



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

# Report on declared time commitment of non-executive directors in the SSM

August 2019



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# 1 Background

## 1.1 Time commitment of non-executive directors

All members of the management body shall commit sufficient time to perform their functions in the supervised entity.

To increase its knowledge of non-executive directors' time allocation and to inform upcoming assessments performed both by supervisors and banks, the ECB conducted a benchmarking exercise on the declared time commitment of non-executive directors in euro area countries. This exercise was based on fit and proper applications received in 2018.

While this report provides valuable information on the current situation regarding the declared time commitment of non-executive directors, it imposes neither requirements nor supervisory expectations and its figures do not affect the principle of proportionality or the established case-by-case assessment approach as described in the [Guide to fit and proper assessments](#).

Non-executive directors hold a supervisory function and do not normally have an executive role. They are expected to effectively oversee and monitor the management body's decision-making, challenge the decisions of the management body in its management function and provide a counterbalance to the executive members. Non-executive directors should therefore participate in the meetings of the respective body and its committees, if applicable. They should allow sufficient time to prepare for and travel to such meetings. In addition, members are expected to allocate sufficient time to keep up to date with relevant information concerning the supervised entity. They also play a crucial role in ensuring an adequate internal control and governance framework.

Non-executive directors are obliged to have an understanding of the business of the entity. This includes understanding the entity's risks, risk appetite and risk management strategy. Non-executive directors are also expected to have an appropriate understanding of those areas of the business for which they are not individually responsible but are collectively accountable with the other members of the management body. This requires knowledge of the entity's governance arrangements and structure. Non-executive directors should also set aside sufficient time for continuous learning and development.

In summary, non-executive directors are expected to commit sufficient time to their functions within the supervised entity<sup>1</sup>.

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<sup>1</sup> Article 91(2) CRD V.

## 1.2 How the ECB assesses time commitment

Time commitment is subject to a case-by-case assessment of each application, taking the principle of proportionality into account.

In line with the [Joint ESMA and EBA Guidelines on suitability](#)<sup>2</sup>, the ECB has developed specific policies for the assessment of time commitment, which are summarised in the [Guide to fit and proper assessments](#). Time commitment is always subject to a case-by-case assessment of each application, taking the principle of proportionality into account.

### 1.2.1 Information to be provided by the supervised entity

In line with the [Guide to fit and proper assessments](#), supervised entities should provide all relevant and necessary details to show that a non-executive director has sufficient time to commit to their mandate. In this regard, the ECB considers a minimum set of information from the supervised entity necessary to conduct the suitability assessment. This includes, inter alia, a full list of the appointee's mandates and positions, the number of hours or days dedicated to each mandate or position, any additional responsibilities such as membership of committees, a self-declaration from the appointee that they have sufficient time to dedicate to all mandates, and a confirmation of adequate buffers for ongoing learning and periods of increased activity.

If it has concerns about time commitment, the ECB may request additional information from a supervised entity in light of individual circumstances and based on a proportionate approach.

### 1.2.2 Quantitative assessment of time commitment

The holding of multiple directorships is an important factor that may affect time commitment. The CRD V therefore sets a limit on the number of directorships which may be held by a member of the management body in an institution that is "significant" in terms of its size, internal organisation and the nature, scope and complexity of its activities<sup>3</sup>. The number of directorships which can be held by a member of the management body of a significant institution under CRD V is limited to one executive directorship and two non-executive directorships, or four non-executive directorships. There are, however, exceptions to this rule: directorships in organisations which do not pursue predominantly commercial objectives do not count and certain multiple directorships count as a single directorship ("privileged counting").

In fit and proper assessments, the ECB assesses whether an appointee complies with these limits.

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<sup>2</sup> Joint ESMA and EBA guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12).

<sup>3</sup> Article 91(3) of CRD V.

### 1.2.3 Qualitative assessment of time commitment

In addition to the quantitative limits on the number of directorships, there are qualitative factors that determine the amount of time a director can dedicate to his/her function, such as (i) the size and circumstances of the entities where the directorships are held and the nature, scale and complexity of their activities; (ii) the location where the entities are based; (iii) other professional or personal commitments and circumstances (e.g. a court case in which the appointee is involved); (iv) the travel time required for the role; (v) the number of meetings scheduled for the management body; (vi) the time needed for necessary induction and training; and (vii) the nature of the specific position and the responsibilities of the member (e.g. specific role as CEO, Chair or member of a committee). Supervised entities should also take into account the need for ongoing learning and development, as well as for a buffer for crisis situations or any other unexpected circumstances.

