

# The NED

## Risk and Governance

Independent intelligence on fund governance issues

Issue 86 • October 2018

## Time to start the ratings

Following an extensive consultation period, The NED is ready to announce how it will proceed with its board composition capability ratings.

First of all, we would like to thank all those that have contributed to the consultation, especially investors. The input that we have had from them, in particular, has been especially encouraging and is the main reason that we have decided to move forward with this project.

Above all else, these ratings are intended to give investors confidence that they are allocating to a fund with a competent board. Not every investor is of sufficient size to employ its own due diligence team – whether in-house or third party – to do this for them, or has the time to do it themselves. Additionally, there are a number of professional investor categories that do not immerse themselves in fund board matters.

The NED's Board Composition Capability Rating (BCCR) is, in particular, for these fund investors. And there are many of them. Once these ratings become established it is anticipated that investors will have more confidence in allocating to a fund with a positive BCCR than one that does not have this designation. [Continued on page 2 >>](#)

## 2018 Director Survey

We had a very good response to our 2018 Director Survey. The results are in line with others that we have conducted in this series but this year we did more of the fieldwork by personal interview in order to allow respondents to make comments on the topics; which often turned out to be illuminating.

Also, the 2018 survey included a section on director selection procedures for the first time. It is interesting to note that selection through old and well-established contacts is still by far the most dominant way that fund directors are chosen. (This is in stark contrast to the way that most industries select their board directors these days.) We included a question on term limits in this section of the survey. Non-exec directors seem to be very much divided on whether or not there should be term limits.

Some of the trends picked up in previous surveys in this series appear to have become more pronounced this year.

For example, workload per fund continues to go up. That is largely to do with increased regulatory requirements, particularly in the EU. The CBI and CSSF have become more actively involved in the governance of funds in their jurisdictions, and the results of this survey provides evidence of that. [Continued on page 12 >](#)

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**For more information, please e-mail [Tamara Sims](#)**

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## Time to start the ratings

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We would also like to thank the many fund directors who have provided us with their thoughts on how to proceed. We have listened carefully to what everyone has said. In particular we have taken the advice of those that suggested that we should start with something simple, transparent and easily understandable. What we have come up with is hopefully simple, without being simplistic. It is also intended to be objective and transparent. And it should be adaptable enough to take into account different fund governance standards in some jurisdictions.

We have spent a lot of time trying to determine where we should set the bar in determining whether a board has met the required threshold of composition capability or not. We did not want to set the bar so high that only large funds in certain jurisdictions would be eligible for a positive BCCR. On the other hand, there would no point in doing this if almost every fund, including those with relatively weak boards, was able to pass the test.



Investors will have more confidence in allocating to a fund with a positive BCCR than one that does not have this designation

In this regard it is worth repeating what The NED said earlier in the year, following our analysis of fund boards in Guernsey, Ireland, Jersey and Luxembourg: there is considerable variance in standards of fund board composition.

Prior to undertaking its review The NED had expected to find similar board standards by asset class and/or jurisdiction. That was not the case. It's clear that some funds have made a big effort to put together strong

and impressive boards but many, in the same category, have only done the minimum necessary to get by the regulator.

The NED's BCCR is intended to reward those that have made the effort to put together a competent board - and to encourage that have not done so to make changes.

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## Time to start the ratings

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### The BCCR criteria

Boards with a score of at least 4, based on the criteria below, will be awarded The NED's positive BCCR (Board Composition Capability Rating).

**Positive** – score 1 for each of the following:

- Over 20 years collective relevant background experience\* on the board
- Independent with risk and/or portfolio mgnt background (certain fund categories only\*\*)
- Independent remuneration of at least \$15,000 per board member\*\*\*
- Diversity of experience\* on the board
- Comprehensive & accessible information provided on the independent directors

**Negative** – subtract 1 for each of the following:

- Independent to executive director ratio of less than 25%
- Independent that has or had a material connection with the manager
- Less than 75% of the board has relevant background experience
- No board member resident in the jurisdiction (where no residency rules apply)

### Notes

\* Experience in at least some of the following areas: administration & fund servicing; fund auditing; business & management in the fund industry; compliance & regulation; law; portfolio management & risk management.

\*\* Not obligatory in illiquid strategies such as infrastructure, private equity and real estate

\*\*\* For European domiciled funds (\$10,000 in the Caribbean)

### For more details on the rating criteria

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### For commercial information

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### How it works

- Funds whose boards have a positive score of at least 4, based upon the criteria outlined, should send information on their board composition to The NED for verification
- Fund boards with a positive BCCR will be given a recognition badge and listed on The NED's website as having a competent and capable board that investors can have confidence in
- The recognition badge can be used by funds in their promotional activities and marketing material
- A positive BCCR rating indicates to investors that a fund is more than just an investment strategy, it is also independently verified to be a business run by capable professionals
- This service is free of charge for funds that are NED subscribers; for others there is a nominal fee.

The NED  
EXPERT BOARD

Based on The NED's  
Board Composition Capability Rating

## The NED Subscription Form

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- The NED Directory. Subscribers are welcome to be included in the NED Directory of fund directors on nedglobal.com.

This form can be completed and saved in Acrobat Reader and then emailed to [Tamara Sims](#)

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