oversight

The last few years have seen a shift in the responsibility for subsidiary oversight in large banking groups. Many “direction and control” tasks as regards subsidiaries migrated from group executive committees to group boards-- and their committees. Increasingly, many banks have a formal reporting line between key subsidiary boards and the group board.

Furthermore, more and more parent board NEDs are becoming NEDs in key subsidiaries. As Exhibit 21 suggests, a non-trivial proportion of (significant) peer group subsidiary boards is comprised of NEDs of the parent company (21%). At 20%, executives of the parent company or of other group subsidiaries are still a significant NED constituency on subsidiary boards albeit of diminishing size.



Where there is a formal reporting mechanism from subsidiaries to the group board, its main conduits are the BAC or the BRC. This is the case for instance at NBG, where both the BRC and the BAC at group level are informed of the activities of the subsidiaries. The BRC is informed of material risks and issues that might affect both the bank as a whole and its subsidiaries. The BAC receives quarterly reports from the BACs of its subsidiaries while the CGNC receives reports on the governance of subsidiaries and key developments in this area.

HSBC and STAN follow similar approaches. In the case of HSBC, in order to harmonise the interaction between the group and its subsidiaries and ensure better transparency in the reporting of significant issues, the group

BAC and the group BRC have separately established governance frameworks for their oversight of and interaction with the BACs and BRCs of key subsidiaries.

At STAN, the group BAC is informed of the activities of the BACs of subsidiaries through an annual call hosted with the chairpersons of subsidiary BACs. In addition, the group also maintains an online forum for subsidiary independent NEDs as a way of sharing group information and key messages on timely basis.

A few of the banks organise an annual get together of board members of the group and its main subsidiaries, usually to review strategy and discuss key themes.

In addition, several bank boards receive the minutes of subsidiary board meetings. One interviewee noted that, in addition to board minutes, complete board books were made available through the board portal to group board members; and that there was a practice at key subsidiary boards of consulting the group board on key decisions.

*Group boards have become increasingly involved in overseeing subsidiary board composition and activity.*

#### **A9. BAC and BRC coordination, interaction and oversight mandates**

The two main mechanisms employed by bank boards for ensuring coordination between the BAC and BRC are cross membership and joint meetings.

In our peer group, there is extensive cross membership between the BAC and the BRC with 44.7% of their members being “common”. In four peer banks (ABN, DNB, LLOY, SHB), like in the old “Goldman” approach, there is full overlap between the BAC and the BRC. However, it should be noted that the EBA appears to discourage such full overlap: “Institutions should ensure (...) that committees are not composed of the same group of members that forms another committee”.<sup>23</sup> In 70% of peer banks, the chair of the BAC also sits on the BRC while in 55.2% of cases the chair of the BRC sits on the BAC.

However, there are several banks where the two committees do not have any common membership: BNP, HSBC, CABK, JPM, INTESA, NDA, UBS, BAC. Co-ordination is carried out mostly by joint meetings of the committees. In general, 31% of peer banks disclosed that the BAC and the BRC held joint meetings during 2017.

In the majority of peer banks (60%), the BRC leads on operational risk oversight and therefore becomes responsible for the direct oversight of both the (operational) risk management and compliance functions. This relatively new philosophy sees the BRC as the “second line of defence” oversight “hub” with the BAC’s role limited to overseeing the third line.

---

<sup>23</sup> European Banking Authority, “Guidelines on internal governance EBA/GL/2017/11”, 21 March 2018

However, a significant minority (40%) of the peers still follows the “hybrid” approach of the past which is more functional and focuses on what each committee is (at least presumably) better at doing. In this view of the world, the responsibilities on operational risk oversight are distributed. BACs are better at following operational risk events (i.e. failures of people, processes and systems) and their management both at a second (mitigation policy/preventive) or third line (audit) level. In contrast, BRCs look at operational risk in the same “portfolio” way they review all other risks. Theirs is a forward-looking, financial perspective focused not on risk event management and prevention but on measurement tools for risk appetite and capital adequacy purposes. For instance, the BRC of ABN oversees “implementation of strategies for managing operational risk” while the BAC monitors “the identification, evaluation and management of operational risk”. Similarly, the BARC BAC is responsible for “control aspects” of operational risk, whilst its financial and capital implications are the responsibility of the BRC.

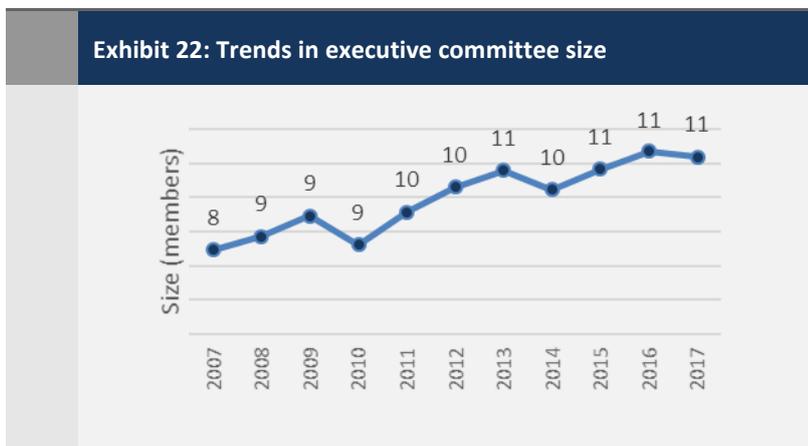
The philosophical bellwether here is the responsibility for overseeing Compliance. Most peer banks seem to have adopted the “line” approach, with Compliance being overseen by the BRC (i.e. KBC, SOCGEN, ABN, HSBC, INTESA, BNP, SAN, CBA). The “hybrid” approach still seems to be followed by NBG, DANSKE, STAN and CSGN, where the Head of Compliance reports to the board through the BAC (she/he also reports to senior management in all banks). There are a few cases where Compliance reports to a third committee of the board, for example the Board Operations & Compliance Committee at NDA; or the Integrity Committee of DBK.

