PART 1

GOOD GOVERNANCE HANDBOOK

Role of the Board
- Role of the Board as a Whole
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1 Role of the Board as a Whole

The Board is the ultimate custodian of corporate long-term value creation.

In financial institutions, Boards are answerable not just to shareholders, but also to depositors (if banks) and policyholders (if insurers). Boards play a pivotal role as stewards, responsible for the continued success of the financial institution (Fi):

"Boards of directors play the pivotal role in Fi governance through their control of the three factors that ultimately determine the success of the Fi: the choice of strategy; the assessment of risk taking; and the assurance that the necessary talent is in place, starting with the CEO, to implement the agreed strategy."

"Boards that permit their time and attention to be diverted disproportionately into compliance and advisory activities at the expense of strategy, risk and talent issues are making a critical mistake. Above all else, boards must take every step possible to protect against potentially fatal risks."

Table 1 shows what the Group of Thirty expects Boards to do:

Table 1: What Boards Must Do

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<thead>
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<th>Table 1</th>
<th>What Boards Must Do²</th>
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<td>Boards must:</td>
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<td>1. Recognize CG is an ongoing process and not a fixed set of guidelines and procedures;</td>
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<td>2. Dig deep selectively, as necessary for understanding and only agree to proposals once they are very clear they understand what is being proposed and its long-term implications;</td>
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<td>3. Provide independent challenge, which &quot;should bring a high quality and value-additive contribution to board deliberation and is not evidenced by the number of times a director says no to management&quot;;</td>
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<td>4. Remember smaller boards requiring greater time commitment are a far better approach than having larger boards that require only modest time commitment;</td>
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<td>5. Recognize balancing risk, return and resilience is difficult. &quot;If a risk is too complicated for a well-composed board to understand, it is too complicated to accept&quot;;</td>
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Table 1  What Boards Must Do

6. Insist on management giving the board the best means of understanding the issues on which judgment is needed and budget accordingly for the cost of providing such information;

7. Remember that values and culture determine behavior across the organization and the effectiveness of its governance arrangements, and that as Directors they are the custodian of these values and culture.

The Group of Thirty recommends Boards undertake the following ten tasks to be effective, shown in Table 2:

Table 2  Ten Tasks of Effective Boards

Effective Boards:
1. Fashion the leadership structure to allow the board to work effectively as a team unified in support of the enterprise;

2. Recruit members with irreproachable independence of thought and action to create board balance of expertise, skills, experience and perspectives – diversity (not just gender diversity) prevents groupthink;

3. Build nuanced understanding of all matters regarding the organization’s strategy, risk appetite, conduct and risks it faces and its resilience;

4. Appoint the CEO and ensure the top team has the required skills, values, attitudes and energy essential to long-term success;

5. Take a long-term view on strategy and KPIs, focusing on sustainable success;

6. Respect the fact that they are responsible for direction, oversight and control while management run the business;

7. Reach agreement with management on strategy and champion management once decisions are made;

8. Challenge management vigorously and thoughtfully discussing all strategic proposals, key risk policies and major operational issues;

9. Ensure rigorous and robust processes are in place to monitor compliance with agreed strategy, risk appetite and relevant laws and regulations (for details of the relevant laws and regulations, see Appendix 1: “Regulatory Framework”);

10. Assess board effectiveness regularly and share the results with the organization’s lead supervisor.