



association of the  
luxembourg fund industry



Institut Luxembourgeois  
des Administrateurs

# BOARD EVALUATIONS

# Board Self-Evaluations

## ALFI Code of Conduct for Luxembourg Investment Funds

### Principle II

*The Board should have good professional standing and appropriate experience and ensure that it is collectively competent to fulfill its responsibilities*

### Recommendation 7

*The Board should conduct a periodic review of its performance and activities.*

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## Introduction

The ALFI Code recommends that in addition to having good professional standing and appropriate experience, that Boards ensure its Directors are collectively competent to fulfill the Board's responsibilities.

In this context, it is further recommended that each Board periodically step back and review its performance and activities, as well as its composition, processes and succession planning. Such "Board evaluations" are an important tool for installing good governance and helping to prevent governance and organisational failures.

### **The goal of a Board evaluation is to identify opportunities to improve and develop Board effectiveness, capabilities and composition.**

Every entity should be led by an effective Board, with a Board Chair responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Board and its committees should have the appropriate balance of skills, experience, independence, knowledge and availability.

Board (self-)evaluations are an effective tool for group and self-reflection where group dynamics and procedural items are questioned periodically. They are usually carried out as self-evaluations and kept confidential in order to encourage and ensure the open and frank discussions which make the exercise meaningful.

### **Start small**

Usually Boards start with an internal self-evaluation using a checklist. This will assist each Director to become familiar with the exercise, and enable the Board to reflect on the appropriate frequency and methods going forward, as well as providing opportunities to introduce improvements for future evaluations.

### **Methods and Timing**

It is useful to take time to reflect on the type of Board evaluation which might be appropriate for your Board, as well as the required frequency. Whilst an annual reflection is encouraged, this need

not be a full evaluation process each year, with methods varying between years from formal evaluations to informal dinner chat with a Board reflection theme.

### **Considerations for a Board self-evaluation**

- **Ensure confidentiality:**
  - The point of the exercise is not to tick a box, but to have open discussion in order to improve the Board's functioning.
  - To get open exchange, confidentiality must be ensured throughout the process.
- **Define the objectives:** method and questions must be relevant
  - You will get more out of the exercise if you take time to tailor the questionnaire.
  - There are various options to decide on, including using only a questionnaire, a questionnaire plus interviews. Most Boards start with just a questionnaire for their first evaluation process.
- **Who will lead the process?**
  - Often this will be the Chair, assisted by the secretary.
  - The Chair may also make use of a governance professional, who can add further analysis and input as well as comparisons to practices amongst groups of peers.
  - Using a professional can also be useful for facilitating the discussions in a neutral manner, and can help ensure all responses are anonymised and aggregated prior to be circulated with the full Board.
- **How often to hold an evaluation?**
  - The Board should consider the frequency and carry out a self-evaluation periodically.
  - When carrying out a formal evaluation, the Board will start with defining the method and questionnaire, then collect the results, hold the feedback sessions to discuss findings, and finally to implement any necessary changes. The Board will often be assisted in each of these steps (e.g. by a company secretary or an external professional).
  - To keep the process meaningful, some Boards are finding a frequency of every 2-3 years is appropriate for a full formal process with an interim less formal process. The interim process may take the form of a regular (annual) Board dinner or agenda item where the Board is able to have an open discussion to consider collectively their Boards', effectiveness. Any items raised in both a formal review or as part of Board discussions should be tracked as Board action items until they have been satisfactorily addressed.
- **Follow-up action plan: ensuring learnings are implemented**
  - As the purpose of the self-evaluation is to identify ways the Board can improve its functioning, there should be follow-up actions.
  - Often the Company Secretary will be charged to keep track of these items, in conjunction with the Board Chair.
  - Progress should be reported to the Board periodically.
- **What disclosure should be made regarding fact that an evaluation took place?**
  - The results of the survey should not be shared with investors or with regulators. This would destroy the environment of trust which is required for open and honest debate.