*There are various, often overlapping, mechanisms to co-ordinate the work of the BAC and the BRC: cross membership, joint meetings, frequent chair consultation. But there are different approaches on organising the oversight of operational risk at board level, including assigning a lead role to either the BRC or the BAC.*

## B. Senior management and its interface with the Board

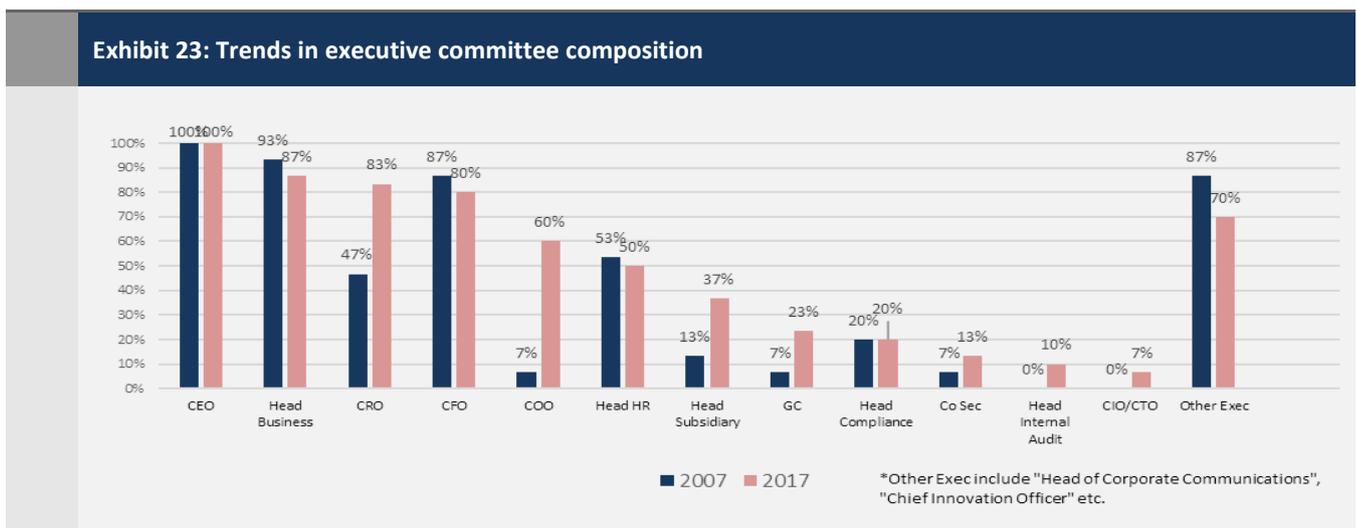
### B1. Senior management committee architecture

The executive committee usually sits at the top of the management committee structure. A plurality of one-tier peer group companies (44%) have executive committees numbering between 11 and 15 members. 37% are larger than 15 while 19% have fewer members. Only SOCGEN across our peer group has an executive committee (“General Management”) smaller than 6 members. In general, executive committees have grown larger over the last decade (See Exhibit 22).



Similarly, the composition of the executive committee has changed significantly in certain aspects. The prime beneficiaries of this change have been “second line” control functions. Whereas the CEO, CFO and Heads of Businesses have always been members, the presence of “second line” functions is a relatively recent phenomenon. Exhibit 23 illustrates the rise of the CRO and the COO — who is usually also responsible

for technology. It is interesting to note that few banks have actually made a “stand-alone” CIO/CTO a member of the executive committee. The increasing presence of CEOs of significant subsidiaries is also notable.



Broadly speaking, we see two models employed by peer banks:

- ❖ The first one consists of a large executive committee which brings together most functions and business/sub-businesses of the bank irrespective of seniority rank and extent of delegated authority: for example, the “Management Team” of SAN consists of 31 members while BBVA’s “Executive Leadership Team” comprises of 21 members. Similarly, HSBC’s “Senior Management”, SEB’s “Group

Executive Committee” and UCG’s “Executive Management Committee” have 17 members. The size of the committee ensures that all key personnel are around the table. The downside is of course that nimbleness and the quality of the debate may suffer.

- ❖ The second one includes a smaller executive committee with a much broader committee under it: the two French banks are the main examples of this approach. Over the last 2 years, SOCGEN has shrunk its executive committee to five members, including the CEO and four deputy CEOs with responsibilities over all the functions and businesses of the bank. Below this committee, there are three strategy committees which have a “vertical” view on key issues while overcoming silos. Finally, a much broader 60-member group management committee meets on a quarterly basis to co-ordinate business and cross-fertilize ideas. A more hierarchical but fairly similar model is that of BNP, with a small 6-member executive committee comprising of the CEO, COO and four Deputy CEOs and a large Executive Committee consisting of the General Management and 14 Heads of Core Businesses and Central Functions. Both meet at least once a week.

*Over the last decade, executive committees have grown in size and their composition has also changed.*

There are also two models in the way decision making authority is cascaded through the organisation in a unitary board. A few boards vest the executive committee with formal authorities as a collective body — turning it effectively into an executive board. At KBC, for instance, the Executive Committee has collective delegated authorities from the board; they are then delegated to the CEO, CRO and others, who can further delegate.

In contrast, most peer banks do not delegate any authority to their executive committees who are in effect advisory bodies to the CEO --or to others with authority around the table. In several banks, all authorities for running the bank (excluding the board’s retained authorities) are delegated to the CEO who sub-delegates to other members of senior management. This is for example the case at CBA or LLOY.

Some banks employ a “hybrid” approach: the board assigns to the CEO specific powers and authorities but also assigns specific authorities to senior executives, General Managers and even Assistant General Managers (e.g. Group CCO, Corporate Governance Officer, General Manager of Legal Services etc.).

Another “hybrid” approach is adopted by INTESA: top management has collective delegated authority, but it is the CEO who has the exclusive initiative to propose decisions.

In most cases, the executive committee’s ToRs would specify the committee’s responsibilities even when they are not matched by collective delegated authority.

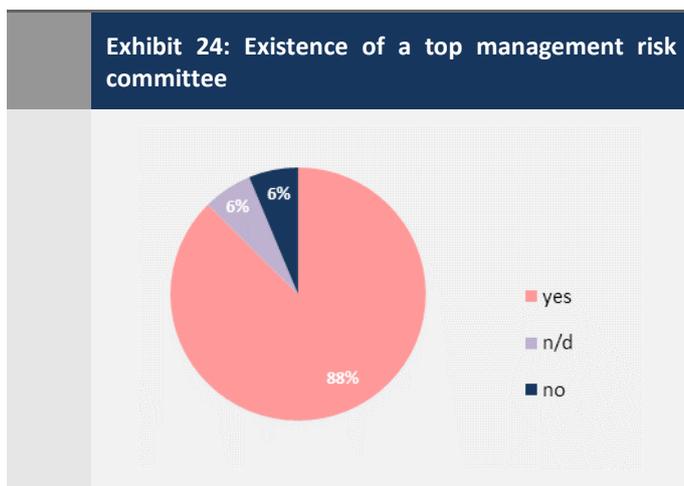
The above models refer to non-credit executive decision making. The situation is quite different when it comes to credit decisions. In the great majority of banks, these decisions are delegated to collective bodies, at least when they reach significant amounts. The delegation is usually part of the credit policy approved by the board.