In order to assess whether an appointee commits sufficient time to his/her function, the ECB considers all relevant factors on a case-by-case basis. While the ECB expects appointees to dedicate sufficient time to performing their functions in the supervised entity, the amount of time deemed sufficient varies significantly depending on these factors. Furthermore, the ECB regularly conducts peer comparisons based on past and ongoing assessments of similar cases, which ensures a level playing field for all appointees and SSM countries.

For further details on the assessment of time commitment, please see Chapter 4.4 of the [Guide to fit and proper assessments](#).

## 1.3 Recurring concerns regarding the time commitment of non-executive directors

In fit and proper assessments, the ECB regularly identifies concerns regarding the time commitment of non-executive directors. The most recurring concerns relate to:

- high number of mandates
- high overall time commitment
- low time commitment to the role

In 2018 the ECB imposed conditions, obligations or recommendations in fit and proper decisions to address concerns about time commitment for around one out of every five assessed non-executive directors. With respect to non-executive directors, therefore, time commitment is the fit and proper criterion with the highest number of supervisory concerns.

## 2 Data collection

The data used for this benchmark are based on information declared by supervised entities and non-executive directors as part of the fit and proper assessment process conducted by the ECB in 2018.

For the benchmark, a sample of 586 fit and proper assessments of non-executive directors (of which 63 held the position of Chair) were randomly selected<sup>4</sup>. The sample covered non-executive directors from all SSM member states and from 256 different entities, representing 74 of the 114 banking groups currently directly supervised by the ECB. The data covered non-executive directors in top entities as well as subsidiaries of banking groups.

The data only represent factual information provided by supervised entities and non-executive directors as part of the fit and proper process. Results are presented on an aggregated level for the SSM as a whole and, where possible, separated for regular non-executive directors and chairpersons due to their different functions and levels of responsibility on the board.

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<sup>4</sup> Every second fit and proper assessment of a non-executive director received in 2018.

### 3 Interpretation of the data

The data presented in this benchmark are based on information provided by supervised entities and non-executives directors as part of fit and proper assessments and does not constitute an assessment by the ECB of the declared information. The outcomes of the benchmark, therefore, do not provide an assessment of the sufficiency of any of the presented figures.

The results should however inform us about the status quo of the declared time commitment of non-executive directors in the SSM. They should also support supervised entities in fulfilling their primary responsibility of assessing the suitability of non-executive directors and the adequacy of their time commitment.

## 4 Results

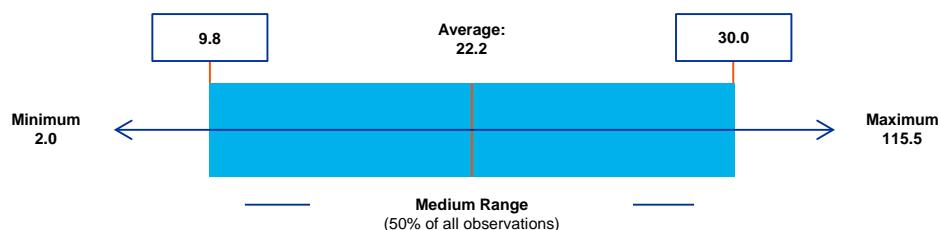
### 4.1 Declared time commitment for the function in the supervised entity

Non-executive directors in the SSM declared on average to devote 22.2 days per year to their function in the supervised entity. Chairpersons of the board declared on average that they devoted 42 days per year. These averages included several types of institutions from different countries and non-executive directors with different levels of responsibility. In general, the time non-executives allocated to their functions varied substantially. The declared time commitment ranged from 2 to 116 days per year for non-executive directors and from 6 to 156 days per year for chairpersons. The medium range (i.e. 50% of all observed cases) ranged from 9.8 to 30 days per year for non-executive directors and from 12.5 to 65 days for chairpersons. Around 25% of non-executive directors devoted fewer than 10 days per year to their functions.

