A REPORT BY ILA AND DILIGENT

THE STATE OF THE LUXEMBOURG BOARDROOM 2021

ABOUT ILA

ILA wants to be the first interlocutor on Corporate Governance in Luxembourg and therefore be instrumental in the determination and the promotion of good and sustainable conscious Corporate Governance.

ILA's mission is to support ALL directors and governance professionals, be the governance arm to all industries in the Luxembourg eco system and enhance the application of best governance practices.

To achieve the above, ILA works towards being the voice of governance matters as a multi-industry association as well as being an ambassador of Luxembourg as a strong business place for good governance.

ILA provides trainings on best practices in terms of sustainable Corporate Governance and any relevant topics, as well as supports the networking of directors and governance professionals, and issues recommendations and clear views on Corporate Governance topics (ex: tenure, diversity,…).

Learn more at www.ila.lu

ABOUT DILIGENT

Diligent is the largest governance, risk and compliance (GRC) SaaS provider, serving more than one million users from over 25,000 organisations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organisation. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organisations. We empower 79% of the Fortune 500, 90% of the FTSE 100 and 83% of the ASX 200 to improve their bottom line, to keep pace with stakeholder expectations and to create a lasting, positive impact on the world.

Learn more at diligent.com

FOREWORD FROM CARINE FEIPEL ILA CHAIR

On behalf of the Institut Luxembourgeois des Administrateurs (ILA) and Diligent it gives me great pleasure to introduce the first edition of our "The State of the Luxembourg Boardroom" benchmark survey.

This inaugural edition explores three key topics:

- Board Governance;
- Board Effectiveness; and
- Board focus on the theme of ESG and Sustainability.

A lot goes on behind the scenes of an effective board and much of that effectiveness relies on the supporting structure that a good governance framework provides. A relevant and appropriate framework that has been clearly defined and well documented is essential for providing the basic guidelines for decision-making and ensuring board discussions are productive and flow smoothly. The first section of this report focuses on Board Governance and examines the extent to which company boards in Luxembourg have organised their governance framework efficiently in terms of guidelines, processes and topic focus.

In addition to Governance, the survey also focuses on Board Effectiveness. Section 2 provides a snapshot of how successful the boards were at putting their governance framework into practice and operating efficiently and effectively in their oversight and guidance activities. It covers good governance aspects that range from the quality of interactions and influence, to having information and training readily available for the directors.

Finally, we have focused on today's hottest governance topic, ESG and sustainability, in section 3. ESG and sustainability have become significant governance themes, both societally and via soft and hard laws. The survey results reveal that this is an evolving area for most boards.

Our aim in preparing this survey is to provide boards with insights into current good governance practices and to further strengthen the overall governance framework of Luxembourg companies.

In conclusion, I would like to sincerely thank all of the respondents for the time they took to participate in the survey, the members of the ILA Think Tank Committee, and particularly the survey sub-committee, who designed the survey and analysed the results. Last but not least I would like to thank our sponsor for this survey, Diligent Corporation, who was instrumental in putting the survey together.

Enjoy the reading!

Carine Feipel
ILA Chair

FOREWORD FROM MONIQUE BACHNER ILA THINK TANK COMMITTEE CHAIR

In today's ever evolving governance landscape, it is important that ILA's members are provided new perspectives on corporate governance. ILA's Think Tank Committee, created at the end of 2020, has set out to stimulate thinking, share practical experiences, use and disseminate corporate governance and related research for the practical benefit of ILA and its membership base of governance practitioners. In order to meet the challenges of businesses today and in the future, ILA's Think Tank Committee aims to further the innovation and development of corporate governance practices, as well as testing and validating current best practices.

In order to guide the work of ILA committees, including the Think Tank, it is important to begin with a base line. This is what we have set out to establish, through this survey.

The results will in part be used to guide the work and focus of a number of ILA committees over the coming months and years. It is ILA's intention to repeat the survey on a regular basis to highlight evolution in corporate governance practices and also to highlight emerging topics which should be on every board's agenda.

The ILA Think Tank Committee would be pleased to receive relevant feedback on the survey, and would also be happy to welcome new members willing to commit time to deep dive into new and emerging corporate governance topics.

I trust you will be inspired by the survey results and consider the impacts of the results on your own current board practices.

Monique Bachner
ILA Think Tank Committee Chair

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Introduction to The State of the Luxembourg Boardroom Survey 2021

The importance of good governance has perhaps never been greater, with the uncertainty and lightning-fast developments the world is faced with today. This makes board effectiveness a priority in all sectors and companies.

The underpinnings of a well-functioning board of directors is, of course, to be found in the frameworks that define how a board functions - how effectively it makes its decisions, monitors delegates and risks, and safeguards the company's future success.

Board functioning and effectiveness are the parameters that this joint research from Diligent and the Luxembourg Institute of Directors (Institut Luxembourgeois des Administrateurs or ILA) attempts to gauge. Experience has shown that when boards have the proper expertise and are well-organised with key (supporting) aspects well defined, the directors are in a much better position to focus on what is most important.

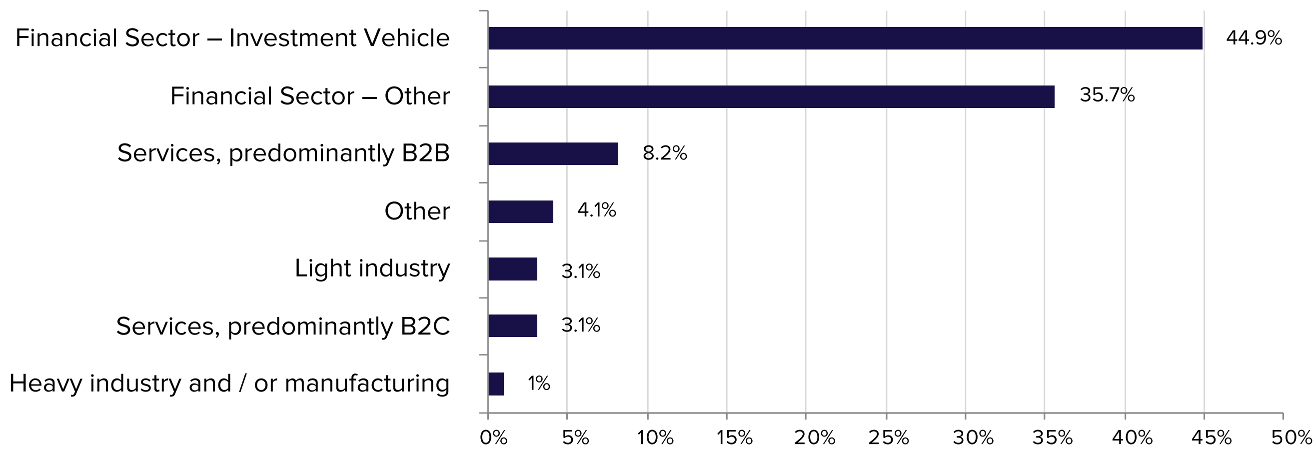
This report addresses three key areas:

1. The governance framework within which boards are operating,
2. Board effectiveness, and
3. How boards are approaching ESG and Sustainability.

At the end of this report is an in-depth investigation into how boards in Luxembourg are currently approaching the growing social and regulatory demands for more attention to be paid to an increasing number of sustainability and environmental, social and governance (ESG) topics.

The survey is based upon the responses of around 100 ILA respondents, representing both independent directors, non-executive directors and corporate secretaries. The activities of the boards covered in these survey results represent the following sectors:

Participating Boards by Industry



The focus of governance for investment vehicles is in certain respects completely different from that of other sectors, as it generally follows an investment prospectus rather than a business strategy. The results for investment vehicle respondents have been separately disclosed and commented upon in the text whenever these differences significantly skew the overall results.

Main Findings

Nearly 93% of the boards surveyed have frameworks for governance and/or risk policies in place. These are the basics that most mature company boards have covered.

75% of boards surveyed discuss and evaluate key business strategy annually.

An average of 52% of board meeting time is spent on operational topics.

Only 50% of boards consider to be effectively balancing short- medium- and longer-term perspectives.

46% of boards do not conduct formal performance evaluations, or only do so infrequently. Structural, in-depth evaluations can reveal where a board is and is not effective.

67% of boards felt they did not yet have all the expertise they will need to address ESG and sustainability.