*There are different approaches as regards executive committee authorities among unitary boards. Most have an advisory role to the CEO and only a few have specific delegated authority.*

When it comes to broader risk management, most peer banks have a top-level management risk committee (Exhibit 24).

For example, LLOY has a Group Risk (management) Committee which sits at the top of several “second level” risk committees (namely Credit Risk Committees, Group Market Risk Committee, Group Conduct, Compliance and Operational Risk Committee, Group Financial Risk Committee, Group Capital Risk Committee, Group Model Governance Committee, Group Fraud and Financial Crime Committee, Ring-Fenced Bank Perimeter Oversight Committee). The “pyramid” is slightly different for BARC: it also has a Group Risk (management) Committee which stands on top of several functional “second level” risk committees. But the Group Risk Committee is also at the apex of a system of business unit risk committees providing a more direct access to the front line’s “pulse”.

The above suggest that, in most banks, one can identify two “funnels” of bottom-up reporting and top-down direction between board and management: one is used for strategy and executive decision making at the bank; while the other is used for risk-related information and management.



While top management risk committees in most banks might have a slightly different make-up than the executive committee, allowing for direct participation of some second line functions or some risk-sensitive businesses (e.g. treasury), a number of banks use the executive committee as the top management risk committee, sometimes changing its name (and in some cases, its chair) and holding special meetings. DANSKE for example has an executive board which has overall responsibility for risk management and established a risk committee which consists of all the members of the executive

board while, at HSBC, the Group Management Board holds a risk management meeting to support the CRO in exercising board-delegated risk management authority. Similarly, the board of managing directors at CBA defines the risk policy guidelines and delegates operative risk management to committees.

*There are usually two “funnels” of decision-making related information between the management and the board, supported by a structure of management committees: one covers strategic and business issues while the other covers risk oversight (and runs through the BRC).*

Another important aspect of the authority structure is the way responsibility, authority and decision making are mapped. One can discern two stylised approaches: one was pioneered a couple of decades ago by the Swiss regulator and banks: there is a central, fairly detailed “map” of authority. It tracks initiation, discussion, decision and information of all major areas of decision making. The UK’s recent SMCR has taken a page of the Swiss book to impose centralised “responsibility maps” that identify the key individuals that assume “prescribed responsibilities” in their individual “statements of responsibility” and presents a whole picture of their distribution.

The alternative is piecemeal documentation of key individual and collective responsibilities across various job descriptions, board decisions/minutes and ToRs. Surprisingly, this approach is still prevalent in many banks in Europe and the US. In Europe, the EBA’s Guidelines in 2017 suggest a switch to a more centralised “map”, and the Single Supervisory Mechanism (the “SSM”) is reportedly following suit in terms of its expectations.

Turning to the board’s retained authorities, a key differentiation among banks is the degree of credit authority that the boards keep for themselves. Some banks like SOCGEN and CMB delegate all credit authority to management. However, retention of some credit authority for very large exposures still seems to be the norm. Exhibit 25 indicates that there are still large differences in the board’s retained credit authority. We compare the extent of this authority by “normalising” limits in relation to the risk weighted assets (the “RWAs”) of each bank.

Exhibit 25: Thresholds / RWAs			
	Bank	Board credit approval threshold	Threshold / RWA (per Million EUR)
	CSGN	EUR 220M	923
	BARC	EUR 172.5M	478
	BNP	EUR 250M	379
	NBG	EUR 10M	285

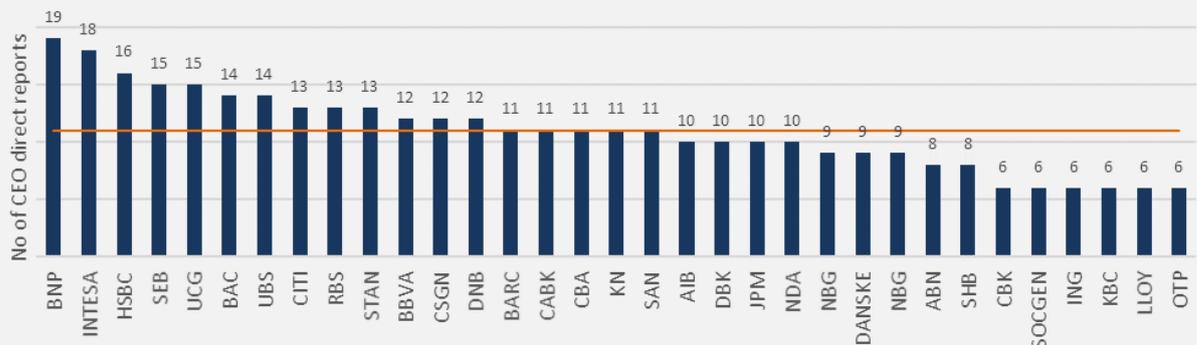
## B2. The CEO’s span of control

One of the key drivers of organisational efficiency is the design of the “pyramid” in an organisation. CEOs (or other senior managers) who insist on being the direct bosses of too many people might often see things “fall between the cracks” or might become the cause of significant bottlenecks. On the other hand, steeper “pyramids” in which the CEO has too few reports might result in too much bureaucracy and too little CEO involvement with key parts of the organisation. The quest is, as it often is, for the “golden middle”.

