



2010 Annual Report

The European Voice of Directors

ecoDa

Confédération Européenne des Associations d'Administrateurs
European Confederation of Directors' Associations

Foreword by ecoDa Chairman Juan Alvarez-Vijande

In 2010, re-establishing responsibility and accountability at the heart of the financial system as well as corporate governance excellence were high on the agenda of the European Commission. The Commission committed itself to move swiftly in completing the necessary reforms to ensure a safe and sound European financial system. Improved corporate governance is at the core of the Commission's work on crisis prevention and a fundamental element of the regulatory reform package aimed at creating a safer financial framework. As part of its work on preventing a future crisis and strengthening the financial system, the European Commission launched different public consultations including one specific Green Paper on reforming corporate governance in financial institutions. The primary focus of this Green Paper was on banks and life insurance companies. However, some elements related to remuneration were also addressed to listed companies in general. ecoDa managed to respond to all the consultations relevant for its members and to this specific Green Paper in a professional manner gathering the views of its national institutes of directors and acting as a leading voice on Corporate Governance.

There is still a lot to be done in the forthcoming year, as issues relating to corporate governance of listed companies more generally will be addressed in a dedicated Green Paper in April 2011. The Commission has also committed to come up with different legislative proposals. ecoDa must therefore continue to be a forward-thinking organisation.

To increase its visibility, to specify its focus of interest and to distinguish from the European organisations, ecoDa board decided to brand the confederation and to use the following slogan "the European Voice of Directors" while presenting itself.

ecoDa has also expressly defined its mission and its commitments which can be stated as following:

1. to promote the development of new national director institutes and attract new members in order to strengthen its European representativeness,
2. to influence the European decision-making on corporate governance by reacting to pending issues in the European pipeline or by pro-actively taking own initiatives to generate European debate and reflection,
3. to develop European governance standards by acting as a standing body where national experiences are shared and discussed in detail and
4. to provide services to its members, mainly by providing information regarding relevant European issues.

In 2010, ecoDa was also pleased to be involved indirectly through its Spanish and Belgian institutes (Instituto de Consejeros – Administradores and Guberna) in the 9th and 10th European Corporate Governance Conferences where international high level speakers discussed about topical issues on Corporate Governance, covering for the first time Corporate Governance for Listed and Unlisted Companies in Europe.

The "Corporate Governance Guidance and Principles for Unlisted Companies in Europe" issued by ecoDa was well appreciated by the European Commission, the business community and the CG experts at large. This pioneer initiative in Europe will constitute the starting point of a new dynamics for other publications.

Last but not least, ecoDa have announced a 2 days Pan European Professional Development for European directors to be held in Brussels in March 2011.

2010 ecoDa activities for Board of Directors have increased ecoDa value for potential new members and it is expected that ecoDa will increase the number of its members in the coming months.

It goes without saying that our organisation would not be possible without the very hard work of its committees and the chairmen or chairwomen that are taking an important leading role as well as the ecoDa General secretariat and ecoDa Treasurer. Special thanks also to ecoDa board for giving a relevant input, guiding ecoDa towards practical tools for directors and enabling the Confederation to act as "The European Voice of Directors".



Juan Alvarez-Vijande
Chairman

I – POLICY MAKING



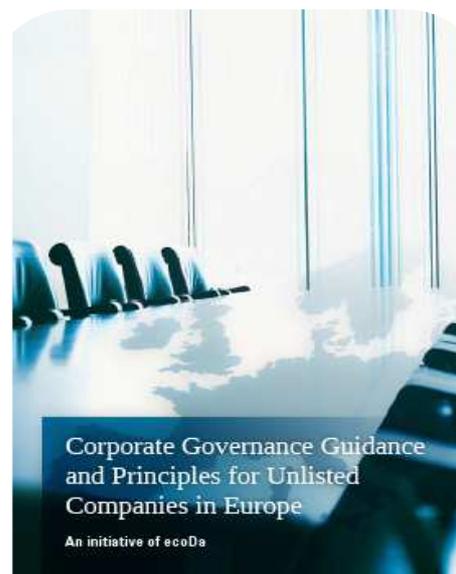
On the 24th of March 2010, at a dedicated conference "*Unlisted Companies as Drivers of Economic Growth - The role of Good Governance*" hosted at the European Parliament by Sharon Bowles, Chairwoman of the ECON Committee at the EP and in presence of the Belgian Minister of Entrepreneurship, Vincent Van Quickenborne, ecoDa issued a Corporate Governance Guidance and Principles for Unlisted Companies in Europe.