Board Governance Framework

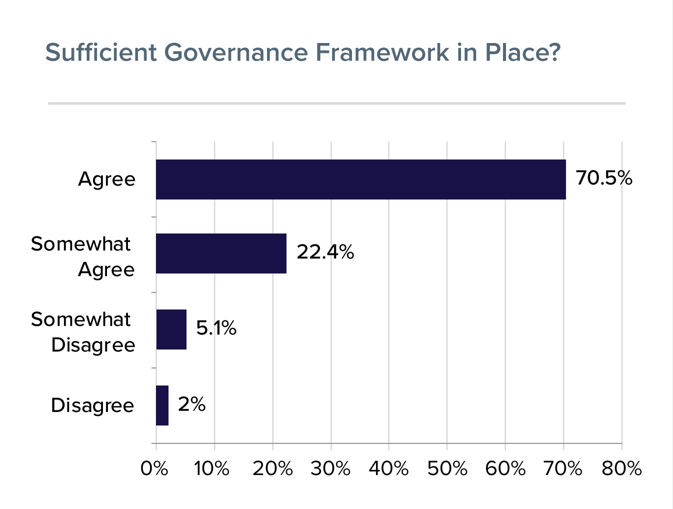
A lot goes on behind the scenes of an effective board and much of that effectiveness relies on the supporting structure that a good governance framework provides. A relevant and appropriate framework that has been clearly defined and well documented is essential for providing the basic guidelines for decision-making and ensuring board discussions are productive and flow smoothly. This section examines the extent to which company boards in Luxembourg have organised their governance framework efficiently in terms of guidelines, processes, and topic focus.

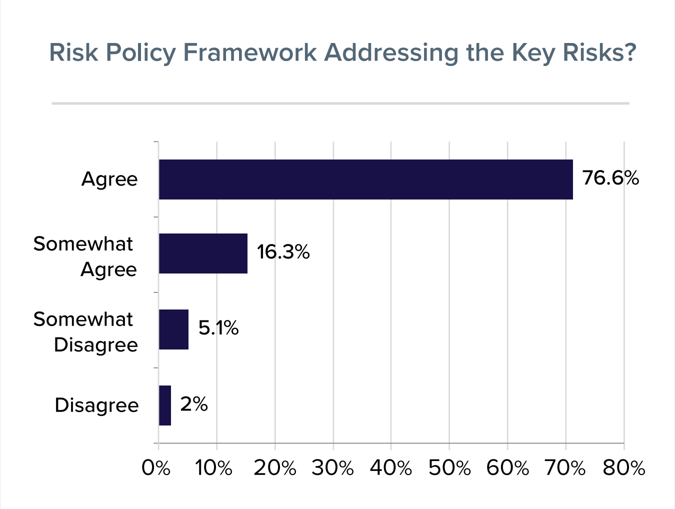
Governance and risk governance framework

The scope of responsibilities and duties of the board is broad and extensive. If the board is to effectively fulfil its mandate, it is dependent not only on maintaining oversight of the activities of the firm, but it must also be relevant in its choice of what to monitor. Governance and the risk management framework provide the discipline to ensure that its supervision and decision-taking is diligent and adequate for the task.

In response to the question of whether their firm has a governance framework that is complete and appropriate, nearly 93% of the research respondents felt they were there or nearly there. A similar percentage of boards surveyed also indicated they have a risk policy framework that addresses key risks. The importance of these two frameworks together as a basis for effective governance is not surprising.

Boards need to consider the dynamics of risk facing the organisation as a continuing and evolving story and regular reviews and updates are necessary.





Nearly 93% of the boards surveyed have frameworks for governance and/or risk policies in place. These are the basics that most mature company boards have covered.

Definition of purpose

An organisation that is clear on its destination will be better able to define the meaning of success and finds it easier to remain focussed on its strategy over the long term. Understanding the purpose of the firm, beyond the notion of increasing profits, will improve the chances of producing products or services that provide value to customers and stakeholders.

When asked which ambitions the participating boards had chosen as their purpose, the majority (57%) reported having the intention of being a sustainable business over time. Half of respondents also included increasing operational efficiency and maximising profit at the top of their list of ambitions.

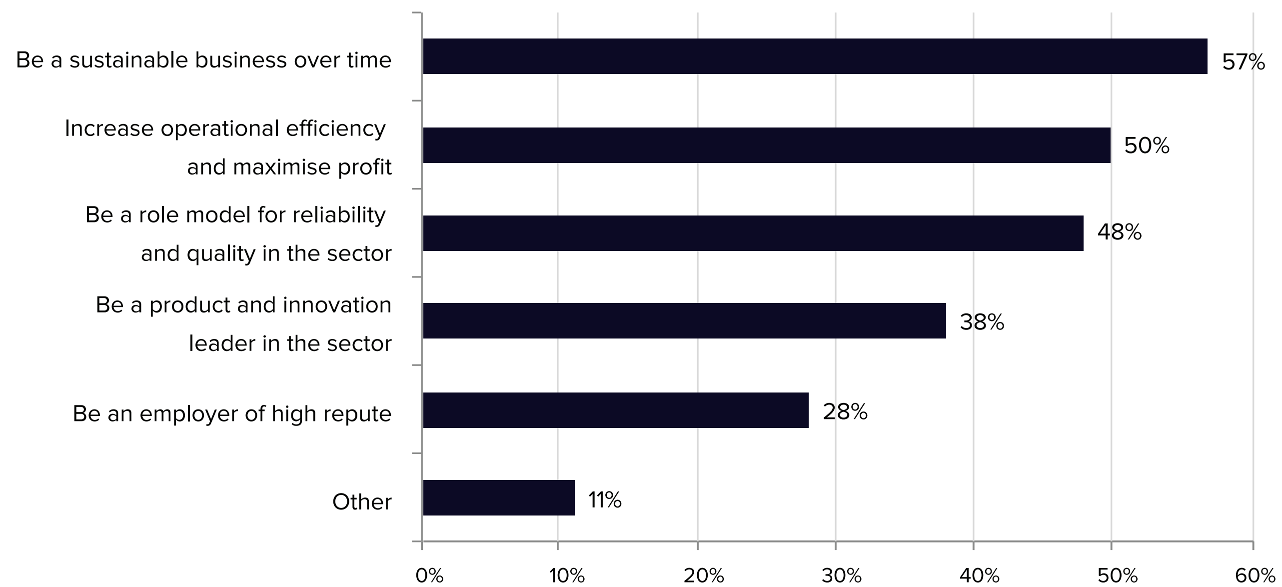
Most respondents reported having at least two goals as part of the purpose of their board. (The survey allowed a maximum of three choices.) For the 11% of boards reporting having other priorities than the most common goals provided in the list, their ambitions included such things as:

- Having an ESG* impact or being an ESG leader
- Ensuring business quality and providing valuable risk control
- Enabling smart and ethical decisions in a VUCA (Volatile, Uncertain, Complex, Ambiguous) world
- Investing with impact (in the case of investment vehicles)

Boards in the financial sector were the least likely of all respondents to claim innovative leadership as their ambition. They were, on the other hand, more likely than other sectors to focus on being a sustainable company over time.

The ambition of being an employer of high repute was indicated quite frequently in most sectors. The exception to this was investment vehicle boards, which is likely to be due to these seldom having their own staff.

What Ambitions Does the Board Have as its Purpose? (maximum 3 answers)



*ESG stands for environmental, social and governance. At the end of this report is an in-depth look at what the boards surveyed are doing to address ESG and sustainability topics.

Topics and committees

The size of the board and any constellation of sub-committees will be governed by the size and complexity of the operations concerned as well as whether the entity is part of a larger international group. However, the broad nature of risks and duties facing any board quickly arrives at a stage where additional work, deeper consideration and advice is required.

The Luxembourg boards who participated in this survey tended to have an average of six to seven directors.

Two thirds of boards had at least one board committee, and most frequently committee(s) dealing with audit, risk, and/or remuneration. The topics of focus for these committees varied widely across the different industries, however. For example, respondents in light industry were the most likely to have a committee for sustainability issues, while investment vehicles were most likely to have investment committees. While in the survey we split the response options by individual topic, in reality a committee may be tasked with multiple topics, such as Audit & Risk, Nomination & Remuneration, People & ESG, etc.

Given the small size of some of the responding boards, it is unsurprising that 36% of those surveyed indicated they had no formal board committees. The results indicate that the presence of board committees focusing in more depth on specific areas was often a good indicator that a board was also more likely to be more mature, and hence also more organised and effective in other governance areas.

Growing interest in digital and sustainability, had not yet translated into formal board committees in these areas, with relatively few respondents having organised committees to monitor these topics.

The number of committees a board has often depends on the company size, or the case of the asset management sector, on the amount of assets managed. Few small companies had specific board committees.