**Chart 1**

Time commitment declared by non-executive directors

(average, medium range, minimum and maximum of declared time commitment, in days per year)

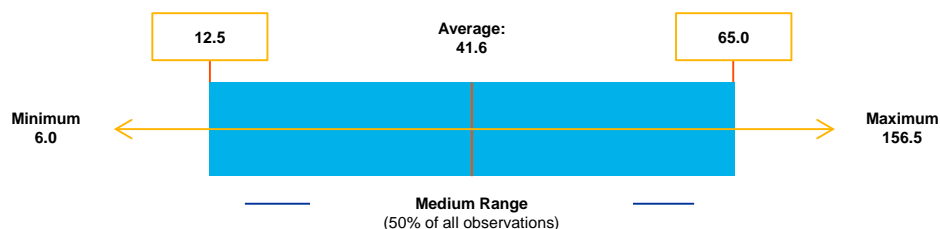


Source: ECB Banking Supervision.

**Chart 2**

Time commitment declared by chairpersons

(average, medium range, minimum and maximum of declared time commitment, in days per year)



Source: ECB Banking Supervision.

#### 4.1.1 Size of the supervised entity

An important factor that influenced the time commitment of non-executive directors was the size of the supervised entity. The results showed size as one of the main factors driving the level of time commitment. While the average time commitment in

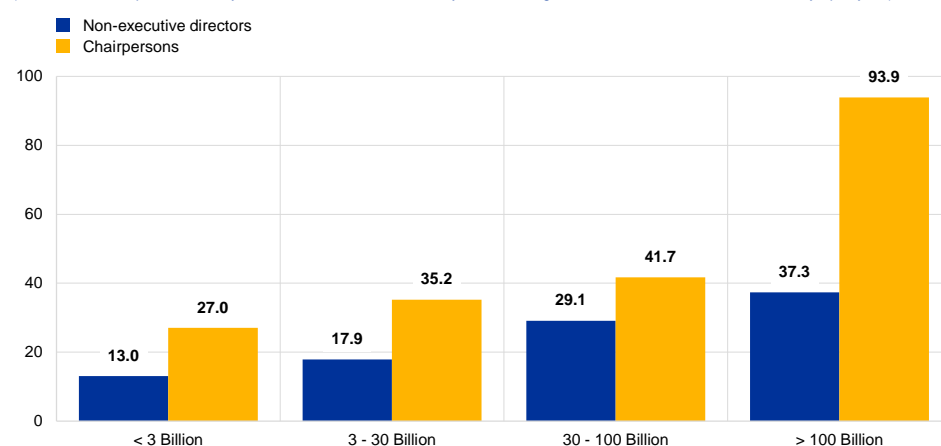


entities with total assets below €3 billion was 13 days per year for non-executive directors, it was more than double that in very large entities: 37.3 days per year in entities with total assets above €100 billion. The differences were even more pronounced for chairpersons. In particular, chairpersons in very large entities devoted a substantially higher amount of time to their function compared to their counterparts in smaller entities. In large and complex entities the role of chairperson of the board seemed to be relatively close to a full-time position.

### Chart 3

#### Average time commitment declared by non-executive directors and chairpersons by size of the supervised entity

(x-axis: size of supervised entity in EUR billion of total assets; y-axis: average of declared time commitment in days per year)



Source: ECB Banking Supervision.

## 4.1.2 Membership of board committees

A further key factor which determined the time commitment of non-executive directors was their level of responsibility on the board. Non-executive directors with additional responsibilities, such as membership of one or several board committees, tended to devote more time to their function. Membership of a board committee requires a non-executive director to attend additional meetings and, in particular, to undertake specific work for the committee. This requires additional time for preparation, follow-up and keeping their specific knowledge up to date.