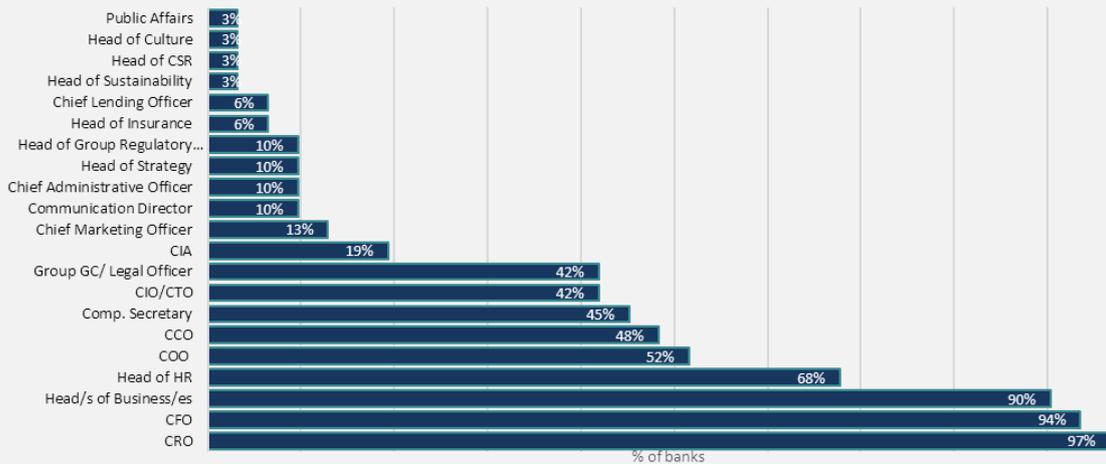
CEOs’ span of command varies across our peer group as Exhibit 26 suggests. At BNP and INTESA, the pyramid seems to be quite flat. Much steeper pyramids seem to prevail at SOCGEN, ING and KBC.

As expected, the CRO, CFO and the Heads of Businesses directly report to the CEO in almost all banks, followed by the Head of HR, COO, CCO, CIO/CTO and Group CG/Legal Officer (Exhibit 27). But CEOs in some banks extend their span to the likes of the Chief Marketing Officer, the Head of Culture and the Head of CSR. Also, the fact that in 48% of the banks the CoSec reports to the CEO suggests a significant (and welcome) rise in seniority but also the somehow concerning significant presence of a dual line between the CoSec, the Chairman *and* the CEO.

**Exhibit 26: Number of CEO direct reports across the peer group**



**Exhibit 27: Breakdown of the CEO direct reports**



\*Source: <https://www.theofficialboard.com/>

### B3. The flow of information between board and management

In most banks the executive committee systematically goes through the agenda of the next board meeting. Also, several banks have strict guidelines and templates for board-level materials and the direct involvement of the chairman in the development of the agenda is key in enforcing such guidelines. One of our interviewees described in good detail these templates: “in all matters requiring a board decision, the document by management starts with a page of “highlights”, i.e. the key objectives and topics to be decided, followed by the resolution to be approved by the board and then an executive summary of 5-6 slides. There are often longer annexes. The company secretary and the chair (if needed) are quite strict in not approving documents with different formats.

Similarly, at CSGN presentation materials are short, with a purpose page and relevant data being presented as an annex. Another interviewee noted that instead of incorporating long annexes in each document, creating an implicit obligation for directors to review them (and a voluminous board book), they use the board portal to upload “reference material” separately, to which directors are invited to refer to if they find it necessary.

*Most board have developed specific guidance on the format of documents that are presented to them by management.*

Best practice banks use various channels to ensure that the board has a good view of the issues and the challenges facing the bank at all times. The chair’s role is pivotal in this respect.

In most banks, the chair systematically interacts with senior management. But the presence of the chair in executive committee meetings is rare. Only in CAIXA does the chair regularly attend the executive committee while at CSGN the chair has the right to attend executive committee meetings after the CEO’s invitation but rarely does so.

In several best practice banks, there is a regular calendar of meetings between the chair and CEO — and often with other members of senior management. One of our interviewees holds 15-20 minutes one-on-one meetings with executive committee members every two weeks, while he meets the CEO once a week. Another one said that he speaks on the phone with the CEO every week, has lunch with each one of his three deputies every three months and meets with the Head of Strategy, CFO, CRO and Chief Economist informally quite often. A third one remarked that the chair holds structured meetings with the CEO, CFO and CCO on a frequent basis — at least every couple of weeks. Structuring and pre-scheduling such meetings is important for reasons other than time management. Too much informality in a chair-CEO relationship might actually prove counterproductive and erode the clear distinction about each one’s responsibilities, an essential element of the CEO’s accountability to the board.

*Chairs (and chairs of committees) often have a structured schedule of meetings with CEOs and other members of top management, avoiding frequent “ad hoc” consultations.*

In most banks, there is regular and frequent management reporting to the board on business developments and the overall business environment. The frequency and depth of such reporting has changed considerably over the last few years. Several banks now distribute a monthly written CEO report to the board. In some other banks (e.g. JPM), there is also a monthly report by the CFO on key financial metrics, based on management accounts. At LLOYD, the CFO reports on the Bank of England’s ‘minimum requirements for own funds and eligible liabilities’ and highlights significant developments related to the group’s debt funding. Others (DANSKE) also add the CRO in the picture who reports on risk metrics and profile.

Obviously, an effective MIS is central to the production of such reports. And the key challenge is, as always, brevity. “Smart” dashboards are key in this respect.

At SOCGEN, INTESA and NBG the CEO orally reports at the beginning of each meeting to kick off with recent development in the bank and its business environment. This is in addition to his written monthly report.

Frequent management presentations to the board are standard practice among all best practice banks. Almost all our interviewees noted that management presentations were hard-wired into their annual agenda with presenters often being two or even three layers below C-suite. Depending on the subject, boards may invite to their meetings employees, executives of the group's legal entities, heads of functions, advisors or external experts.

But board presentations are not the only opportunities to keep the pulse on lower levels of management or to interact with the leadership in less formal settings. Most boards carefully promote opportunities for NEDs to meet with lower management and high potentials, including through social interactions. It is a standard practice for banks to organise dinners either before or after board meetings. For instance, in one of the peer banks the board has a dinner with the whole management team after every board meeting, in a buffet setting. Another interviewee mentioned that the chair hosts a dinner with around 30 managers during the second day of the two-day off-site strategy meeting. At another best practice bank, it is an established practice that people from two or three layers below C-suite are invited to board lunches. Another interviewee suggested that there is a careful plan for organising NED informal events with various members of management such as breakfast meetings, site visits and formal briefing sessions.