Breakdown of Board size and Committees

	Average Board Size	Number of Committees	Most Common Topic
Funds	5	2	Investment
Financial Services	7	3	Audit
Others	8	3	Remuneration

THE PARTICULARITY OF INVESTMENT VEHICLES

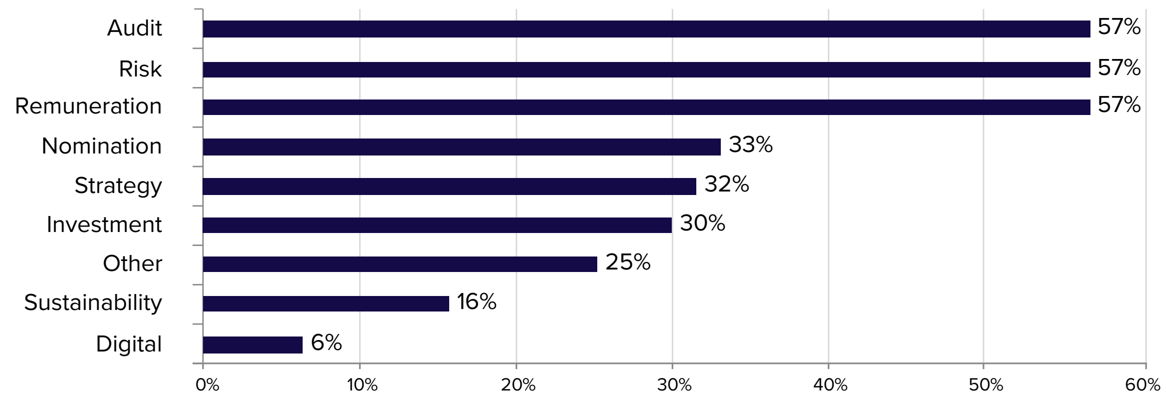
Among the respondents to the survey, investment vehicles were the most likely to report not having permanent board committees for specific board topics. When they did report having committees, these were most often investment committees. In reality, investment vehicles will usually have other types of committees. These are often not at the individual investment vehicle level board, but rather have a wider range of participants that includes experts as well as board and/or group executives as representatives.

Investment vehicles operate in a highly regulated environment with significant amounts of external delegations and service providers to other regulated entities with a specific authorisation, such as depositary, transfer agent, administrative agent, and so on.

As a result, the board of an investment vehicle is naturally more concerned with supervisory activities - ensuring that the criteria and provisions within the investment policy of the prospectus are adhered to and in monitoring the various delegates and service providers. Topics such as technological disruptions and adapting their business strategy will often be discussed in conjunction with their "promoter" or "sponsor," i.e., the banking or asset management group which has launched and supports that investment vehicle. Such discussions will often be relevant to the group's positioning across its entire range of investment products and the internal organisation of that group.

Historically, investment vehicle boards may have been less focused on topics such as nomination processes, as often directors were appointed from within the promoter's group. However, with the growing importance of the role of non-executive directors and scrutiny from investors and regulators, investment vehicle boards are now also tending to have defined recruitment criteria and processes.

What Types of Committees Do Boards Have?



Top 3 Board Committee Focus Topics by Company Size				
	Micro	Small	Mid-Sized	Large
1	Strategy	Strategy	Audit	Audit
2	Sustainability	Audit	Risk	Risk
3	Risk	Remuneration	Remuneration	Remuneration

The boards that had an audit committee tended to be much larger boards: 8 or more members on average, compared to 6 or more members for the average Luxembourg board in this survey.

Notable committee insights:

Boards with an Audit Committee:

- focused more often on disruptive technology when discussing the company outlook
- tended to have well-defined financial and non-financial objectives for rewarding leadership behaviours

Boards with a Remuneration Committee:

- were found most often in group companies
- had director nomination procedures that considered diversity aspects
- appeared to focus more on disruptive technology, sustainability and ESG when discussing the company outlook - perhaps due to ESG issues sometimes being combined in remuneration and nomination committees.
- tended to spend significant amounts of board time discussing operational topics

Discussing the business strategy

Board members frequently complain of the board agenda and time being absorbed by routine "housekeeping" matters, leaving little time for strategic debate. Yet strategy is a key role of any board.

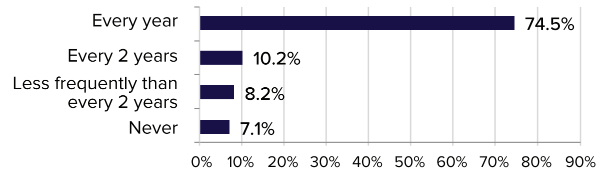
Some vehicles (such as investment vehicles ensuring adherence to a fund prospectus) may have a narrower focus or a prescribed objective that may limit immediate strategic shifts of a particular sub-fund. Some may also feel constrained by their group strategies. Even so, external factors are constantly changing and need to be revisited on a regular basis for the group to remain competitive and relevant new products and services to be launched over time. Although strategic directions are often developed elsewhere in a group, the local board still has a role in pushing the group on how they are tackling strategic topics and developments. Adjusting staffing and skillsets, ensuring increased use of technology, adjusting purpose and focusing on adapting to societal and technological changes are very relevant topics, both at the group and subsidiary level. Regulators such as Luxembourg's financial sector regulator (the CSSF) also expect financial sector entities, whether headquartered in Luxembourg or elsewhere, to have documented their own strategy at the level of the Luxembourg regulated entity.

Most boards have annual strategy discussions

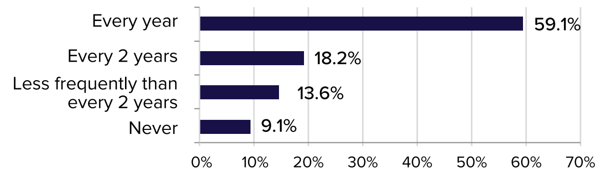
In terms of discussing, evaluating, and determining their company's key business strategy, three-quarters of the respondents confirmed such discussions took place every year.

According to the survey results, boards that held annual business strategy discussions were also more likely to maintain other forward-looking items such as up-to-date succession plans for key leadership positions and objective and well-documented criteria/ guidelines for establishing remuneration systems. As a result, even where firms are struggling with the shorter versus longer term strategies and perhaps feel frustrated about the speed of adapting and redefining their purpose, holding such strategy discussions seems to have a positive impact on a wide variety of forward looking strategic and risk-prevention measures.

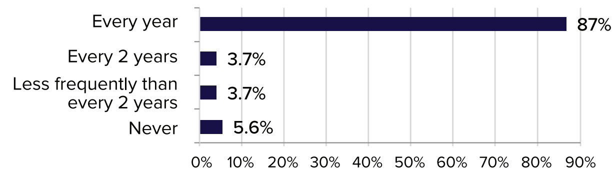
How often do boards discuss key business strategy?



Investment fund boards



Boards, excluding investment funds



87% of non-investment fund respondents review strategy annually, whereas a smaller 59% of fund boards consider strategy on an annual basis. This will be due to the fact that investment fund strategy is defined by the fund manager or promoter rather than the board of directors.

75% of boards surveyed discuss and evaluate key business strategy annually.

Looking forward versus mired in operations

The board has an oversight duty relative to the executive committee it has appointed to perform operational tasks. Whereas the mandated executive committee cannot be effective with constant interference by the board in daily management decisions, there will always be matters and questions, generally of strategic importance, that should be referred to or reserved for the board. The board must find the appropriate balance between monitoring near-term risk and performance indicators, adjusting and refining the organisation's governance framework, and reviewing long-term indicators of market and stakeholder impact that might influence future strategy.

A little more than half (52% on average) of meeting time was reported to be spent on operational topics.

This average skewed considerably, however, when broken down by sector. Industrial and other sectors reported spending between 50% and 80% of their time discussing operations. The average was just under 50% for most other sectors.

Sector	Percent of time spent discussing operational topics
Heavy industry	80%
Investment vehicle	56%
Light industry	50%
B2C services	48%
Financial sector	47%
B2B services	43%
Other	73%

Other strategic topics included::

- Capital management and the study/approval of investment proposals
- Mergers and acquisitions
- New market opportunities and competition
- Market developments, business development, product development
- Positioning the entity within the group
- Business philanthropy

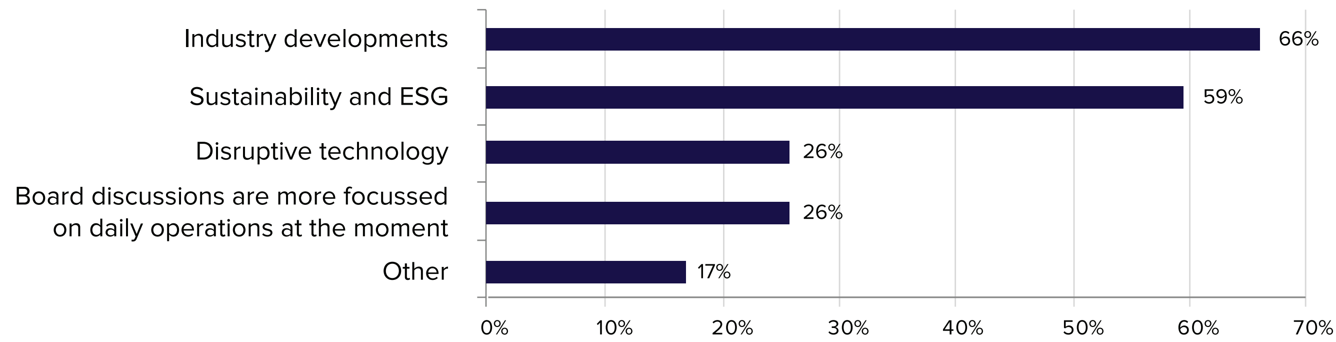
When boards discussed more forward-looking and strategic topics, those discussions most often revolved around industry developments (66%) and sustainability/ESG (59%).