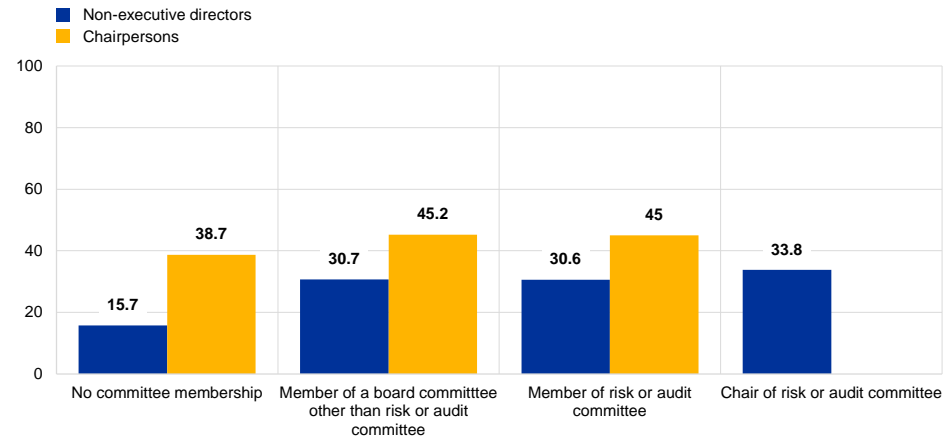
The difference between non-executive directors with and without membership of board committees is visible in the benchmarking. Based on the time commitment declared by non-executives, it seems to be the case that being a member of a board committee almost doubles the amount of time non-executive directors tend to devote: 15.7 days per year without a committee membership vs. around 30 days per year with a committee membership. Interestingly, the type of board committee was of less importance for the amount of time committed. Members of the risk or audit committee did not, on average, commit more time than members of other board committees (e.g. nominations or remuneration committee). Only the chairs of the audit and risk committees declared, on average, to devote slightly more time to their function on the

board. The same pattern was seen among chairpersons of the board who were also members of board committees. The data collected did not cover any cases in which a chairperson of the board was simultaneously a chair of the risk or audit committee.

#### Chart 4

#### Average time commitment declared by non-executive directors and chairpersons by membership of board committees

(average of declared time commitment in days per year)



Source: ECB Banking Supervision.

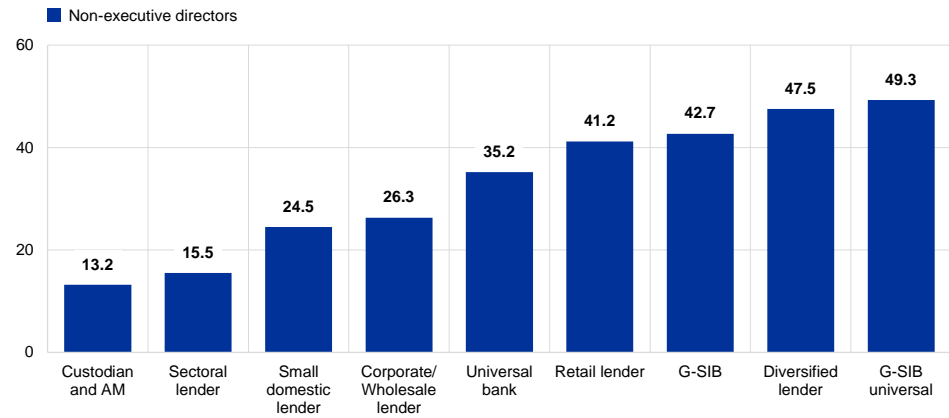
### 4.1.3 Business model of the group

The time commitment of non-executive directors is also dependent on the entity's business model. More complex business models usually require more time from non-executive directors. This assumption is confirmed by the data. The statistics presented in Chart 5 only show the time commitment of non-executive directors in top entities. Non-executive directors in top entities of complex and large banking groups, such as G-SIBs or large diversified lenders, devoted more time to their function compared to non-executive directors in entities with more specific business models, such as sectoral lenders. Data for chairpersons are not included due to the small sample size of chairpersons in top entities.

### Chart 5

#### Average time commitment declared by non-executive directors in top entities by business model of the group

(average of declared time commitment in days per year)



Source: ECB Banking Supervision.

#### 4.1.4 Time commitment in relation to number of board meetings

The most significant portion of time a non-executive director needs to fulfil his/her duties in a supervised entity is the time required to prepare for and attend board meetings. Accordingly, the ratio of declared time commitment to number of board meetings is an important factor when assessing if the time commitment of a non-executive director is sufficient.

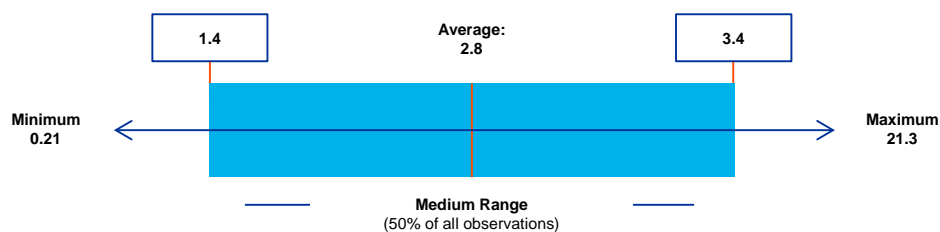
Looking at the ratio of days committed per year to the number of board meetings per year, non-executive directors were shown to devote 2.8 days on average per year/board meeting. Chairpersons devoted 3.5 days on average per year/board meeting. In terms of time commitment in general, the ratio of days per year/board meeting differed greatly between non-executive directors, ranging from 0.2 to 21.3 days per year/board meeting.