- Companies may, however, include information about the fact they have carried out a self-evaluation, and consider also sharing what method was used and intended frequency of evaluations. This could be done by inclusion of a sentence in the annual reports or in the notes to the annual accounts.

A limited sample of the types of issues which might be covered in a Board evaluation are set out in the sample Board Self-Evaluation questions below.

Further details can be found on the ALFI Fund Governance web page and on the ILA website ([www.ila.lu](http://www.ila.lu))

### Extracts from a Board Self-Evaluation

	Agree	Not sure	Disagree
<p><b>Board Meetings</b></p> <ol style="list-style-type: none"> <li>1. The Board meets sufficiently frequently to manage the business properly and for the Board to meet its responsibilities</li> <li>2. The Board is supplied with information in a form and of a quality to enable it to discharge its duties, including opportunities to discuss and challenge service providers</li> <li>3. Board decisions are always evidenced by well-written and clear meeting minutes. Comments on the minutes made by all Directors, and are adequately taken into account</li> <li>4. Action points are promptly dealt with</li> </ol>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>
<p><b>Board Culture</b></p> <ol style="list-style-type: none"> <li>1. Board discussions are critical and constructive: Directors challenge proposals put forward by the Investment Manager with robust discussions, and assist the Investment Manager with refining and improving proposals</li> <li>2. All relevant viewpoints and stakeholders are considered prior to final decision-making</li> <li>3. The Non-Executive Directors are involved in all Board decisions</li> <li>4. The Investment Manager is responsive to requests for information or clarification</li> </ol>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>
<p><b>Board members</b></p> <ol style="list-style-type: none"> <li>1. All current Directors remain suitable for this business going forward</li> <li>2. All Directors regularly attend Board meetings and contribute actively</li> <li>3. All Directors devote the necessary time and attention to their duties</li> <li>4. The number of Independent Non-Executive Directors is sufficient</li> </ol>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>	<input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>  <input type="checkbox"/>



**The Association of the Luxembourg Fund Industry (ALFI)**, the representative body for the Luxembourg investment fund community, was founded in 1988. Today it represents more than 1,500 Luxembourg-domiciled investment funds, asset management companies and a wide variety of service providers including depository banks, fund administrators, transfer agents, distributors, law firms, consultants, tax advisers, auditors and accountants, specialist IT providers and communications agencies.

Luxembourg is the largest fund domicile in Europe and its investment fund industry is a worldwide leader in cross-border fund distribution. Luxembourg-domiciled investment structures are distributed in more than 70 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

ALFI defines its mission as to **“Lead industry efforts to make Luxembourg the most attractive international investment fund centre”**.

Its main objectives are to:

### **Help members capitalise on industry trends**

ALFI’s many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond to identify threats and opportunities for the Luxembourg fund industry.

### **Shape regulation**

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg’s competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, the implementation of European directives and the regulation of new products or services.

### **Foster dedication to professional standards, integrity and quality**

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organizing training at all levels, defining codes of conduct, transparency and good corporate governance and supporting initiatives to combat money laundering.

### **Promote the Luxembourg investment fund industry**

ALFI actively promotes the Luxembourg investment fund industry, its products and services. It represents the sector in financial and economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

ALFI is an active member of the European Fund and Asset Management Association, of the International Investment Funds Association, of Pensions Europe, of the International Association of Pension Funds Administrators and of the Global Impact Investing Network.

For more information, visit our website at [www.alfi.lu](http://www.alfi.lu) and follow ALFI on



## about ila

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The mission of ILA is to promote the profession of Directors by developing its members into highly qualified, effective and respected Directors.

In parallel, it will promote best practices in Luxembourg in the field of Corporate Governance of companies and institutions by actively engaging with those institutions charged with the introduction, application and oversight of those Corporate Governance rules and practices. It will achieve this through high quality training, forum discussions, research, publications and conferences.

ILA aims to be the premier interlocutor in Luxembourg on issues affecting Directors.

For more information, visit our website at [www.ila.lu](http://www.ila.lu) and follow ILA on:



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**Code of Conduct -  
Board Evaluations**