The boards of larger companies tended to focus more on discussing disruptive technologies than those of smaller companies. Surprisingly, boards outside the financial sector were also more than twice as likely to frequently discuss disruptive technologies. Only 16% of investment vehicles and 23% of financial services respondents reported discussing disruptive technologies.

Given the low levels of discussion of new technologies reported by finance sector respondents despite the fast evolution of technological changes in this sector, one wonders whether this is because Investment vehicle boards in particular were least likely to focus on disruptive technologies or whether boards were overly reliant on group efforts in this area. Even investment company boards must ensure sufficient discussion and questioning with their sponsor groups topics such as the evolution and adoption of new technologies and their impact on not only fund strategies and offerings, but also how such changes might disrupt asset management value chains or open new opportunities.

An average of 52% of board meeting time is spent on operational topics.

Which forward-looking topics are discussed most?



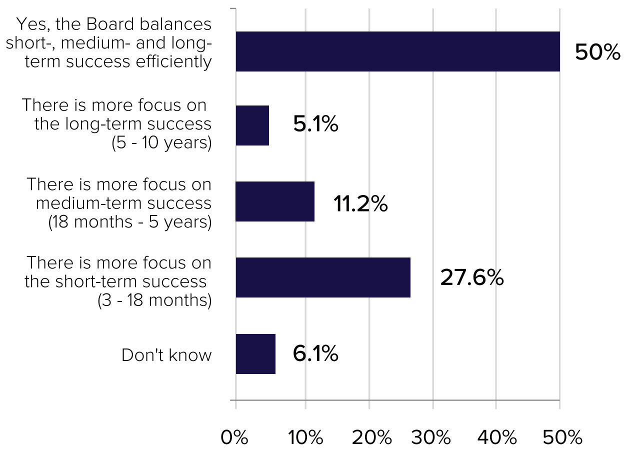
Balancing the short, medium, and long term

A common challenge for any company board is how to balance the need for a successful business not only in the short term, but also in the medium and long terms. Just 50% of the boards surveyed claimed to be successful at effectively balancing all three perspectives. Most of the others (28% of all respondents) focused predominantly on company success in the short term of 3 to 18 months.

It seems many boards are struggling with balancing these three perspectives, with only 50% of boards seeming to feel they have a comfortable balance between the short, medium and longer time frames.

Surprisingly 27% of Boards stated they were more short-term focused, begging the question of how these boards are functioning and what they see as their role and value-add.

Does the board balance short-, medium-, and long-term success efficiently?



ESG as an indicator of forward-looking focus

Notably, boards that regularly discussed environmental issues and said they are well equipped to measure and report on their progress toward ESG goals were also the boards that reported being able to balance the short, medium, and longer terms effectively.

It appears that boards who are focusing more on the future are already discussing topics such as ESG, and to a lesser extent also digitalisation. Elsewhere in the survey, we saw that many boards were still upskilling and adjusting skillsets to be able to better deal with these increasingly dominant themes, and as a result we would expect to see increasing focus on such topics in future.

Likewise, boards have taken note of Luxembourg and EU initiatives in this area, with the EU's Green Deal and sustainable finance initiatives common topics on industry conference and training agendas. The 10 Principles of the Luxembourg Stock Exchange, the most well-known Luxembourg governance code, also contains sustainability criteria. For investment vehicles, the ALFI Code is also being updated to include sustainability criteria. In parallel, Director institutes such as ILA have also put in place training programmes to better equip boards to deal with such discussions and be able to properly challenge strategy proposals presented by management.

A Closer Look: Governance Guidelines for Remuneration & Succession

Arguably, one of the most important decisions the board is responsible for is its choice of the executive team. Ensuring that the individual who is mandated to run company operations is aligned with organisational purpose and strategy is vital if consistency and a good corporate culture is to be maintained. Ensuring that the incentives offered to the executive are consistent with organisational objectives and value-creation is therefore also vital.

To be at its most effective, there are a few guidelines and criteria that every board needs to have set out clearly and objectively. These two topics have high priorities for the boards in the survey.

Remuneration

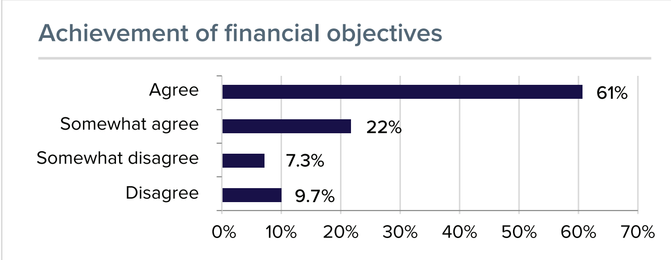
One important role of good governance is defining the criteria for establishing a bonus system for the CEO and other C-level executives. A well-defined system covers the achievement of both financial and non-financial objectives, as well as rewarding leadership behaviours. These desired 'soft' leadership skills might include collegial behaviours such as good communication skills and teamwork, legal compliance behaviours such as diligence, integrity, and following the rules, and ethical behaviours such as respect, empathy, and inclusiveness.

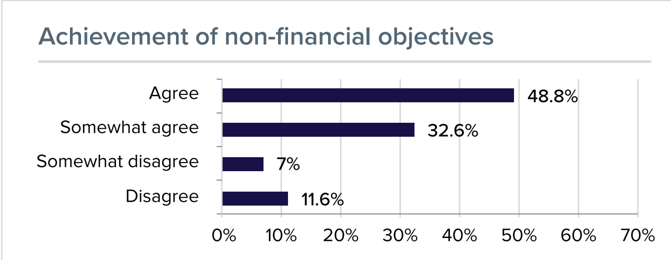
It should be noted that this data represents only the organisations where the guidelines and criteria for remuneration are applicable. It excludes most investment vehicle boards. Because investment vehicles often have no staff (staff are at group level, not at the level of the individual investment vehicle), the topic of executive remuneration is generally not relevant.

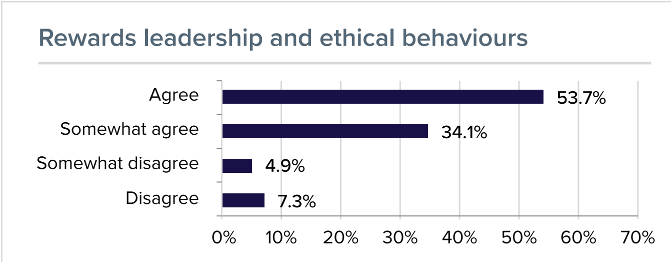
Succession

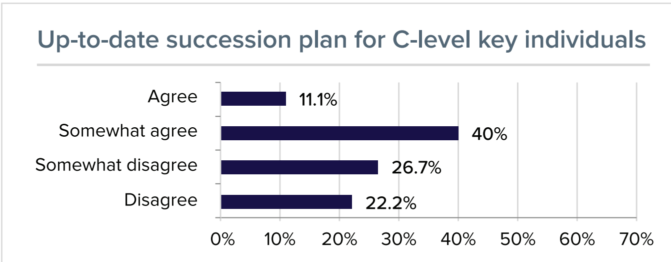
Another important aspect of good governance is the availability of up-to-date succession plans for key individuals in company leadership roles. Ideally, this should include plans for C-level executives as well as company directors. Most boards surveyed that have succession plans in place tend to have them for both the executive and the board. Larger companies are also more likely to ensure there is a documented succession plan in place.

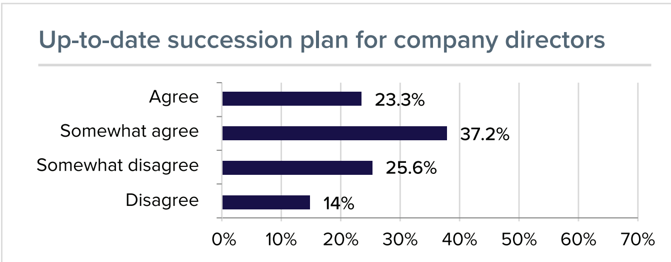
As in the above results for remuneration, the charts represent only those boards where succession planning is applicable. It does not include investment vehicles, whose leadership roles will be at the group level and not within the individual investment vehicle.











Board Effectiveness

This section provides a snapshot of how successful the boards were at putting their governance framework into practice and operating efficiently and effectively in their oversight and guidance activities. It covers good governance aspects that range from the quality of interactions and influence, to having information and training readily available for the directors.

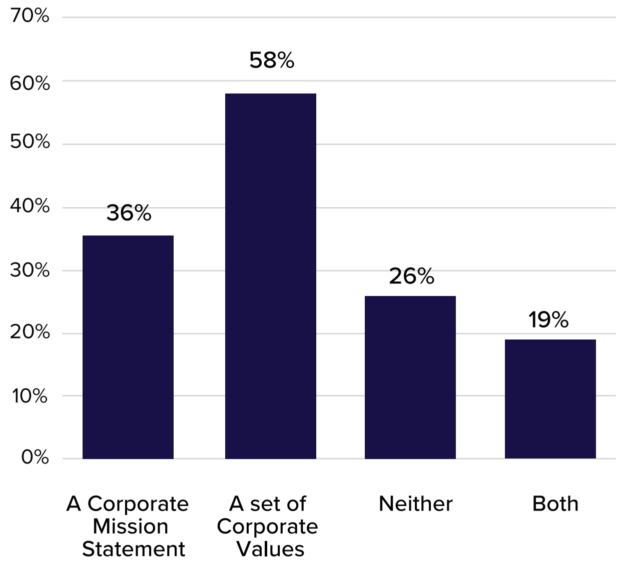
Are statements of the Corporate Mission and Corporate Values board-approved?

