

# IFC Corporate Governance Progression Matrix for Financial Institutions

(Integrating Environmental, Social, and  
Governance Issues)



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# IFC Corporate Governance Progression Matrix for Financial Institutions

(Integrating Environmental, Social, and Governance Issues)





## A. Commitment to Environmental, Social, and Governance (Leadership and Culture)

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Formalities	<ol style="list-style-type: none"> <li>Established written corporate governance (CG) policies addressing, at a minimum, the role of the board, rights and treatment of shareholders and other stakeholders, compliance with the law and transparency and disclosure, and stating the objectives and principles guiding the institution.</li> <li>Written policies that address, at a minimum, compliance with E&amp;S law and regulations are in place.</li> </ol>				<ol style="list-style-type: none"> <li>CG code, which also addresses E&amp;S issues.</li> <li>Periodic disclosure to shareholders on CG code and practices, and their conformance to the country's code of best practices.</li> </ol>		<ol style="list-style-type: none"> <li>Adequacy of ESG policies and procedures is disclosed.</li> </ol>
Code of Ethics and Culture	<ol style="list-style-type: none"> <li>Code of Ethics and/or Conduct has been approved by the board.</li> </ol>		<ol style="list-style-type: none"> <li>Code of Ethics is included in employee orientation program.</li> </ol>		<ol style="list-style-type: none"> <li>Codes of Ethics and/or conduct fully integrate ESG practices in business activities.</li> </ol>		<ol style="list-style-type: none"> <li>Institutional culture has embedded ESG awareness and a control consciousness throughout the institution.</li> <li>The Code of Ethics/Conduct explicitly disallows illegal activity, such as financial misreporting and misconduct, economic crime including fraud, breach of sanctions, money laundering, anti-competitive practices, bribery and corruption, and the violation of consumer rights.</li> </ol>
Designated Officer/ Functions	<ol style="list-style-type: none"> <li>An institutional officer serves as a Corporate Secretary.</li> </ol>		<ol style="list-style-type: none"> <li>Designated fulltime CG officer and/or Company/Corporate Secretary.</li> </ol>		<ol style="list-style-type: none"> <li>Designated compliance function ensuring compliance with ESG policies and procedures, code of ethics and/or conduct.</li> <li>Internal audit of implementation of ESG policies and procedures in place.</li> </ol>		
Recognition			<ol style="list-style-type: none"> <li>The institution is publicly recognized as a national leader in ESG practices.</li> </ol>		<ol style="list-style-type: none"> <li>The institution is publicly recognized as a regional leader in ESG practices.</li> </ol>		<ol style="list-style-type: none"> <li>The institution is publicly recognized as a global leader in ESG practices.</li> </ol>

<sup>1</sup> Includes: grants, subventions, subsidies or loans

## B. Structure and Functioning of the Board of Directors

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Role, Election, and Succession	<ol style="list-style-type: none"> <li>Board approves strategy.</li> <li>Board members are given sufficient time and information to exercise their duty.</li> <li>Institution has established CFO function.</li> </ol>		<ol style="list-style-type: none"> <li>The board member terms are not longer than three years of service that can be renewed.</li> </ol>		<ol style="list-style-type: none"> <li>The board is elected on an annual basis.</li> <li>Board-established succession plan for its members and senior management.</li> </ol>		
Composition	<ol style="list-style-type: none"> <li>The board has a number of independent directors in accordance with law and regulations.</li> <li>The board includes sufficient number of directors with industry expertise (banking, insurance, leasing).</li> </ol>		<ol style="list-style-type: none"> <li>1/5 or more of board members are independent from management and controlling shareholders.</li> <li>Board composition is based on a skills matrix.</li> </ol>		<ol style="list-style-type: none"> <li>1/3 or more of board members are defined as independent in accordance with international best practices.<sup>1</sup></li> <li>Board diversity, including but not limited to gender, achieved in all aspects.</li> <li>Roles of chair and CEO are separate. Board chair is independent, or a lead independent director has been designated.</li> </ol>		<ol style="list-style-type: none"> <li>1/2 or more of board members are defined as independent in accordance with international best practices.</li> </ol>
Committees	<ol style="list-style-type: none"> <li>Board-established audit committee.</li> </ol>		<ol style="list-style-type: none"> <li>The board has a risk management committee or other specialized committee with a majority of independent directors. The majority of members have experience managing risks.</li> </ol>		<ol style="list-style-type: none"> <li>Majority of audit Committee membership is independent.</li> <li>Other specialized committees of the board exist to address special technical topics or potential conflicts of interest (e.g., nominations and compensation).<sup>2</sup></li> <li>Committee of independent directors approves all material related-party transactions.</li> </ol>		<ol style="list-style-type: none"> <li>Audit committee membership 100% independent.</li> <li>Special board-level CG committee established.</li> <li>Specialized committees (governance, nominations, E&amp;S/sustainability, and compensation) composed of a majority of independent directors, including the chair.</li> <li>Compensation committee ensures that executive compensation is based on performance and long-term incentives (and adjusted for all types of current and future risk), based on financial and non-financial performance.</li> </ol>
Meeting Frequency and Credit Decisions	<ol style="list-style-type: none"> <li>Board meets quarterly and is charged with overseeing management.</li> <li>Special procedures are in place for full board review of all material credit transactions involving officers, directors and affiliates of the institution.</li> </ol>		<ol style="list-style-type: none"> <li>Board meets monthly.</li> </ol>		<ol style="list-style-type: none"> <li>Non-executive directors meet separately at least once a year.</li> <li>The institution has an independent asset (or loan) review function reporting directly to the board (or a committee of the board) to ensure timely recognition and resolution of impaired assets.</li> </ol>		<ol style="list-style-type: none"> <li>Independent directors periodically meet separately.</li> </ol>