*Some boards get presentations from a wider set of executives below the C-suite. Platforms for board-management interaction below C-suite have also been put in place by many banks, often through a schedule of site visits.*

Some boards meet in different locations in order to meet with management at different layers. For example, the board of LLOY visits different geographies within the UK and attends several events with executives sitting also in dinners with them while the board of CSGN visits all major international subsidiary headquarters over a two-year schedule of meetings.

#### **B4. Corporate governance disclosures**

Investors, regulators and other stakeholders require increasing transparency from the banks. They expect the banks to disclose credible financial, governance but also social and environmental data. In addition to their regulatory significance, these disclosures have an important reputational impact on the franchise and are therefore viewed as significant statements that require board approval.

*Most bank boards have assumed active responsibility for the bank's key disclosures. This has driven better planning for the preparation of these disclosures by management.*

In most banks, the board approves all key annual and other regular disclosures. For example, the SAN board approves the annual report, the pillar III report, the interim financial reports, the corporate governance report, and determines the AGM agenda. Similarly, the SOCGEN board "controls the publication and communication

process of all key disclosures” while the KN board “verifies the process of publishing and disclosing the quality and reliability of the information intended for publishing and disclosure.”

In addition, supervisors increasingly expect the board to be on top of key reports submitted to them following requests or as a matter of course. BRCs in many banks are appraised of such reports before management files them with the requisite authorities.

In spite of a bigger board role in the disclosure space, most ad-hoc disclosures are still the job of management. For this, a robust control framework needs to be in place often under the responsibility of the CFO. In UK banks, this constitutes a “prescribed responsibility” under the SMCR.

It goes without saying that disclosures approved by the board also necessitate a robust framework for their preparation by management. Thus, at BARC specific management governance committees are responsible for examining the group’s reports and disclosures so that they have been subject to adequate verification and comply with applicable standards and legislation. The work and effectiveness of these committees is overseen by the BAC.

## C. Strategic HR Issues, Culture and Incentives

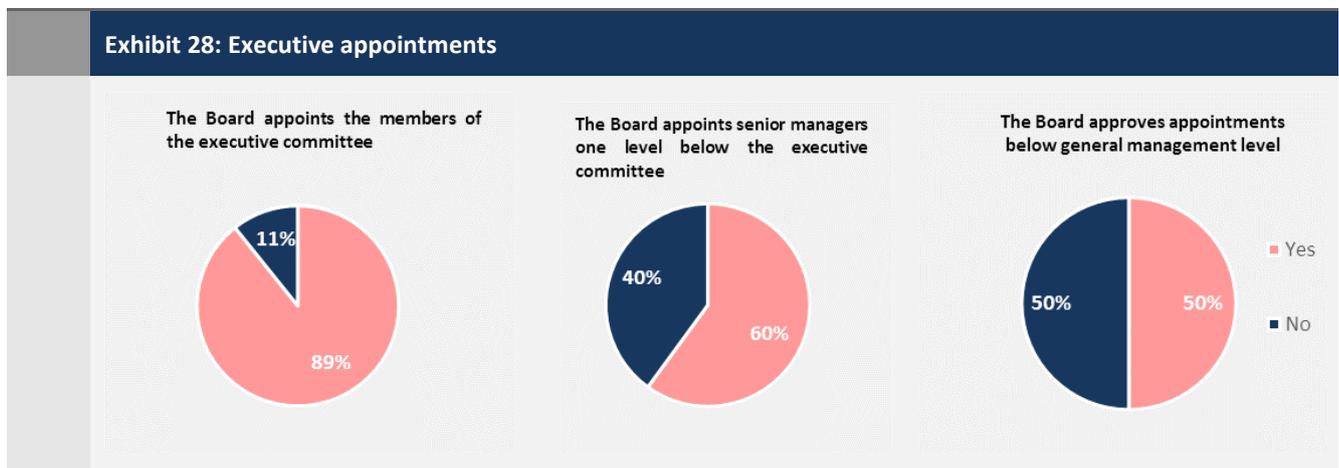
### C1. Accountability of senior management

As Exhibit 28 shows, in most European banks, the board appoints the members of the executive committee (89%). In fact, it is only in US banks that the CEO has full approval authority for hiring management below him/her. For instance, the CEOs of JPM and CBA are fully empowered to appoint their teams.

Furthermore, most peer banks (60%) reserve approvals of appointment of C-suite minus one for the board, while some would also reserve appointment of key subsidiary leadership for the parent board. Boards in half of the peers reserve the authority to approve appointment even below general management level.

However, it should be underlined that in all the banks we know hiring (and firing) of management by the board happens *only* at the initiative of the CEO. Several interviewees confirmed this point.

*Boards have increasingly become responsible for the approval of senior executive appointments. However, the initiative is always with the CEO who proposes such appointments and also remains responsible for the evaluation of senior executives; the latter is usually reviewed by a board committee.*



Coming to the assessment of senior management performance, the CEO’s performance review occurs in most banks at the RemCo which reviews and submits proposals to the board on the goals relevant to the remuneration of the CEO and evaluates his/her performance in light of these goals.

The RemCo is usually also the forum for discussing senior executive performance, with the CEO reporting on the results of his/her performance review of their team. One of our interviewees remarked that the RemCo reviews the senior executive performance against specific targets set for variable compensation and in the same time, they set targets for next year; the CEO is responsible for the “softer” parts of the evaluation. In another peer bank, the RemCo holds in-depth one-on-one discussions with each individual who is directly accountable to the board while, in a third one, the RemCo on the basis of proposals by the CEO reviews and submits proposals to

the board on the remuneration of the executive directors, senior executives and other highest paid employees of the bank.

In some banks, CEO evaluation is a key topic for the NED session of the board, with the RemCo still responsible for setting the performance framework/objectives. In this respect, 53% of the banks in our peer group disclosed that the board met without the executives during 2017.<sup>24</sup>

One interviewee gave us an interesting practical glimpse of the process: before the actual board NED meeting, the NEDs hold an informal dinner to discuss succession and remuneration issues. In another bank, a seminar run by an outside expert on emerging remuneration practices is organised for the NEDs before they meet to consider evaluation and remuneration issues.

## C2. Executive succession planning and the board

Best practice banks distinguish between two types of succession planning: the long-term plan and process for foreseeable succession; and the “accidental” succession planning in case of unforeseen succession (the proverbial “envelope” with the name of the person who will “step onto the breach” if something happens to the incumbent). Several interviewees highlighted that these two tracks are considered separately and that the approach is reviewed by the board at least once a year. However, our discussions and our experience highlight that not all banks have a documented policy on these matters.