The corporate mission statement and the organisational values that support it are important tools for the executive committee and employees to navigate the daily challenges they face. The mission should explain what the stated objective of the firm is and what unique competitive advantages are to be leveraged in reaching them. The values of the organisation provide a moral compass for its members to better understand how those skills and abilities are to be used in working towards their objectives.

Surprisingly, nearly 26% of respondents had neither a Corporate Mission Statement nor a set of Corporate Values that are approved by the board.

More than half (58%) had a defined set of Corporate Values approved by the board, while just 36% have approved a Corporate Mission Statement. A meagre 19% of the boards in the survey say they had both. This might be due to such statements already being issued at group level.

How often do boards endorse or approve corporate values and/or mission statements?

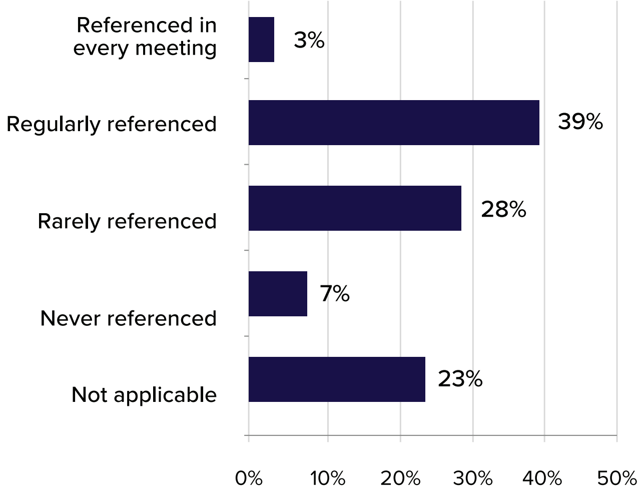


Are Corporate Mission Statements or Corporate Values referenced in board discussions?

When companies had defined their corporate values, most boards in the survey did tend to reference them either regularly (39%) or on occasion (28%) in board discussions. However, nearly 24% of respondents indicated that their company had no value statements to reference.

There is also a significant correlation (between 45% and 50%) in the survey results between boards that had approved a Corporate Mission Statement or set of Corporate Values and whether they discussed, evaluated, and determined the company's key business strategy.

How often are corporate mission statements and/or corporate values discussed?



Are interactions with the executive committee of high quality?

For a board to be effective, the relationship between the board and the executive must be one based on trust and transparency. The greater the disclosure of operational detail and challenges provided by the executive committee, the better the quality of decisions at the board level will be.

An effective board must be able to delegate its decisions to the executive. Most of the boards in the survey agreed they have little or no problems in delegating their decisions effectively. Just 19% reported seeing some room for improvement in how well their decisions were implemented.

In general, the survey respondents who said their communications with the executive committee were frequent and of high quality were the most likely to have fewer issues with formally implementing their decisions.

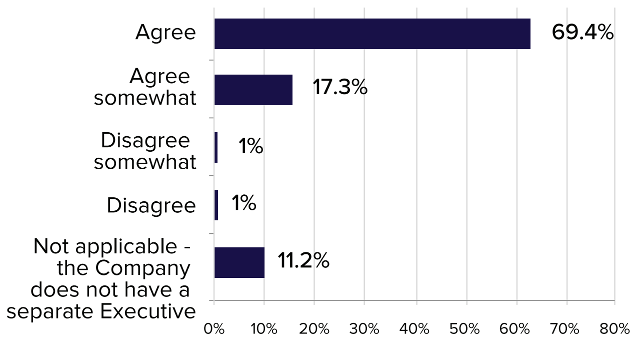
While most of the board members surveyed agreed that their decisions are implemented effectively, there does appear to be more room for improvement when it comes to the mechanisms for monitoring and reporting the company progress on those decisions. Nearly 30% reported inadequate reporting and/or monitoring of the outcomes of board decisions. A small number of respondents reported having no process at all for monitoring and evaluation, leaving full responsibility for the execution of decisions up to the executive once implemented.

Interestingly, the survey results showed that boards that maintain an up-to-date succession plan for executive leadership positions were also more likely to have better monitoring and evaluation of the outcomes of the board decisions they have implemented to the executive. These boards also tended to discuss more social issues, equity and human rights issues, and ESG and sustainability in general (expected to increase in the next year), as well as the corporate mission statement.

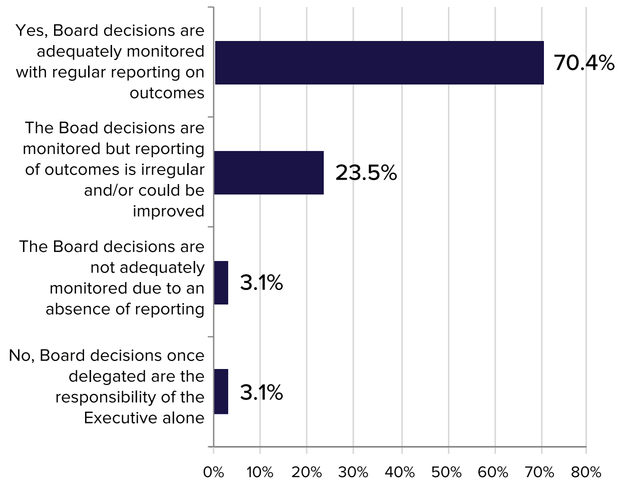
Just over 66% of the boards in the survey reported having frequent and high-quality communication between the board and the executive. A small but significant number of respondents said their interactions were frequent but not always of high quality, or of high quality but not frequent.

The survey results appear to show a possible relationship between good and frequent interactions with the executive and the board's ability to formally ask its decisions to be implemented.

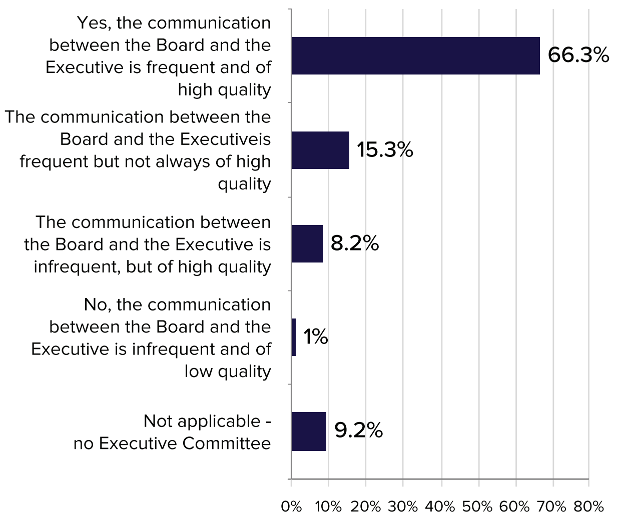
Are board decisions delegated effectively and formally to the executives?



How well are board decision outcomes monitored and evaluated?



What is the frequency and quality of interactions?



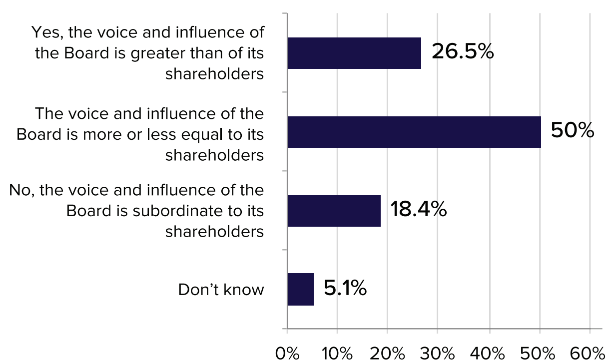
Does the board have enough influence on the company?

A board can only be effective when it has a voice in company decisions and appropriate influence on the executive. Usually this will also mean the board should have a greater voice than that of the company's shareholders - not least due to the disparate views and objectives that these might have. Boards should lead, and therefore effective boards are integral to determining the company's strategy and appointing its CEO.

Only 27% of the boards surveyed said they have a greater influence than that of the shareholders on company decisions. This is likely to be because many companies in Luxembourg are subsidiaries of larger groups. Board influence was reported to be similar to that of shareholders at 50% of the companies, which may indicate a delicate balancing of independent strategy and decision-making with respect and consideration for the group strategy.

Unsurprisingly, boards with more independent members appeared better able to maintain a greater voice and influence.

Does the board have more influence than shareholders?



In FORTUNE, Diligent's CEO Brian Stafford explains that gone are the days when signing up for revenue targets is the only success criteria for companies.