<sup>1</sup> For example, IFC's "Indicative Independent Director Definition."

<sup>2</sup> In insurance companies, board-level Investment Committees may also be established.

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## B. Structure and Functioning of the Board of Directors *(continued from previous page)*

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Evaluation and Performance	<p>9. Formal performance evaluation of management conducted annually.</p>		<p>6. The board as a whole undergoes periodic evaluation.</p>		<p>11. Board, committees and individual directors undergo an annual evaluation.</p>		<p>7. Board and committee evaluations conducted/facilitated by a third party.</p>
Oversight of E&S	<p>10. Board is trained on general E&amp;S risk issues.</p> <p>11. Board ensures that management systems are in place to identify and manage E&amp;S risks and impacts.</p>				<p>12. Strategy and risk appetite integrate E&amp;S issues/risks.</p> <p>13. In institutions involved in high E&amp;S risk transactions/lending,<sup>3</sup> at least one director or more has in-depth knowledge of E&amp;S risks.</p> <p>14. ESG issues are recurring board agenda items; board approves ESG strategy and E&amp;S policies; routinely reviews E&amp;S performance; and ensures effectiveness of External Communications Mechanism (ECM).</p>		<p>8. Board reviews independent audits on effectiveness of Environment and Social Management System (ESMS).</p> <p>9. Board ensures appropriate dialogue between the institution and key stakeholders.</p>

## C. Control Environment (Internal Control System, Internal Audit Function, Risk Governance and Compliance)

Internal Controls	<p>1. Institution has established documented internal control policies and procedures.</p> <p>2. The institution's policies and practices with respect to reporting regulatory capital, portfolio quality and performance, anti-money laundering and all other matters of regulatory compliance meet all standards established by the corresponding national regulator(s).</p>	<p>1. "Three lines of defense" model of risk management, internal control and internal audit has been adopted.<sup>5</sup></p> <p>2. Audit committee ensures corrective actions on control deficiencies identified in Management Letters.</p>	<p>1. Control environment in accordance with highest international standards, including but not limited to IIA,<sup>5</sup> COSO, ISO 31000, 19600, 37001, and 27001.</p> <p>2. The organizational structure adopted by management has a positive effect on performance, productivity, and leadership effectiveness.</p>
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<sup>3</sup> Examples of "sensitive industries" include: oil, gas, mining, heavy industry (steel, cement), and chemical manufacturers, and large agro-commodity production or processing.

<sup>4</sup> Namely, management is the first line of defense, risk management and compliance function are the second line of defense, and internal and external audit as independent assurance providers are the third line of defense.

<sup>5</sup> The Institute of Internal Auditors standards and related promulgations.