The benchmarking further showed that, for 37% of non-executive directors, the declared time commitment was equivalent to fewer than two days per board meeting. Around 20% of chairpersons devoted fewer than two days per board meeting.

### Chart 6

#### Ratio of time commitment declared by non-executive directors and number of board meetings

(average, medium range, minimum and maximum of declared time commitment, in days per year/board meeting)

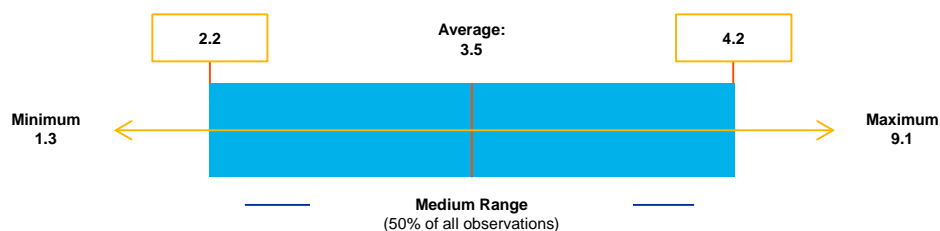


Source: ECB Banking Supervision.

### Chart 7

#### Ratio of time commitment declared by chairpersons and number of board meetings

(average, medium range, minimum and maximum of declared time commitment, in days per year/board meeting)



Source: ECB Banking Supervision.

## 4.2 Number of directorships

While non-executive directors have to comply with the limits on the number of directorships according to CRD V<sup>5</sup>, they can hold more directorships if these are subject to privileged counting or to no counting rules<sup>6</sup>.

Separately from the counting perspective, the benchmarking looked at how many directorships non-executive directors and chairpersons held in total, taking all directorships into account, including those within the same group and in predominantly non-commercial organisations. The total number of directorships is an important factor for the qualitative assessment of time commitment, as each directorship requires time and attention whether it is counted or not.

The results showed that a large majority of non-executive directors and chairpersons held only a small number of directorships. Around 80% of all non-executive directors and chairpersons held between one and five directorships. Only a smaller portion held a higher or very high number of directorships. In the observed sample, non-executive directors and chairpersons held four directorships on average. 4.2% of non-executive directors held between 11 and 15 directorships and 2.0% even held more than 15

<sup>5</sup> Article 91(3) of the CRD V.

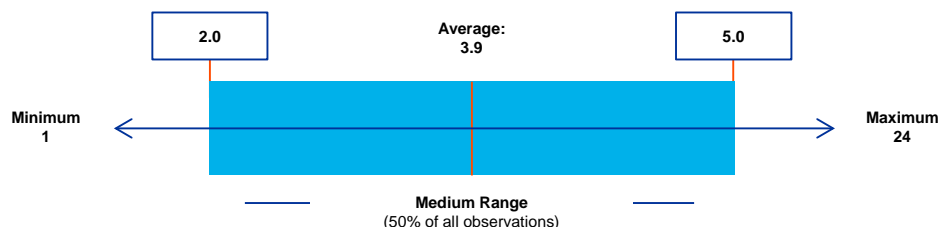
<sup>6</sup> For further details see [Guide to fit and proper assessments](#).

directorships. Chairpersons tended to be less likely to have a very high number of directorships.

### Chart 8

#### Number of directorships held by non-executive directors

(average, medium range, minimum and maximum of total number of directorships (executive and non-executive) held including directorships within the same group and/or in predominantly non-commercial organisations)

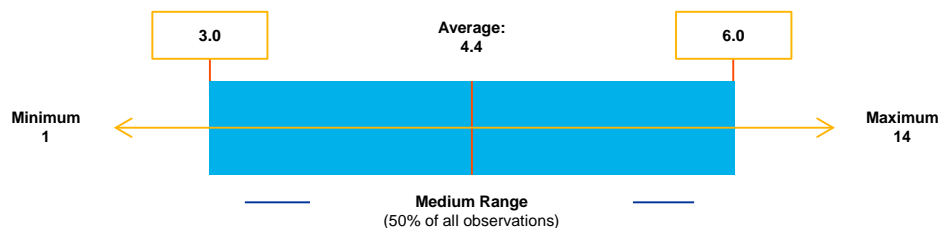


Source: ECB Banking Supervision.