One of the reasons why ecoDa has developed this Guidance ("Corporate Governance Guidance and Principles for Unlisted Companies in Europe") is that ecoDa is convinced that Corporate governance amongst unlisted companies has the potential to significantly boost productivity growth and job creation. One of the great challenges of this project was developing guidance and principles of good governance that could be of benefit to the huge range of unlisted companies across Europe. As a result of this sector diversity, a key principle underlying this guidance and principles was that a governance framework must be tailored to meet the specific needs of an individual unlisted enterprise. Furthermore, the governance framework of that enterprise must itself adapt as the enterprise grows in terms of size and complexity. This underlies the phased approach that was adopted in ecoDa's publication. The ecoDa principles of best practice are voluntary recommendations, leaving the companies the freedom to decide on the pace and depth of their governance implementation process. The ecoDa principles do not stipulate any form of obligatory disclosure or an application of the comply-or-explain principle (should not be viewed as a corporate governance code). In this document, fourteen principles of good governance are presented on the basis of a dynamic phased approach, which takes into account the degree of openness, size, complexity and level of maturity of individual enterprises.

This Guidance was created thanks to the leadership of Prof. Lutgart Van den Berghe and with the special contribution of Roger Baker as well as other relevant experts.

The publication was quoted by the European Commission, the OECD, the Global Corporate Governance Forum, the European Family Businesses and KPMG. Thanks to the sponsorship of KPMG, the publication was printed in 6500 copies and largely circulated at European and national levels.

The publication has been translated into Polish by the Polish institute of directors and in Hungarian by the Corporate Governance & Business Integrity Committee of the American Chamber of Commerce



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which organised a specific conference in December 2010. A British tailored version was also issued on 22 November 2010 and KPMG has been working on a French version. The Italian institute NedCommunity inserted an executive summary in their newsletter named “La Voce degli Indipendenti” and presented the Guidance during a meeting which was organized in cooperation with the Association of Family Enterprises in September 2010. In addition, 50 hard copies were shipped to the Baltic institute of directors which circulated them at the time of a training program. The Guidance was also included in the material for a digital CoursePack for approximately 25 students organised by at Georgetown University-McDonough School of Business Executive Programs. The 9th and the 10th European CG conferences addressed the question of Corporate Governance for unlisted companies and ecoDa’s publication was again largely circulated.

ecoDa promoted its Guidance towards various European institutions and business organisations, in coordination with its Communication Committee chaired by Olli V. Virtanen (Hallitusammattilaiset ry):

- The European Parliament,
- Cabinet of Commissioner Tajani (DG Enterprise - 30 April 2010) + people from DG Enterprise (the 1st September 2010),
- Cabinet of Commissioner Barnier (DG Internal market - 4 June 2010),
- BusinessEurope (20 May + 13 July 2010),
- UEAPME (20 May 2010),
- GEEF (European Family Businesses- July 2010),
- EVCA (8 October 2010).

As a result, the initiative report on “*Deontological questions related to companies’ management Corporate Governance*” adopted by the Parliament and drafted by Mr Lehne expressly states that “*whereas recommendations issued by the Commission in respect of listed companies do not necessarily represent appropriate general guidelines for developing best practices in non-listed companies*”, and “*invites the Commission to promote the utilisation of best practice guidance for unlisted companies, which is designed to take account of the specificities and differences of such companies*”. Commissioner Barnier in a conference speech held on 2 June mentioned his intention to issue the green paper on CG for unlisted and listed companies at the beginning of 2011.

Corporate Governance Guidance and Principles for Unlisted Companies in Europe was mentioned in various press articles (in Finland, France, Slovenia and Spain).

