Characteristics of good governance

- **Participation.** Participation by both men and women is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives.
- **Rule of law.** Good governance requires fair legal frameworks that are enforced impartially. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force.
- **Transparency.** Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations.
- **Responsiveness.** Good governance requires that institutions and processes try to serve all stakeholders within a reasonable timeframe.
- **Consensus oriented.** Good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved.
- **Equity and inclusiveness.** A society’s well being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded from the mainstream of society.
- **Effectiveness and efficiency.** Good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal.
- **Accountability.** Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders.

Source: [http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp](http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp)

Oversight of senior management

The board should select the CEO and may select other key personnel, including members of senior management. The board should provide oversight of senior management. It should hold members of senior management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the board’s performance expectations. This includes adhering to the bank’s values, risk appetite and risk culture, under all circumstances. In doing so, the board should:

- monitor that senior management’s actions are consistent with the strategy and policies approved by the board, including the risk appetite;
- meet regularly with senior management;
- question and critically review explanations and information provided by senior management;
- set appropriate performance and remuneration standards for senior management consistent with the long-term strategic objectives and the financial soundness of the bank;
- assess whether senior management’s collective knowledge and expertise remain appropriate given the nature of the business and the bank’s risk profile; and
- be actively engaged in succession plans for the CEO and other key positions, as appropriate, and ensure that appropriate succession plans are in place for senior management positions.

Source: [Guidelines, Corporate Governance Principles for Bank (published by the Bank for International Settlements (BIS))](http://www.bis.org)

This publication is a result of ADFIAP’s cooperation with the Center for International Private Enterprise (CIPE)
Board’s overall responsibilities

The board has overall responsibility for the bank, including approving and overseeing management’s implementation of the bank’s strategic objectives, governance framework and corporate culture. The board has ultimate responsibility for the bank’s business strategy and financial soundness, key personnel decisions, internal organisation and governance structure and practices, and risk management and compliance obligations. The members of the board should exercise their “duty of care” and “duty of loyalty” to the bank under applicable national laws and, accordingly, the board should:

- actively engage in the affairs of the bank and keep up with material changes in the bank’s business and the external environment as well as act in a timely manner to protect the long term interests of the bank;
- oversee the development of and approve the bank’s business objectives and strategy and monitor their implementation;
- play a lead role in establishing the bank’s corporate culture and values;
- oversee implementation of the bank’s governance framework and periodically review that it remains appropriate in the light of material changes to the bank’s size, complexity, geographical footprint, business strategy, markets and regulatory requirements;
- establish, along with senior management and the CRO, the bank’s risk appetite, taking into account the competitive and regulatory landscape and the bank’s long-term interests, risk exposure and ability to manage risk effectively;
- oversee the bank’s adherence to the RAS, risk policy and risk limits;
- approve the approach and oversee the implementation of key policies pertaining to the bank’s capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations, and the internal control system;
- require that the bank maintain a robust finance function responsible for accounting and financial data;
- approve the annual financial statements and require a periodic independent review of critical areas;
- approve the selection and oversee the performance of the CEO, key members of senior management and heads of the control functions;
- oversee the bank’s approach to compensation, including monitoring and reviewing executive compensation and assessing whether it is aligned with the bank’s risk culture and risk appetite; and
- oversee the integrity, independence and effectiveness of the bank’s policies and procedures for whistleblowing.

Source: Guidelines, Corporate Governance Principles for Bank (published by the Bank for International Settlements (BIS))

The Collevecchio Declaration on financial institutions and sustainability

Financial institutions (FIs) such as banks and asset managers can and must play a positive role in advancing environmental and social sustainability. This declaration calls on FIs to embrace six commitments that reflect civil society’s expectations of the role and responsibilities of the financial services sector in fostering sustainability and take immediate steps to implement them as a way for FIs to retain their social license to operate. Thus, an appropriate goal of FIs should be the advancement of environmental and social justice rather than solely the maximization of financial return. To achieve this goal, FIs should embrace the following six commitments:

1. Commitment to Sustainability. FIs must expand their missions from ones that prioritize profit maximization to a vision of social and environmental sustainability. A commitment to sustainability would require FIs to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting and advising), to put sustainability objectives on an equal footing to shareholder maximization and client satisfaction, and to actively strive to finance transactions that promote sustainability.

2. Commitment to “Do No Harm.” FIs should commit to do no harm by preventing and minimizing the environmentally and/or socially detrimental impacts of their portfolios and their operations. FIs should create policies, procedures and standards based on the Precautionary Principle to minimize environmental and social harm, improve social and environmental conditions where they and their clients operate, and avoid involvement in transactions that undermine sustainability.

3. Commitment to Responsibility. FIs should bear full responsibility for the environmental and social impacts of their transactions. FIs must also pay their full and fair share of the risks they accept and create. This includes financial risks, as well as social and environmental costs that are borne by communities.

4. Commitment to Accountability. FIs must be accountable to their stakeholders, particularly those that are affected by the

Board committees

To increase efficiency and allow deeper focus in specific areas, a board may establish certain specialised board committees. The committees should be created and mandated by the full board. The number and nature of committees depend on many factors, including the size of the bank and its board, the nature of the business areas of the bank, and its risk profile.

Each committee should have a charter or other instrument that sets out its mandate, scope and working procedures. This includes how the committee will report to the full board, what is expected of committee members and any tenure limits for serving on the committee. The board should consider the occasional rotation of members and of the chair of such committees, as this can help avoid undue concentration of power and promote fresh perspectives.

A committee chair should be an independent, non-executive board member. Examples of board committees include: Audit committee; risk committee; compensation committee; other specialized committees include: Nomination/human resources/governance committee; Ethics and compliance committee.

Source: Guidelines, Corporate Governance Principles for Bank (published by the Bank for International Settlements (BIS))

companies and activities they finance. Accountability means that stakeholders must have an influential voice in financial decisions that affect the quality of their environments and their lives—both through ensuring that stakeholders’ rights are protected by law, and through practices and procedures adopted by FIs themselves.

5. Commitment to Transparency. FIs must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also by being responsive to stakeholder needs for specialized information on FIs’ policies, procedures and transactions. Commercial confidentiality should not be used as an excuse deny stakeholders information.

6. Commitment to Sustainable Markets and Governance. FIs should ensure that markets are more capable of fostering sustainability by actively supporting public policy, regulatory and/or market mechanisms that facilitate sustainability and that foster the full cost accounting of social and environmental externalities.

Source: www.financeadvocacy.org

“Governance” is a quarterly publication of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). It highlights ideas, best practices and trends in good corporate governance. Copyright, 2015, ADFIAP. Article contributions can be sent to robertj@adfiap.org