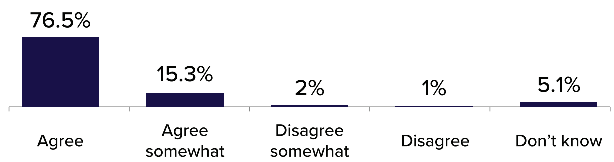
Success now requires more data, additional disclosure, and more active management of the new nonfinancial "health" metrics that companies will be reporting for the next decade and beyond: ESG, DEI, cyber, climate, third-party risk, and data privacy.

Is the board sufficiently independent?

A board composed of executive and non-executive directors who are to a lesser or greater degree conflicted by interests of loyalty to (for example) individuals, particular shareholders or past strategies will be more likely to refrain from challenging or questioning proposals coming to the board. The greater the presence of independent non-executive directors on the board, the greater is the likelihood that challenging, difficult, or even awkward questions will be raised. This offers greater clarity on assumptions being made and increases the diligence in both the preparation and decision-taking surrounding proposals.

Nearly all respondents to the survey (92%) agree that having non-executive directors as members increases the board's effectiveness to some extent.

Do non-executive members increase board effectiveness?



Another aspect that also defines a more effective board is how the directors are chosen and what considerations affect that choice. The presence of a formal nomination procedure is useful for ensuring the board is diverse enough to provide the best possible governance to the company. The larger boards in the survey were more likely to have a separate nomination committee.

According to the survey results, 54% had a formal nomination procedure, with experience and skills requirements being the most common criteria. Board composition and diversity considerations were included less than half of the time:

- Experience and required skills (50%)
- Board composition and assessment (45%)
- Diversity considerations (42%)

The larger companies in the survey tended to put more emphasis on experience and diversity than the smaller companies.

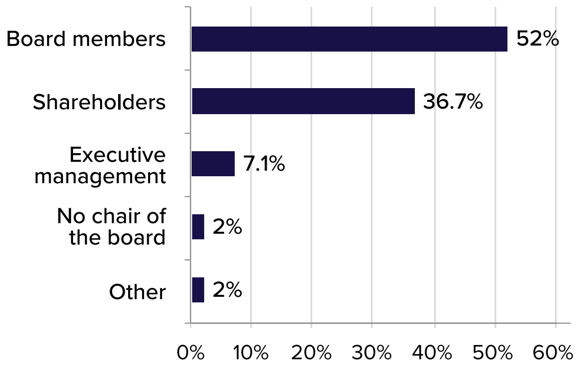
Just 42% of board nomination procedures currently include diversity considerations.

Are chairs of the board appointed objectively?

The role of chairperson is crucial to the culture and dynamics of interaction between directors. The person must have the confidence of fellow directors and be strongly independent minded. If the chair is appointed by shareholders, the chances of the chair being held in the highest level of respect is diminished.

For the boards in the survey, board chairs are nearly always chosen either by the members of the board or the shareholders. The majority are chosen directly by the board, which also accords with Luxembourg company law that provides that a board must elect its own chair. Shareholders are involved in appointing the chair for 37% of the boards. Executive management were involved in chair selection processes in a few entities (7%). Generally, shareholders and executive management are more likely to be involved in the chair selection process if part of a group.

Who appoints the board chair?



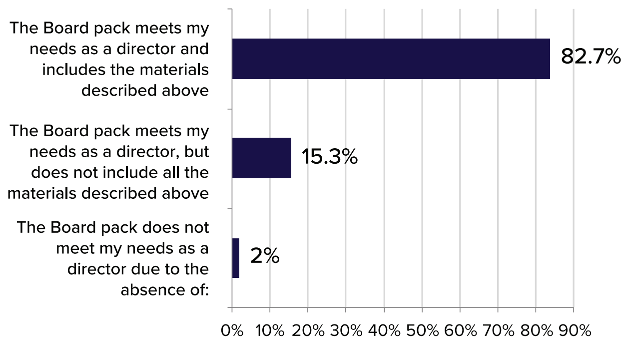
Is the administrative support for the board organised efficiently?

Well organised information packs and agendas are an important part of providing the administrative support that a board needs to function effectively. The survey asked participants how quickly and easily board members have access to relevant information, reports, KPIs, supporting documents, minutes, agendas, and correspondence.

Nearly 83% of respondents said their current board pack met their needs and included all materials a director needed to participate fully in board meetings. The more organised a board was at other aspects of the governance framework, the more likely it was to have board pack content that is optimised to their directors' needs.

Approximately half of respondents said they used digital tools such as email or file sharing to distribute board packs, while the other half used board portals or a combination of a portal with other tools. Only 2% of the boards surveyed distributed paper board packs via courier.

Does the board pack fully meet the needs of the directors?



Notable board pack insights:

- Slightly more than 1 in 4 board packs were distributed late.
- Version control was an issue for only a little over 10% of the boards.
- 68% of board packs included KPIs at each board meeting.
- Perhaps unsurprisingly, the financial sector was more likely to consistently include KPIs.

Does the board take time to evaluate its own performance?

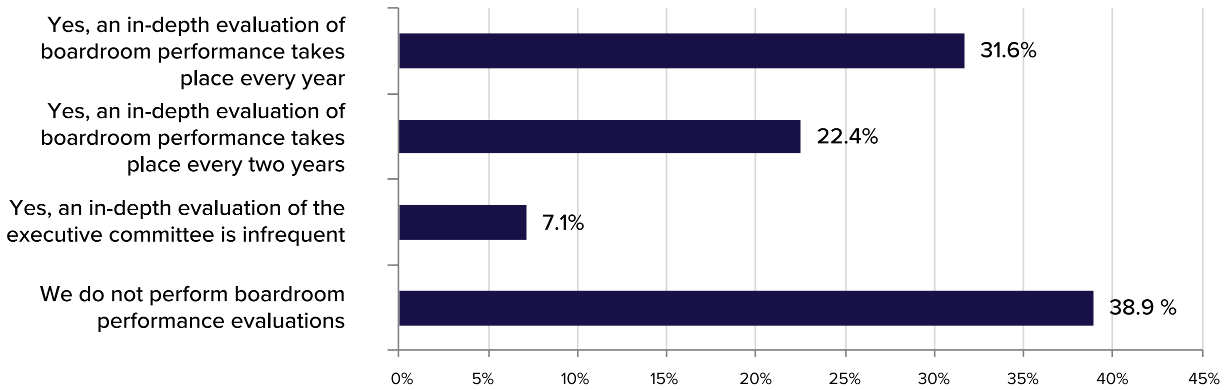
How does a board know whether it is truly effective in achieving what it is meant to do? Taking the time for regular and structured in-depth evaluations of board performance can show where a company's board is most effective and where improvements could be made for better governance.

More than half of the boards in the survey conducted an in-depth performance analysis either annually (32%) or bi-annually (22%). The most diligent in this regard were those in the financial sector. The remaining respondents reported evaluating the board's performance but not on a regular basis, either purely ad hoc or only when appointing new board members (7%).

The most frequent performance evaluations were reported by larger companies.

However, this leaves nearly 40% of surveyed boards as having responded that they do not conduct any formal performance evaluations, an area clearly ripe for improvement.

How often does the board evaluate its performance?



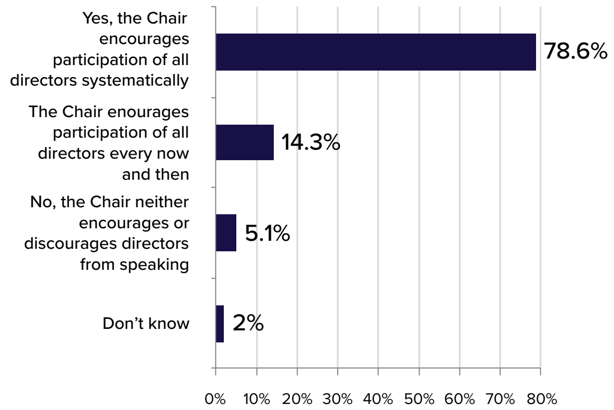
46% of boards do not conduct formal performance evaluations, or only do so infrequently. Structural, in-depth evaluations can reveal where a board is and is not effective.

Are all board members able to participate fully in discussions?

Good governance and effective board performance can also be measured by the active participation of all directors and to what extent that is encouraged by the board chair.

Most of the boards surveyed had chairs who systematically encourage participation, but for more than 20% of the respondents that level of encouragement was not as clear. Behavioural economics has demonstrated that effective decision-making presupposes proper debate with multiple and diverse viewpoints. The risk of insufficient participation by all directors is that the board bases its decisions on the opinions of a single dominant person instead of on the basis of multiple insights and expertise.

Does the board chair systematically encourage participation?



Do directors receive adequate education and training?

Given the growing number and complexity of governance issues that board members face, education and training are quickly becoming a critical factor in board effectiveness. The survey asked respondents whether their company organises and/or funds training for board members and how often.