### Chart 9

#### Number of directorships held by chairpersons

(average, medium range, minimum and maximum of total number of directorships (executive and non-executive) held including directorships within the same group and/or in predominantly non-commercial organisations)



Source: ECB Banking Supervision.

### Table 1

#### Percentage of non-executive directors and chairpersons holding different numbers of directorships

(directorships (executive and non-executive) held, including directorships within the same group and/or in predominantly non-commercial organisations)

	1-5 directorships	6-10 directorships	11-15 directorships	>15 directorships
<b>Non-executive directors</b>	81.4%	12.7%	4.2%	2.0%
<b>Chairpersons</b>	75.9%	20.6%	5.2%	0.0%

Source: ECB Banking Supervision.

## 4.3 Total time commitment declared for all directorships

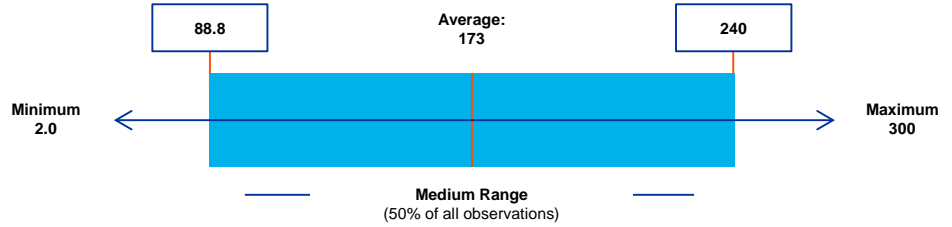
A further factor taken into account for the assessment of time commitments in fit and proper assessments was the total time non-executive directors devoted to all their directorships and other positions. The results showed that non-executive directors declared on average that they devoted around 170 days per year to all their directorships (192 for chairpersons). Around 25% of non-executive directors declared that all their directorships, in several cases including executive directorships or other full-time positions, required them to devote more than 240 days per year. Similar to the

time commitment for the specific function in the supervised entity, the total time commitment for all directorships varied greatly between directors.

### Chart 10

#### Total time commitment declared by non-executive directors for all directorships held

(average, medium range, minimum and maximum of total declared time commitment, in days per year)

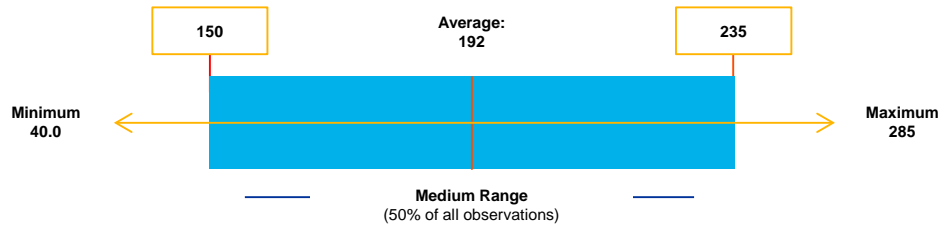


Source: ECB Banking Supervision.

### Chart 11

#### Total time commitment declared by chairpersons for all directorships held

(average, medium range, minimum and maximum of total declared time commitment, in days per year)



Source: ECB Banking Supervision.

## 5 Conclusion

Time commitment is subject to a case-by-case assessment of each application, taking the principle of proportionality into account. In fit and proper assessments the ECB always considers all relevant factors, such as the size of the entity, the nature, scale and complexity of their activities, the nature of the specific position and the responsibilities of the non-executive director.

To support assessments, the ECB regularly conducts peer comparisons based on past and ongoing assessments of similar cases, which ensures a level playing field for all appointees and SSM countries. The benchmarking data on the declared time commitment of non-executive directors and chairpersons presented in this report should further support banks in fulfilling their primary responsibility of assessing the suitability of non-executive directors.

The ECB will continue to follow up on the time commitment of non-executive directors in fit and proper assessments and in ongoing governance supervision. It will also continue the dialogue with banks on the [role of non-executive directors](#) and the importance of ensuring adequate time commitment of non-executive directors.

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