All banks assign senior executive succession planning to a board committee. In most European banks, the NomCo “owns” the executive succession planning policy. Assigning this task to the NomCo is in line with CRD IV (Directive No. 604/2014/EU) that provides that “the nomination committee shall [...] identify and recommend, for the approval of the management body or for approval of the general meeting, candidates to fill management body vacancies”. This provision establishes a clear responsibility at least as regards executive directors — although it is silent on executive committee members in unitary boards who are not members of the board.

Thus, at SOCGEN, the Nomination & Corporate Governance Committee defines the succession plan of executive officers, and submits its opinion on appointments to the board, verifying the quality of the selection process in view of the profile sought for each position. SAN takes the same approach with its Appointments Committee “reviewing” the selection policy and succession plan of senior executives.

The approach is quite different in US banks. There, the RemCo is often also the HR committee. As such it has responsibility not only for approving pay (and thus assessing executive performance) but also of ensuring that there is proper succession planning by the CEO. This makes sense, given the overall strategic HR mandate which is supported by the experience and expertise of directors that sit on the RemCo. It is however specific to the

---

<sup>24</sup>We know only one bank (CSGN) that has assigned to the NomCo the role of CEO evaluation. Interestingly, this logic might “rime” better with the European regulatory approach of handing executive succession to the NomCo as evidenced in CRD IV.

traditionally smaller role (discussed above) that US boards assume in the whole strategic HR area, with narrower remit on appointments and performance assessments than their European counterparts.

At NBG we came across a “hybrid” approach. While complying with CRD IV requirements, the NomCo, “owner” of the executive succession planning policy, should “closely cooperate” with the RemCo, throughout the process of identifying and selecting suitable candidates.

Boards need support in discharging their strategic HR tasks. In most cases, the HR function is the key supporting function (and often the rapporteur to committees in this respect).

People management in people businesses like banks has always been an important element of an institution’s success. As the attraction and retention of people — often with increasingly different backgrounds — becomes a key competitive advantage in banking, the HR function plays an increasingly strategic role going far beyond the mere administrative support function of bygone days. That is why in 65% of the peers the Head of HR is part of the executive committee. At BARC, for example, the Head of HR is the rapporteur to the NomCo and manages Executive Committee succession planning (including emergency cover, talent pipeline and gaps). She reviews reports on individuals considered potential Executive Committee candidates and discusses next steps for development. At LLOY, the Head of HR is the principal feed to the RemCo.

*Peers usually assign executive succession planning to either the RemCo or the NomCo, usually supported by the HR function.*

### **C3. Board oversight of remuneration below the C-suite**

According to CRD IV, the so-called “identified staff” or “material risk takers” (MRTs) who might have a material impact on the bank’s risk profile as a result of their role and/or the nature of their activities need to have their remuneration approved by the board. Based on FSB’s guidance, similar requirements have been adopted across many jurisdictions.

RemCos now approve the remuneration packages of individual MRTs, as defined by the Directive. There are streamlined processes in place to support the RemCo’s decision-making in this respect.

For example, CSGN discloses that the focus of the compensation process for MRTs is on risk assessment. Material risk-taking employees and their managers are required to define role-specific risk objectives and to incorporate risk considerations as parameters in incentive compensation. The types of risks considered vary by role (e.g. reputational, credit, market, operational, liquidity, legal and compliance). At HSBC, the list of MRTs is reviewed by CROs and COOs of the relevant global functions and businesses and the overall results are reviewed by the group CRO. Following that, RemCo reviews the methodology, key decisions regarding identification, and approves the results of the identification exercise.

At DANSKE, the process is owned by Risk, Compliance and HR and aims at ensuring that a comprehensive evaluation of each element of the relevant policy is properly managed, including MRT identification. To this end,

an internal Advisory Board has been established by senior management with the main objective to continuously evaluate regulatory guidelines and ensure an appropriate interpretation and implementation.

Each bank’s approach to classifying staff as MRTs varies as Exhibit 29 suggests. Some banks identify a relatively large number of MRTs in relation to their RWAs, for example RBS and ABN; while some others have significantly smaller relevant populations, like SHB.

There seems to be some correlation between the relative number of MRTs and the complexity of the bank’s business, but this does not seem to fully explain differences. For example, SHB and NBG — relatively less complex banks — has a very low threshold ratio of EUR 49.2 million per MRT compared to CSGN’s 284.1

*RemCos often approve the remuneration packages of individual MRTs below C-suite and have developed specific processes to do so. There seems to be some relationship between the number of MRTs and the complexity of the bank.*

**Exhibit 29: Risk Weighted Assets – Material Risk Takers Ratio**

Bank	Number of MRTs	RWAs (Millions)	RWAs/MRTs (Millions)
UBS	682	EUR 222,133	EUR 325.7
ABN	371	EUR 105,400	EUR 284.1
CSGN	1030	EUR 238,423	EUR 231.4
RBS	954	EUR 218,372	EUR 228.9
BARC	1590	EUR 360,770	EUR 226.8
DBK	1913	EUR 350,432	EUR 183.1
DANSKE	653	EUR 101,559	EUR 155.5
NBG	545	EUR 35,015	EUR 64.2
SHB	1172	EUR 57,778	EUR 49.2

#### C4. Culture, conduct and reputation

Most bank boards are explicitly mandated to “lead” on the cultural front. There are many discussions as to what this means.

According to the UK Banking Standards Board (“BSB”),<sup>25</sup> culture has nine parameters: honesty, respect, openness, accountability, competence, reliability, responsiveness, personal and organisational resilience, and

---

<sup>25</sup> The BSB is an independent UK NGO established in 2015 funded by several UK banks that in order to develop culture and conduct standards a relevant diagnostic and analytical methods and tools.

shared purpose. In our view, the real issue for banks is not how to map an organization's culture, but how to assess the culture's impact on behaviour. Banks and their supervisors are interested in culture as a driver of individual behaviour of executives and employees of the bank --as they interact with clients, regulators, investors, other stakeholders and between themselves.