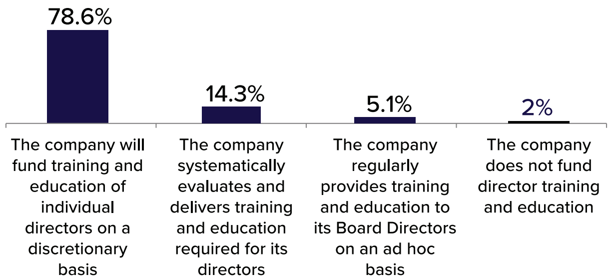
Judging by the quite varied responses, adequate training is an issue that is just starting to gain real awareness. Currently, training is provided mostly on an ad hoc basis (40%). However, nearly half of respondents (49%) said their board is planning to upskill its members through training within the next 12 to 18 months.

Company funding of director training tends to happen when the board is more mature and effectively organised, with governance and risk policy frameworks in place and conducting regular in-depth performance evaluations. Respondents in the financial services sector also reported more training for directors funded by the company, which is perhaps not surprising due to the extensive regulation and the expectations of regulators.

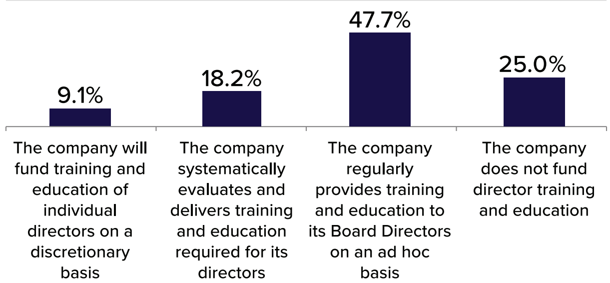
Sustainability is clearly another topic requiring additional training for the boards surveyed. Many of the boards planning to upskill their members also:

- expected an increased focus on sustainability and ESG issues in the next 12 months,
- had discussed sustainability-related frameworks such as the UN Sustainable Development Goals within the past 12 to 18 months, and
- focused on the necessary knowledge and skills to deal with emerging sustainability-related topics.

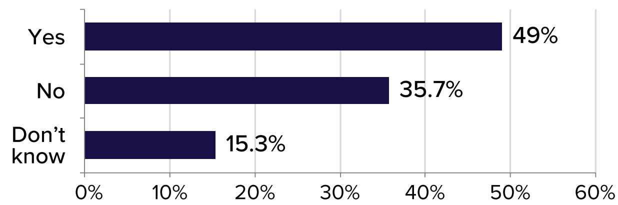
How often does the company fund regular training for its directors? (excl. investment vehicles)



The company organises and/or funds regular training and education for directors



Is the board planning training in the next 12-18 months?



Board Topic Focus: ESG & Sustainability

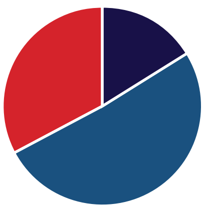
ESG and sustainability have become significant governance themes, both societally and via soft and hard laws. The survey results reveal that this is an evolving area for most boards. Reason enough to take a closer look at this board focus topic.

Balancing environmental and social issues

Companies and their boards are now expected to be much more aware of the environmental and societal impact of what they do and to work harder to find a balance between sustainability issues and corporate profitability.

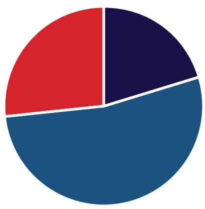
How extensively have boards discussed ESG topics within the last 12 months?

Environmental issues
(such as EU Green deal, climate change, circular economy)



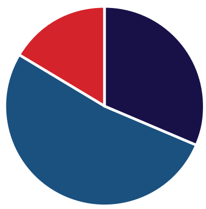
- Not discussed: 16.3%
- Somewhat discussed: 51%
- Extensively discussed: 32.7%

Social issues
(such as diversity and inclusion, employee engagement, sociatal impact)



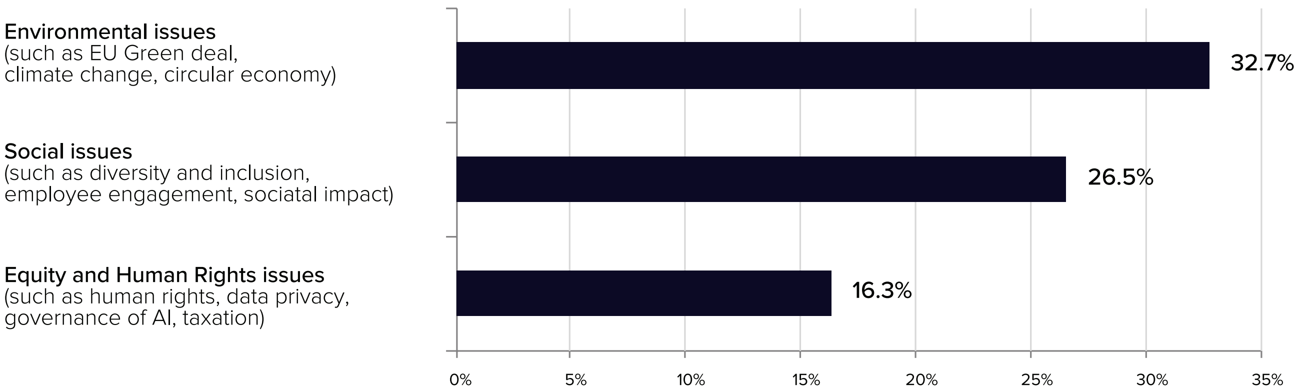
- Not discussed: 20.4%
- Somewhat discussed: 53.1%
- Extensively discussed: 26.5%

Equity and Human Rights issues
(such as human rights, data privacy, governance of AI, taxation)



- Not discussed: 31.6%
- Somewhat discussed: 52%
- Extensively discussed: 16.3%

ESG topics discussed extensively in the last 12 months

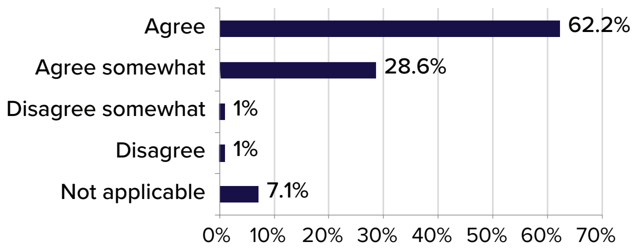


Sustainability and ESG as board focus

With the growing societal pressure for companies to increase their sustainability efforts, how many of the companies surveyed were expecting to focus on ESG in the short term?

The survey results indicated that more than 90% of boards did intend to increase their focus on sustainability and ESG at least some extent in the next 12 months.

Does the board expect to focus on ESG in the next 12 months?



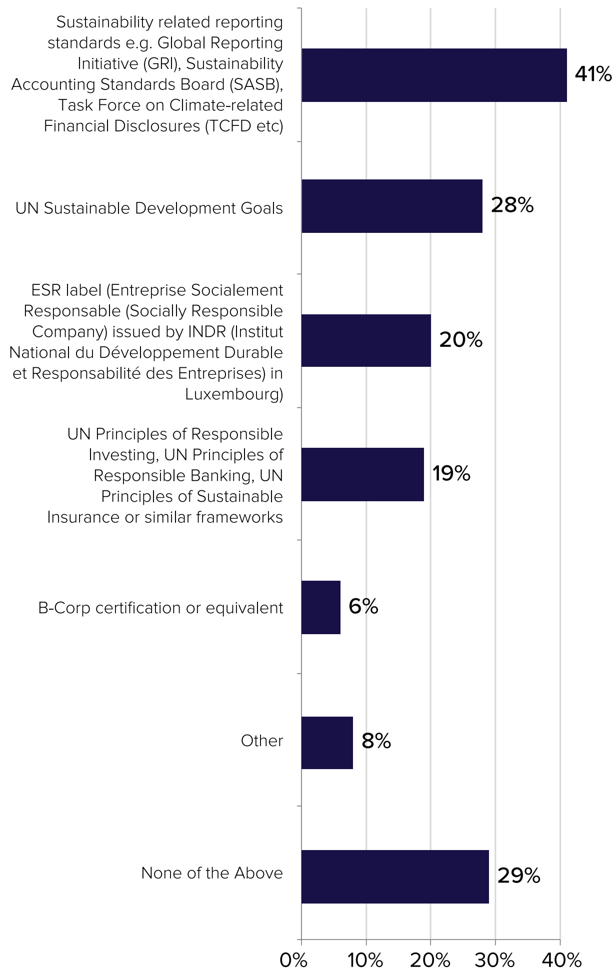
"An organization with ESG processes in place is a more attractive proposition on all sides. In a cutthroat environment, prospective employees will want to work for companies most aligned to their own values. Investors see a defined ESG program as a forward-thinking step on the path to long-term sustainable growth – a consideration of the bigger picture rather than just a focus on the right here, right now."

Lisa Edwards
COO at Diligent

Which sustainability frameworks

The sustainability framework that received the most board focus among survey respondents in the past 12 to 18 months at 41% of respondents was the Sustainability related reporting frameworks (e.g., Global Reporting Initiative (GRI), Sustainability Accounting Standards (issued by the SASB) or the Principles on Climate Related Financial Disclosures (issued by the TCFD). The UN Sustainable Development Goals (SDGs) were another important topic, having been discussed recently by 28% of the boards surveyed. Almost one third of boards (29%) had not yet discussed any of the common sustainability frameworks.