2. An upcoming Guidance for Audit Committees

ecoDa has decided to pay specific attention to the duties handled by board members sitting in audit committees and to set up a dedicated Working Group chaired by Tim Copnell from KPMG.

The 8th directive has been translated into different languages and implemented in different laws by different ways. The issues of translation, cultural background and national law create inconsistency. ecoDa Working Group developed a publication which articulates the principles underlying the audit committee’s role and aims to help steer organisations through the new requirements set out in the Statutory Audit Directive. In doing so it provides non-prescriptive guidance to help audit committees (and those who support them) gain a better understanding of the processes and practices that help create effective audit committees. It should be noted that as EU directives are implemented via national regulation, each Member State may have taken a slightly different approach in accommodating the requirements within national

legislations. Some of these differences are identified within the guidance. It is planned to issue this Guidance at the beginning of 2011.

3. ecoDa's contributions to EU consultations

In 2010, the European Commission organised a number of important policy consultations to which ecoDa replied.

ecoDa responses were based on ecoDa's Policy Committee propositions and conducted by Prof. Dr. Lutgart Van den Berghe, Chairwoman of the Policy Committee (Guberna). A special thanks for his contribution goes also to Mr Roger Barker (IoD). Our position papers and replies are available on ecoDa website <http://www.ecoda.org/Position%20Papers.html>

➤ *Green Paper on Corporate Governance for financial institutions*

In response to the financial crisis, the Commission committed itself in its March 2009 Communication on "Driving European Recovery" to improving corporate governance in financial institutions. The Commission wanted to ensure that the interests of consumers and other stakeholders are better taken into account, businesses are managed in a more sustainable way and bankruptcy risks are reduced in the longer term.

As a first step, the Commission launched a public consultation on a Green Paper that details possible ways forward to deal with the following issues:

- How to improve the functioning and the composition of boards of financial institutions in order to enhance their supervision of senior management;
- How to establish a risk culture at all levels of a financial institution in order to ensure that long-term interests of the business are taken into account;
- How to enhance the involvement of shareholders, financial supervisors and external auditors in corporate governance matters;
- How to change remuneration policies in companies in order to discourage excessive risk taking.

Key points in ecoDa's response:

- The Green Paper should be more balanced in its description of the role of directors in failing to prevent the financial crisis. In contrast, it underplays the impact of macroeconomic factors and the unsatisfactory role played by other corporate governance actors, such as regulators, financial supervisors and shareholders.
- Lack of (or insufficient) direct consultation with experienced board members and director representative organisations.
- Importance of differentiating between the governance frameworks that are required in the financial and non-financial sectors.
- Financial supervisors rather than shareholders should be considered as primary monitors, certainly when it comes to sound financial risk management. However, shareholders (and other stakeholders) can and should (continue to) play an important role in monitoring the more general governance of financial institutions.
- Important for boards to consider all relevant dimensions of diversity when making director appointments. Furthermore, they should provide a justification of their board composition to shareholders and financial supervisors.
- Transparency of the board evaluation's process and outcome, and the need for further reflection on the evaluation scope and methodology.

- Executive management should have a responsibility to keep boards informed of their material interactions with supervisors, auditors and other important stakeholders.
- The main challenge in seeking to improve existing corporate governance practices will be to ensure real change in the behaviour of all relevant actors.

➤ *The European Commission's consultation on the modernisation of the Transparency Directive (2004/109/EC)*

On 28 May 2010, the European Commission (DG Internal Market and Services) launched a public consultation on the modernisation of Directive 2004/109/EC (Transparency Directive). Five years after the entry into force of the Transparency Directive, its rules are considered to be useful for the proper and efficient functioning of the financial markets and for making informed investment decisions. Despite this positive general perception of the Directive, there is evidence that some inefficiency still remains that hampers investment decisions and diminishes investor confidence. In this context, the public consultation launched by the Commission aimed at gathering quantitative and qualitative evidence on impacts, costs and benefits resulting from the requirements of the Transparency Directive as well as views on possible amendments to these requirements.