An important point raised by the BSB concerns the need for board to have a "cultural dashboard": the real question is "...how to use measurable data and evidence to assess and judge ...culture as rigorously, consistently and usefully as possible."<sup>26</sup> A detailed discussion of what the toolkit might contain lies beyond the remit of this paper but a few elements can be briefly mentioned.

For example, conducting employee surveys is a standard way to gauge culture among banks. They can take the form of employee engagement surveys, exit interview debriefs and/or 360° feedback in executive evaluation. In addition, it is an emerging trend to incorporate culture as a parameter in the evaluation of the performance and remuneration of the CEO.

At STAN, the "Brand, Values and Conduct Committee" undertakes on-going diagnosis of culture by examining the results of the employee engagement surveys. It has also agreed a set of metrics that help assess the progress that the bank is making on culture and ensures alignment with the set strategy. Similarly, at RBS the Sustainable Banking Committee undertakes its own culture measurement surveys but was also evaluated by the BSB.

Some banks — mostly the ones that faced significant conduct failures in recent years — have created specific committees to address culture and conduct issues. Among our peers, 38% have done so. RBS is one example. It has established a Sustainable Banking Committee which is formed exclusively by non-executive directors and has as regular invitees a few members of management including the Chief Marketing Officer, the Chief Economist, the Sustainability Director, the CEO, the Chief Governance & Regulatory Officer and the Board Counsel. The committee's key responsibilities include receiving updates on actions to drive the board-approved culture, monitoring/challenging the progress on embedding plans and overseeing progress on standards, competence and professionalization, leading on the interaction with the BSB and lastly supporting the board on the development of its social purpose and on considering proposals for the development of a sustainable banking strategy. Given its agenda and rapporteurs, the committee seems to have a rather holistic, "franchise" view of culture and its role as conduit of behaviour of the insiders towards the bank's immediate environment — most importantly, its clients.

BARC, another bank with significant conduct "baggage", has established the Board Reputation Committee which is composed of four NEDs and whose regular invitees to its meetings are the CCO and the Chief Internal Auditor. Its key responsibilities include supporting the board in promoting its collective vision of BARC purpose, values, culture and behaviours; reviewing the management of conduct risk, the management of reputational risk; and

---

<sup>26</sup> UK BSB, "An outcome-based approach to assessing organisational culture", Journal of Risk Management in Financial Institutions, January 2018

overseeing conduct in relation to BARC's corporate and societal obligations. Here, the perspective is more on the compliance and control side.

Interestingly, BNP (another bank which has had conduct problems) adds corporate governance to the mix of ethics, culture and CSR issues that form the mandate of a special committee-- not dissimilar to that of RBS. This is quite remarkable given the widespread practice of giving the governance oversight portfolio to the NomCo.

It is also quite remarkable that NBG (a bank in which conduct has not been a significant issue as of late) has also established an Ethics and Culture Committee at Board level composed by essentially the whole Board and chaired by an iNED. The composition of the Committee suggests that this is rather a venue for the whole Board to focus on these particular issues.

Some interviewees noted that their banks — which have not established specific committees — usually receive reports on the state of the bank culture in the context of their discussion of the bank's long-term strategy. In one case, the two-day off-site retreat leaves agenda space for this discussion in order to adequately contextualise the long-term "vision" discussion. This approach underlines that culture, as a driver of behaviour, needs to support any significant strategic business drive.

One important element of the conduct toolkit is a mechanism that allows employees to "speak up" when misconduct occurs. It is also an explicit regulatory requirement and a focus of supervisory review of individual banks. The Basel Corporate Governance Principles for Banks<sup>27</sup> require the board to oversee and approve how and by whom legitimate material concerns are raised, investigated and addressed.

Almost all banks in our peer group have a clear whistleblowing process in place. Some appoint a NED as a whistleblowing champion; he/she can be the chairman of the relevant responsible board committee and is informed on the number of cases, their seriousness and on remedial action. In 50% of the peers, it is the BAC that receives such whistleblowing reports. However, in some banks, there are different committees in charge: the Ethics Committee (OTP), the Conduct and Values Committee (KBC), Risk and Compliance Committee (SAN), Internal Control and Risk Committee (UCG).

We noted earlier that boards are in most cases directly responsible for the firm's culture. But there is little scope for board cultural leadership if management is not properly organised to deliver it. In this context, it is interesting to describe the two SMCR responsibilities related to culture: the chair is responsible for "leading the development of the firm's culture by the board". The CEO is responsible for "overseeing the adoption of the firm's culture in the day to day management of the firm". These are two equally important aspects.

In several best practice banks, management has set up relevant structures to discharge these responsibilities. In some cases, it has proactively taken the lead with the board taking an oversight/backstop role. SOCGEN senior management has developed a Culture & Conduct Programme, led by the Head of the Culture & Conduct. This

---

<sup>27</sup> Basel Committee on Banking Supervision, "Corporate governance principles for banks", January 2015

Programme is under the direct authority of General Management (the executive committee) and is supervised by the board, which is informed of outcomes in presentations, often part of the off-site strategy days.

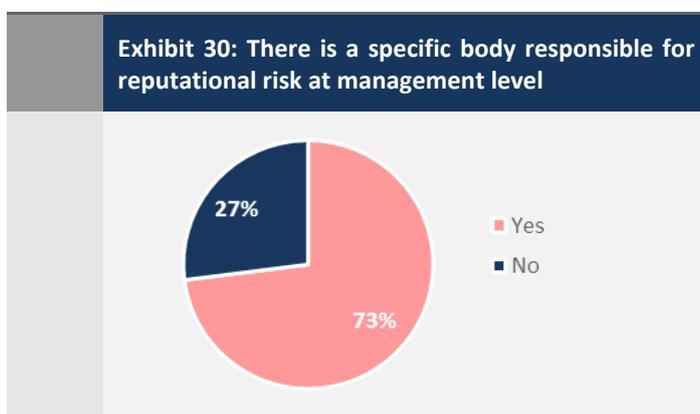
Similarly, NDA has set up a management-level Business Ethics and Values Committee, which is the decision-making body for sustainability-related matters and is chaired by the CEO. CGSA has a Group Conduct and Ethics Board at management level whose work is funnelled to the board with monthly updates on culture.