**C. Control Environment (Internal Control System, Internal Audit Function, Risk Governance And Compliance)** (continued from previous page)

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Internal Audit	<p>3. Internal audit function regularly interfaces with external auditors and is accountable to the board.<sup>6</sup></p>		<p>3. Internal audit function is independent, objective, risk-based, and has unlimited scope of activity.</p> <p>4. Head of internal audit reports to the audit committee and administratively to management.</p>				<p>3. Internal audit function is in line with best international standards and guidelines, such as the Basel Committee Internal Audit Function in Banks.</p> <p>4. Audit committee ensures that the internal audit function is subject to periodic quality assessment by third party.</p>
Risk Governance	<p>4. Board approves risk appetite and ensures its alignment with the bank's strategic, capital and financial plans and compensation practices.</p> <p>5. Institution has established risk-management framework with a chief risk officer (CRO) or equivalent with unfettered access to the board.</p>		<p>5. Board routinely monitors risk management and compliance with policies and procedures.</p> <p>6. CRO reports to board-level risk management committee or equivalent.</p> <p>7. The full board receives annual reviews, with input from outside sources of expertise, of the institution's risk management (credit, market and operational risk) system.</p>		<p>1. An effective risk governance framework includes a strong risk culture, a well-developed risk appetite articulated through the Risk Appetite Statement, and well-defined responsibilities for risk management in particular and control functions in general.</p>		<p>5. Risk governance frame-work includes robust communication within the institution about risk, both across the institution and through reporting to the board and senior management.</p> <p>6. The board ensures that the institution follows highest international standards on risk management (such as those of Basel Committee on Banking Supervision on credit risk, operational risk and other risks).</p>
Compliance and AML/CFT	<p>6. Designated compliance officer (CCO).</p> <p>7. Established compliance policy.</p> <p>8. Designated AML/CFT function is in place.</p> <p>9. Whistleblowing policy established.</p>		<p>8. Board approves compliance policy, ensures independence of the compliance function and assesses its effectiveness.</p> <p>9. Comprehensive compliance program annually reviewed, with mechanisms to report wrongdoing and misconduct.</p> <p>10. CCO reports to the audit committee or equivalent and administratively to management.</p> <p>11. Board oversees the integrity, independence and effectiveness of the entity's policies and procedures for whistleblowing.<sup>7</sup></p>				<p>7. Institution's AML/CFT policies and practices are in line with best international standards (such as FATF Standards and Basel Committee on Banking Supervision 2017 Guidelines on "Sound management of risks related to money laundering and financing of terrorism").</p> <p>8. Compliance function is in line with international standards, such as ISO 19700.</p>

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<sup>6</sup> OECD guidelines on Corporate Governance for Insurers recommend an Actuary/actuarial function as distinct from Internal Audit - "Insurers should have an actuary or actuarial function to estimate insurance risks, calculate policy liabilities and determine, or provide an opinion on, the appropriate technical provisions to cover these obligations." "More generally, the complexity of the insurance business has entailed in most OECD countries the development of a specific function – the actuary – in order inter alia to control and assess the solvency of insurers' activities and the accuracy of technical provisions. Although the specific position and duties of actuaries vary across jurisdictions, the role of the actuary in the corporate governance of insurers has become paramount in the life sector and is increasingly developing in the non-life sector in most OECD countries."

<sup>7</sup> From Basel CG Guidelines. OECD Guidelines on Insurer Governance, 2017, state that "Insurers should establish fair, efficient and transparent complaint handling and resolution policies and procedures to resolve disputes and, absent their resolution, to identify alternative avenues of redress for policyholders."



**Control Environment (Internal Control System, Internal Audit Function, Risk Governance And Compliance)** *(continued from previous page)*

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
<b>External Audit</b>	10. Written Management Letters provided by external auditor.				2. Audit committee owns relationship with external auditor (EA); agrees on scope and audit fees, and undertakes a periodic quality assessment of EA, using relevant Audit Quality Indicators.		9. Audit committee reviews long association of EA.
<b>Integrating of E&amp;S</b>	11. Institution addresses compliance with E&S law and regulations. in its operations/lending transactions.				3. Periodic ESG, IT, and Information Security internal audits. 4. Comprehensive ESMS integrated in risk-management framework, and E&S risks are part of establishing the risk appetite. 5. E&S/sustainability head has unfettered access to senior management and CRO.		10. Board or sustainability committee ensures corrective actions on E&S issues. 11. Head of ESG reports to board E&S/ sustainability committee.
<b>Subsidiary Governance</b>	12. Institution can identify its subsidiaries.		12. Institution has policies and procedures to control the creation and dissolution of subsidiaries.		6. Institution has a centralized subsidiary governance function and subsidiaries are categorized based on complexity and an appropriate governance framework applied to each category.		12. Board exercises oversight over the organizational structure and the activities of its subsidiaries.

**D. Disclosure and Transparency**

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
<b>Financial Reporting</b>	1. Financial statements are audited by recognized independent external auditing firm.		1. Financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and/or jurisdictional standards. 2. Financial statements are audited in accordance with International Standards on Auditing (ISA). 3. Audit committee oversees financial and nonfinancial reporting and audit.		1. Disclosure policy in place.		