Which sustainability frameworks have been discussed in the past 12-18 months?



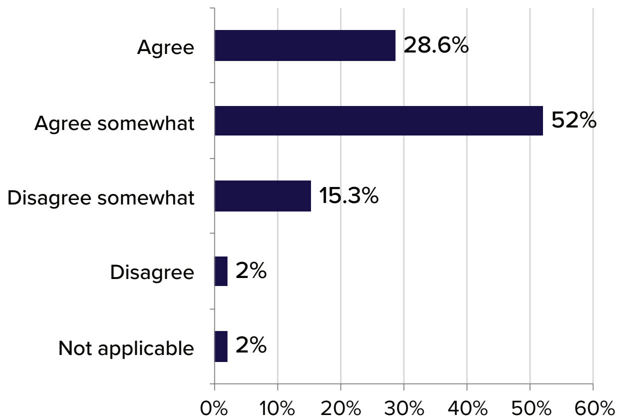
Available knowledge and skills

Most of the boards surveyed reported having at least some of the knowledge and skills they expected to need to deal with the emerging topics related to sustainability. However, most also agreed that it is probably still not enough. The majority (67%) agreed they only had some, and certainly not all, of the expertise that will be required at the board level.

The boards that did report having the necessary knowledge and skills also expect to increase their focus on ESG and sustainability within the next 12 months. Most of those boards with the necessary knowledge and skills also said they were already equipped to measure and report on their overall progress toward ESG goals.

67% of boards felt they did not yet have all the expertise they will need to address ESG and sustainability.

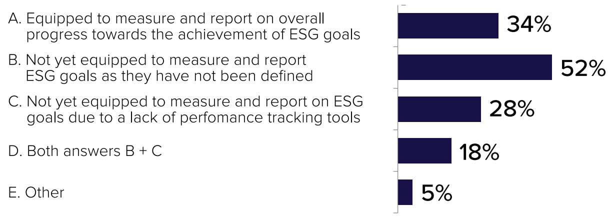
Does the board have the expertise required to deal with sustainability topics?



When asked to what extent they were equipped to measure and report on their overall progress towards ESG goals, most respondents felt they were not yet prepared because the goals had not yet been defined, or they lacked the tools required to track their progress (18% reported both reasons). Just 34% indicated that they were prepared to measure and report on their company's progress.

Only about one third of respondents in the financial sector said they are equipped to measure and report on their progress toward ESG goals. For the majority of those respondents, their lack of sufficient expertise had more to do with not having defined ESG goals than missing the tools to track and report their progress, according to the results.

Is the board equipped to measure and report on ESG progress?



Data Split Per Sector

	Funds	Financial Services	Others
Equipped	34%	29%	59%
Lack Definitions	52%	57%	27%
Lack Tools	30%	29%	13%
Other	2%	6%	11%

The majority of the boards in the survey (59%, excluding investment vehicles) did not yet publish a sustainability report, indicating how much work is still to be done regarding ESG and sustainability. Only 28% of respondents had an annual sustainability report.

Whether a company already published an annual sustainability report depended significantly on company size, according to the survey results. Also, the boards that reported having discussed sustainability-related reporting standards within the last 12 to 18 months were more likely to already be doing some sort of sustainability reporting. The boards that currently published sustainability reports also tended to consider themselves better equipped to measure and report on their progress towards achieving their ESG goals.

Conclusions

This joint research was undertaken to provide a snapshot of the degree of organisation and diligence of company boards in Luxembourg. As regulators continue to push for more formal compliance aspects from boards and society demands more attention to the social and environmental impact of companies, it was a worthwhile exercise to see how boards are currently handling these shifting focuses.

That this is an on-going evolution is clear from the survey results. The basic foundations for good governance such as well-documented frameworks, risk policies, remuneration criteria, are already neatly in place for many boards. However, the results are much more mixed when examining newer themes, including topics such as technological disruptions or sustainability, ESG, and the reporting frameworks that are being developed around them.

Some areas for board development going forward:

Board committees

However small, these can be efficient ways of sharing relevant information and can help propel a board forward on multiple governance and compliance aspects. Smaller boards could still consider these by involving non-board members such as experts in such committees.

Diversity and skills objectives

Defining and documenting an objective nomination framework that addresses the multiple aspects of diversity in all its forms as well as the board's desired skillsets is an essential first step in ensuring a broader expertise and more diverse representation on boards.

Adding more independent directors

Increasing external voices on boards can significantly increase the board's level of influence on the company and its independence from shareholders. This is particularly important where there are multiple shareholders, however should also be seriously considered in group scenarios to ensure local leadership is effective and real.

Director training programmes

Taking inventory of and planning for training of directors is crucial for building - and maintaining - board expertise in fast-developing areas such as sustainability and digitalisation, as well as ensuring all board members keep abreast of regulatory and industry evolutions.

Schedule regular board performance evaluations

Board evaluations are key to obtaining a clear overview of specific areas of weakness and where a board needs to improve their capacities for good governance, whether that is within the board composition, its processes and procedures, or other aspects of the board's functioning such as board support and delegation.

"Having independent directors serve on boards of public companies has always been considered a "best practice". Corporate governance codes of jurisdictions have always advocated for a healthy mixture of Dependent and Independent Directors.

The State of the Luxembourg Boardroom Survey suggests that directors could have more influence on the respective companies where they sit on the board. Data from Diligent's Compensation and Governance Intel suggests that the average percentage of Independent Directors on the Board trails behind Dependent Directors. There has never been a better time than now for Luxembourg companies to increase the proportion of Independent Directors and diversify skill sets on their respective Boards.

This could drive minority shareholder confidence and consequently increase shareholders' returns."

Edna Frimpong
Head of Research Diligent Institute

About the Research

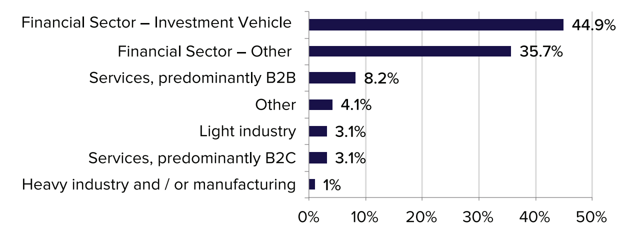
The data used for this report was collected in the summer of 2021 using an online survey among non-executive directors, executive directors, and company secretaries in various business sectors in Luxembourg. All participants received personal email invitations sent by ILA. Approximately 100 respondents participated in the survey.

A large majority of responses came from the financial sector. Approximately 45% were investment vehicles and 36% were financial services organisations. About 19% of participants represent other non-financial industries, mostly B2B services.

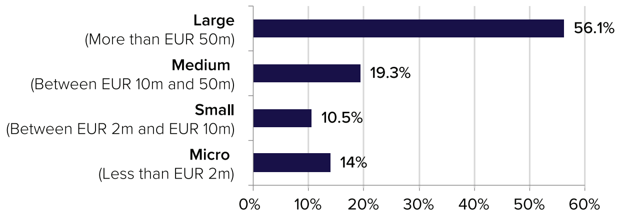
Among the three largest g groups of respondents, the average reported turnover was just under 22 million EUR, with the highest revenues being reported in the financial services sector (no investment vehicles).

The largest companies, reporting more than 50 million euro in turnover, were mainly active in industrial and B2C services.

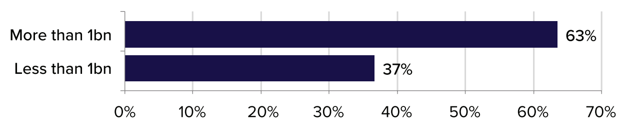
Respondents by Industry



Amount of Turnover



Level of Managed Assets



More than 80% of the financial sector participants represented companies that are subsidiaries of a larger group. In other industries, the average number of respondents that were consolidated subsidiaries was 65%.

Subsidiary vs. Independent Company	
Group subsidiary	66%
Single or dominant shareholder	34%

Who responded to the survey?

- 46,9% independent non-executive directors
- 4,5% executive directors
- 20,4% company secretaries
- 8,2% non-independent non-executive directors

Notable participant insights:

- Average board size among participating organisations was 6 to 7 board members.
- Slightly less than half (47%) of the boards surveyed had independent board members. Group subsidiaries often had fewer independent members.
- Boards tended to be larger as the company size increased.

They also tended to become larger as the amount of assets managed grew.

- Most Luxembourg boards are “unitary” (less than 10% had two-tiered boards).
- Larger boards often had sub-committees, in particular:
  - Audit
  - Risk
  - Remuneration
- For financial sector participants and investment funds, the higher the level of assets managed, the more likely the organisation had subcommittees. More assets managed tended to prompt sub-committees for:
  - Sustainability (strong correlation!)
  - Strategy
  - Audit
  - Risk

ACKNOWLEDGMENTS

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