Key points in ecoDa's response:

- the "one size fits all" nature of the Directive imposes a disproportionate cost on smaller listed companies
- ecoDa favours the introduction of a more flexible SME reporting regime which would limit the informational detail and spread the publication of periodic reports over an extended period of time.
- ecoDa is not persuaded that changes to the Transparency Directive will significantly alter the lack of market visibility experienced by smaller listed companies.
- With respect to the notification of major holdings in a company's shares, ecoDa does not believe that this should be subject to maximum rather than minimum harmonisation requirements (as at present).
- ecoDa is supportive of measures that would increase the transparency of stock lending practices and discourage the use of "empty voting".
- Financial innovation should not be used to circumvent transparency requirements.

➤ *Green Paper on Audit Policy: Lessons from the Crisis*

The European Commission launched a broad consultation on the role of statutory audit as well the wider environment within which audits are conducted. In the wake of the financial crisis, they question whether the role of auditors can be enhanced to mitigate any new financial risk in the future. The crisis also highlighted certain weaknesses in the audit sector which need to be explored further. In particular, the Commission was keen to discuss whether audits provide the right information to all financial actors, whether there are issues around the independence of audit firms, whether there are risks linked to a concentrated market, whether supervision at a European level might be useful and how best the specific needs of small and medium sized businesses may be met.

Key points in ecoDa's response:

- It would be in the interest of all parties involved that there should be a better view on what such 'clean audit reports' or 'unqualified opinions' really cover and to what extent the assurance given is limited by the audit methodology and the audit scope.

- Notwithstanding the expertise of external auditors, it is more than reasonable to investigate further to what extent external auditors can secure the necessary quality in this vastly expanding domain of audit support.
- Auditors should be more sceptical about the information with which they are provided by management, and provide less of a "black and white" opinion. They may wish to present financial information in a way that exposes the assumptions that have been made, e.g. in respect of asset valuations. However and although auditors play an important role in the financial system, we should not seek to excessively expand their role too far beyond that of substantive verification of financial data.
- Each audit committee would revisit on a regular basis the audit methodology and assure the board that this methodology is proportionate to the needs and challenges the firm is facing.
- Independence is a first requisite and on top of that professional education and evaluation of the performance of external auditors (by the audit committee) are probably better suited to achieve the goal of professional scepticism.
- Need to leave audit of stakeholder and CSR reporting to the decision of each company and its board.
- Special feedback on issues where interpretation margins exist, or where opinions could diverge, is of special relevance to board oversight (such as the need for impairment testing, the scope of provisions for fiscal claims, court disputes, etc.)
- Opting for a centralized system, where independent supervisors organize the audit work, is probably a bridge too far.
- If any term limitations for audit firm seem necessary it is about regular rotation of audit partners and limiting the time span the external auditor can serve under the same CFO/CEO.
- Not convinced that making the formation of an audit firm consortium mandatory would be appropriate.
- Lighter audits for SMEs should not be viewed as a "race to the bottom", but rather as creating a situation in which audit requirements will be more determined by market forces, e.g. the demands of creditors, shareholders or other stakeholders.

For all these consultations, ecoDa tried to respond ahead of deadlines and circulated its views to other organisations.

4. Reflection on Corporate Governance and the stakeholders' approach

ecoDa Working Group on CG and People Governance chaired by Pierre Klees (Guberna) has pursued its activities and interviewed Pervenche Beres, MEP, Chairwoman of the Committee on Employment and Social Affairs at the European Parliament (previous Chairwoman of the European Parliament's Committee on Economic and Monetary Affairs) as well as de Salin Antoine from FRR (Fonds de reserve pour les retraites - a public agency that was set up in the service of the long-term survival of the French retirement pension system). The Working Group agreed to focus its work on CSR and on People Strategy. The achievements should be available in mid-2011.

5. A common survey with ICSA on board support roles

ecoDa and the Institute of Chartered Secretaries and Administrators (ICSA) published in March 2010 a survey to find out how corporate governance is being managed across the EU. The aims of the survey were to identify the types of board support roles currently in place,

the scope and influence of the roles and what professionals are doing on a day-to-day basis to promote good governance practice and influence board behaviour. A broad range of subjects was also discussed under the umbrella of what aspects of governance attention should receive attention.