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## D. Disclosure and Transparency *(continued from previous page)*

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Risk Appetite			4. The institution discloses its key risks, including credit.		2. Institution discloses its risk appetite.		1. Risk appetite disclosure includes both qualitative and quantitative information.
Corporate Disclosure			5. Institution discloses its code of ethics/ conduct.		3. Shareholders provided with accurate and timely information on the number of shares of all classes held by controlling shareholders and their affiliates (ownership concentration).		2. Tax transparency statement disclosed. 3. Executive compensation is disclosed. 4. Dividend policy is disclosed. 5. Significant ultimate beneficial shareholders are disclosed.
ESG Disclosure	2. ESG/sustainability reporting, if any, follows minimum national requirement.				4. Annual report includes ESG information. 5. Institution discloses aggregate E&S risk exposure in its portfolio.		6. Nonfinancial disclosure in accordance with highest international standards (e.g., GRI, IIRC, SASB). 7. Periodic nonfinancial reporting of ESG issues that are of concern to stakeholders. 8. ESG data subject to an annual audit by an independent provider.

## E. Treatment of Minority Shareholders

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Voting Rights	1. All shareholders of the same class have equal voting, subscription, and transfer rights. 2. Minority shareholders receive adequate notice and the agenda for all shareholders' meetings; and are permitted to participate and vote at shareholders' meetings.		1. Effective representation of minority shareholders through cumulative voting or similar mechanisms; and economic rights such as inspection rights, exit rights, and tag-along rights. 2. Institution has a dividend policy. 3. Clearly articulated and enforced policies on treatment of minority shareholders in changes of control.		1. Effective shareholder voting mechanisms to protect minority shareholders from concentrated ownership or strong conflicts of interest with controlling shareholders (e.g., supermajority or "majority of minority" provisions). 2. Shareholders are consulted on executive compensation.		1. Treatment of shareholders consistent with best international market practices. 2. Executive compensation subject to shareholder approval. 3. Each share is afforded one vote at the AGM.

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## E. Treatment of Minority Shareholders *(continued from previous page)*

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Protective Rights	<ol style="list-style-type: none"> <li>3. Holders of all securities of the same type and class have access to equal information (fair disclosure).</li> <li>4. The institution has policy on related-party lending and approval procedures.</li> </ol>		<ol style="list-style-type: none"> <li>4. Well-understood policy and practice of full and timely disclosure to shareholders of all material related-party lending and other transactions.</li> <li>5. The board takes into account the legitimate interests of depositors (policy-holders, for insurance companies), shareholders and other relevant stakeholders.</li> </ol>		<ol style="list-style-type: none"> <li>3. Well-understood policy and practices of institution material transactions that could potentially affect the rights of minority shareholders.</li> <li>4. Annual report discloses material risks to minority shareholders associated with controlling shareholders, ownership concentration, cross-holdings, and voting-power imbalances.</li> <li>5. The board ensures that the institution maintains an effective relationship with its supervisors.</li> </ol>		<ol style="list-style-type: none"> <li>4. Related-party transactions (over 2.5% of net assets or \$150,000) subject to shareholder approval or stricter requirements.<sup>8</sup></li> </ol>

## F. Governance of Stakeholder Engagement

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
External Communication Mechanism	<ol style="list-style-type: none"> <li>1. Institution addresses compliance with E&amp;S law and regulations for stakeholder engagement.</li> </ol>		<ol style="list-style-type: none"> <li>1. Institution has assigned responsibility to review external E&amp;S communications.</li> </ol>		<ol style="list-style-type: none"> <li>1. Institution has a dedicated external communications mechanism to (a) receive and register external communications from the public; (b) screen and assess the issues raised and determine how to address them; (c) provide, track, and document responses, if any; and (d) adjust its management systems, as appropriate.</li> <li>2. There is a written procedure outlining how external E&amp;S communications are handled.</li> <li>3. Institution keeps track of communications by type and severity/risk.</li> <li>4. External E&amp;S inquiries are reported to senior management and Board.</li> </ol>		<ol style="list-style-type: none"> <li>1. Institution pro-actively seeks to meet with stakeholders to solicit and discuss feedback about its policies and procedures as well as concerns about companies/projects that they may have financed.</li> </ol>

<sup>8</sup> Often, requisite thresholds are set by law/regulation in the listing jurisdiction; however, the OECD has recommended the referenced limits. See OECD, *Guide on Fighting Abusive Related Party Transactions in Asia* (2009) 31.

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