*Most boards take the lead on culture. In some cases, they establish a special committee to oversee culture, ethics and conduct, especially when the bank has previously seen conduct failures. Management have also developed structures and processes to support the board's leadership in this respect.*

Several best practice banks have developed specific tools to map and track reputational risk at board level. CBA, for instance, uses Reputability, a tool that tracks the image of the bank along a vast array of third-party publications (including the internet). The SOCGEN board follows a reputational risk dashboard with specific indicators such as internal surveys of staff on working environment and measurable CSR engagements. Dashboard developments are communicated quarterly to the members of the management Compliance Committee and the BRC. The CAIXA board follows a reputational scorecard which enables the bank to continuously monitor its key reputation indicators. This is also used to prepare the annual Global Reputation Index, a comparable metric with a multi stakeholder approach that enables the bank to set objectives for more efficient reputation management.

Some banks have developed specific board instances to deal with reputational risk: at CBA, the BAC meets periodically with the BRC and RemCo to consider reputation related matters, with specific relevance to executive remuneration and performance. At CSGN, the BRC and BAC jointly assist the board in fulfilling its reputational risk oversight responsibilities. BARC has a Board Reputation Committee.

*Several banks have developed specific mechanisms and tools to identify and track reputational risk. Board committees other than the BRC have sometimes been given this mandate. Most importantly, management instances and processes have been established to support the board's oversight in most banks.*



73% of the peer banks disclosed having a specific management committee responsible for reputational risk (Exhibit 30). Effective escalation is at the heart of reputational risk management. In most banks, the governance of reputational risk includes a senior management risk committee with a specific mandate to oversee the system of escalation throughout the organization. For example, CSGN has established a Reputational Risk

and Sustainability Committee at management level whose assessments “flow” to the BRC.

Compliance is usually the function tasked with following reputational risk on a day-to-day basis. In some banks, it is the risk function that assumes direct oversight through a specialized unit. But most best practice banks develop a management process that involves both of these functions, as reputational risk might not always be related to conduct or integrity.

BARC addresses reputational risk at three levels. Firstly, Business Unit Risk Committees review and escalate reputation risks from the first line perspective. Secondly, the Group Risk Committee reviews and monitors processes utilised by Compliance and Reputation and reports reputational issues to the Board Reputation Committee. The Board Reputation Committee reviews the effectiveness of the processes and policies by which BARC identifies and manages reputational risk, considers and evaluates regular reports on the matter, and considers whether significant business decisions will compromise the bank’s ethical policies or core business beliefs and values.

### III. Appendix A: Peer group

No	Bank	Country	Ticker	Region
1.	Barclays PLC		BARC	Europe
2.	HSBC Holdings PLC		HSBC	
3.	Lloyds Banking Group PLC		LLOY	
4.	Royal Bank of Scotland Group PLC		RBS	
5.	Standard Chartered PLC		STAN	
6.	UBS Group AG		UBS	
7.	Credit Suisse Group AG		CSGN	
8.	BNP Paribas SA		BNP	
9.	Société Générale SA		GLE/SOGEN	
10.	Natixis SA		KN	
11.	Banco Bilbao Vizcaya Argentaria SA		BBVA	
12.	Caixabank SA		CABK	
13.	Banco Santander SA		SAN	
14.	Deutsche Bank AG		DBK	
15.	Commerzbank AG		CMZB	
16.	Intesa Sanpaolo SpA		INTESA	
17.	UniCredit SpA		UCG	
18.	Skandinaviska Enskilda Banken AB		SEB	
19.	Svenska Handelsbanken AB		SHB	
20.	Nordea Bank AB		NDA	
21.	DNB ASA		DNB	
22.	Danske Bank A/S		DANSKE	
23.	ABN AMRO Group NV		ABN	
24.	ING Bank Slaski SA		ING	
25.	National Bank of Greece		NBG	
26.	AIB Group PLC		AIB	
27.	KBC Groep NV		KBC	
28.	OTP Bank NYRT		OTP	
29.	Citigroup Inc		CITI	US
30.	JPMorgan Chase & Co		JPM	
31.	Bank of America Corporation		BAC	
32.	Commonwealth Bank of Australia		CBA	International

## Table of Figures

---

Exhibit 1: Percentage of NEDs with banking experience .....	11
Exhibit 2: The chair of the board has relevant industry experience .....	12
Exhibit 3: Percentage of NEDS with international experience.....	13
Exhibit 4: International assets v. international experience of NEDs.....	13
Exhibit 5: Percentage of executives on the board .....	14
Exhibit 6 : Breakdown of executive members of the board .....	14
Exhibit 7: Board size v. committee size .....	16
Exhibit 8: Committee Chairs with banking experience .....	16
Exhibit 9: Other members sitting on the NomCo.....	18
Exhibit 10: Average director tenure (in years) .....	19
Exhibit 11: Director term limits.....	20
Exhibit 12: Staggered board and re-election of the full board .....	21
Exhibit 13: Re-election of the full board in banks that do not have a staggered board.....	22
Exhibit 14: Topics of board trainings.....	23
Exhibit 15: Percentage of iNEDs with cyber expertise .....	24
Exhibit 16: Board size of banks that have a board committee responsible for strategy .....	26
Exhibit 17: Percentage of board members sitting on the committee responsible for strategy .....	26
Exhibit 18: Strategic cycles.....	28
Exhibit 19: Percentage of board chairs being members of board committees .....	29
Exhibit 20: Management permanent invitees to board committees .....	29
Exhibit 21: Subsidiary board composition .....	30
Exhibit 22: Trends in executive committee size.....	33
Exhibit 23: Trends in executive committee composition.....	33
Exhibit 24: Existence of a top management risk committee .....	35
Exhibit 25: Thresholds / RWAs .....	36
Exhibit 26: Number of CEO direct reports across the peer group .....	37
Exhibit 27: Breakdown of the CEO direct reports .....	37
Exhibit 28: Executive appointments.....	41
Exhibit 29: Risk Weighted Assets – Material Risk Takers Ratio .....	44
Exhibit 30: There is a specific body responsible for reputational risk at management level .....	47

## List of main abbreviations

---

Abbreviation	Explanation
BAC	Board Audit Committee
BRC	Board Risk Committee
CEO	Chief Executive Officer
CCO	Chief Compliance Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
COO	Chief Operating Officer
HR	Human Resources
iNED	Independent Non-Executive Director
IT	Information Technology
MIS	Management Information System
MRT	Material Risk Taker
NED	Non-Executive Director
NomCo	Board Nomination Committee
RemCo	Board Remuneration Committee