The results of the survey can be downloaded from:

<http://www.icsa.org.uk/assets/files/pdfs/consultations/2010/ecoDa/ecoDa%20and%20ICSA%20Boardsupport%20final%20report.pdf>

II- CORPORATE GOVERNANCE INFORMATION & DEVELOPMENT

In 2010, the ecoDa Benchmarking and Information Committee led by its Chairman Richard Zisswiller (IFA) has remained active in promoting exchange of best practices among the ecoDa's members. **A specific benchmark on boards' composition, gender diversity, boards' internationalization, and on meetings' frequency was carried out by its members.**

As ecoDa believes that director education is an essential means of improving the effectiveness of national corporate governance systems, the confederation has decided to fully support the efforts of its national institutes of directors in this activity. In line with many national Corporate Governance Codes and the OECD Principles, ecoDa has recognized the following key pillars of certification, each of which seeks to build empowered boards and develop the competencies of individual board members: high quality education programs with a focus on the specific professional needs; examination of competencies and continuing education processes; and measures to secure the commitment of directors to relevant codes of professional conduct. Therefore **ecoDa has fully endorsed the efforts of its national institutes to raise standards in the certification of director training.** The ecoDa members can take all advantages of this endorsement.

Following a Benchmark on the existing certification programs developed by its members, ecoDa decided to start its own **European two days developments for directors** in Brussels. The content of this training program was fixed in 2010 and the first session should take place in March 2011. The training programme is targeted at directors with a cross-border mandate in their board activities. Anyone seeking to update their knowledge of recent EU policy developments in the field of corporate governance will also benefit from the module. ecoDa's programme promotes the Europeanization of the boardroom. It allows participants to benchmark their own board and governance practices with those of similar companies in other European countries. It offers an expert briefing on significant policy issues in European corporate governance (including regulatory developments). Throughout the module, participants are provided with the information and know-how that will be essential in fulfilling a cross-border board mandate.

III - MEMBERSHIP AND CORPORATE GOVERNANCE

ecoDa Membership Committee led by its Chairman Philippe Declaire was very active in promoting its confederation towards different institutes of directors which are not part of ecoDa yet. The 9th and 10th European CG Conferences were largely used to extend or intensify the network developed so far. The ecoDa Corporate Governance Guidance and Principles for Unlisted Companies in Europe was itself an efficient tool to promote the confederation. As a result of facts, ecoDa received in 2010, applications for two different

Norwegian institutes: the Norwegian Institute of Directors and Styreakademiet. It was agreed in December 2010 that the Norwegian Institute of Directors will join ecoDa as a full member and Styreakademiet as an affiliated member as from the 1st January of 2011. ecoDa has partly succeeded in convincing the German forces of the importance to professionalize boardrooms; a platform for directors has been created during the 2010 summer by the DAI. ecoDa has also contributed to stimulate the creation of a Romanian institute by inviting its contact person to ecoDa's board meeting held in Warsaw. Thanks also to its own members, ecoDa is starting to be known by institutes of directors based outside Europe (like in Canada).

In December 2010, ecoDa board decided that if as a principle, all full member institutes should pay the same. An exception to this principle will be granted to the smallest institutes duly qualified as such which will join ecoDa as from the 1st of January 2011. On the proposal of the membership committee, the board may decide, for a limited period of time, that these applicant institutes would pay an annual membership fee of 50% of the full fee as well as the single contribution which payment could be spread over 3 years at most. Existing ecoDa members (which could potentially be considered as small institutes) can advocate their case in front of ecoDa's board to benefit from the same exception rule. The board will decide on a case by case basis

Based on the work done and the 2010 achievements, ecoDa was confident that its membership should develop substantially in 2011.

Beside KPMG, ecoDa wants to attract other **Corporate Associates**. Therefore, its Corporate Fundraising Group chaired by Patrick Zurstrassen (ILA) has developed an action plan and a full set of documents to be presented to potential Corporate Associates. It was decided that ecoDa should aim towards groups active across Europe and interested into relevant Pan-European topics and suggest thematic partnerships. The Corporate Fundraising Group identified specific prospecting names targets in each partnership "field of activity" of relevance for ecoDa. A complete document presenting ecoDa's mission, goals, achievements and governance is now available on ecoDa's website. On this basis, the Corporate Fundraising Group has started approaching new organizations.

IV – FINANCIAL SITUATION

ecoDa board agreed that as from 2010 ecoDa annual accounts should be audited. 2010 ecoDa annual accounts were therefore audited by Callens, Pirene, Theunissen and Co.

2010 ecoDa audited accounts closed with a total income of €109,401.84 (€108,442.13 in 2009) and a negative result after taxes of -€ 9 550.72 (€3,719,01 in 2009), including an extraordinary expenses charge of 4.800 euros. Even if the expenses were kept under control, the full annual new members incomes has been affected by the affiliation of new members only at the end of the year .

ecoDa total assets were of 104.371,69 euros, with bank cash of 103.244,39 euros . The social funds figures up 84 934,32 €. There isn't any bank loan.

At the end of 2010, ecoDa board agreed that the annual fees would be automatically indexed to inflation as from 2011.

V - ecoDa GOVERNANCE

During 2010, 5 board meetings (including one strategic meeting and one board meeting in Warsaw) were organized. Beside these board meetings, were organized: 3 conference calls for the Benchmarking Committee, 4 conference calls for the Communication Committee, 4 conferences call for the Membership Committee (as well as diverse meetings in countries where ecoDa has no member yet), 5 meetings (including one conference call) for the Working Group on CG and People Governance, 3 conferences calls for the Working Group on Audit Committees and 3 conferences calls for the Corporate Fundraising Group.

It is important that member institutes are kept aware of ecoDa activities and the EU developments in terms of corporate governance. Hence, the board meeting in Warsaw, kindly hosted by ecoDa Polish member was particularly useful in this regard. All members are provided with news watching.

In addition, and to strengthen its internal board governance, ecoDa board agreed in 2010 the following:

- To fix basic principles for managing conflicts of interests
- At the same time, ecoDa board agreed to have its accounts annually audited, and to nominate one of its board directors to make recommendations and oversee the related tasks
- To set up a nomination committee to make recommendations and oversee ecoDa appointments, including Chairman's nomination, board directors' nomination, as well as board's evaluation.



Juan Alvarez-Vijande (IC-A)
 Miles Templeman (IoD)
 Pierre Klees (GUBERNA)
 Daniel Lebègue (IFA)
 Patrick Zurstrassen (ILA)
 Olli V. Virtanen
 (Hallitusammattilaiset ry)
 Irena Prijovic (Slovenian
 Directors' Association)

Beatrice Richez-Baum
 (*Secretary General*)
 Philippe Declaire (*Treasurer*)

ecoDa's Board Members:

Juan Alvarez-Vijande
Pierre Klees
Daniel Lebègue
Irena Prijovic
Miles Templeman
Olli V. Virtanen
Patrick Zurstrassen

Composition of ecoDa's Committees (2010):

Policy Committee

Lutgart Van den Berghe (Chair)
Marie-Ange Andrieux
Roger Barker
Peter Callens
Hanah Horak
Philippe Hoss
Fernando Igartua Arregui
Tomas Lindholm
Gorazd Podbevšek
Béatrice Richez-Baum

Working Group on Audit Committee

Tim Copnell
Roger Barker
Ravi Beegun
Annelies De Wilde
Jean-Marc Discours
Kim Karhu
John Li
Andrzej Nartowski
Béatrice Richez-Baum
Patrick Zurstrassen

Membership Committee

Philippe Declaire (Chair)
Leonardo Peklár
Nicole Osborne
Béatrice Richez-Baum
Richard Zisswiller
Patrick Zurstrassen

Benchmarking and Information Committee

Richard Zisswiller (Chair)
Roger Barker
Marie Chambourdon
Abigail Levrau
Leena Paananen
Irena Prijovic
Béatrice Richez-Baum
Luis Sancho

Communication Committee

Olli V. Virtanen (Chair)
Clémence Decortiat
Ingrid Farmer
Pierre Margue
Béatrice Richez-Baum

Corporate Fundraising Group

Patrick Zurstrassen (Chair)
Juan Alvarez-Vijande
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