



# Board Effectiveness Evaluator

*For Privately Held Companies*

Executive Risk Services Limited  
Confidential

Company Name: \_\_\_\_\_

Completed By: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_



## Introduction

The Board Effectiveness Evaluator is designed to assess the company's and, the Board of Directors', existing governance structure and its effectiveness. Therefore, Executive Risk Services Limited asks that the Evaluator be completed by a member of the company's Board of Directors or by a senior executive of the company (i.e., Chief Financial Officer, Corporate Secretary) who is intimately familiar with the company's and Board of Directors' structure and governance practices.

## Board Effectiveness Evaluator Categories

The following categories will be evaluated in detail to determine each company's board effectiveness rating.

- A. Board Structure, Process & Accountability
- B. Strategic Responsibilities of the Board
- C. Nominating & Corporate Governance Responsibilities
- D. Management Performance & Compensation
- E. Financial Reporting & Internal Controls
- F. Orientation Program and Continuing Education
- G. Code of Business Conduct & Ethics
- H. Director Compensation
- I. Evaluating Performance of Boards & Committees
- J. Evaluating Performance of Individual Directors

## Board Effectiveness Rating Methodology

- All organizations rated by Executive Risk Services Limited ("ERS") are rated on a scale of 1.0 (lowest) to 10.0 (highest).
- The Board Effectiveness Evaluator contains questions, which can be answered in the form of "yes", "no" or "not applicable". Questions with a "yes" response represent a good board effectiveness practice. For evaluation purposes, each question is weighted differently depending on its relative importance in determining board effectiveness.
- Each board effectiveness category will be evaluated and given a rating out of 10.0 (highest). Category ratings will allow each company to easily determine specific issues and areas where board effectiveness practices may be improved.
- Overall and within each category, a board effectiveness rating of 9.0 or higher is considered to be well above average. A board effectiveness rating of 7.5 to 8.9 is considered to be above average, 6.0 to 7.4 is considered average, 3.5 to 5.9 is considered below average and 3.4 or less is considered well below average by ERS.



## A) Board Structure, Process & Accountability

	Yes	No	Not Applicable
1. Is the Chair of the board an independent director? <i>An individual is "independent" if he or she has no direct or indirect material relationship with the company. A "material relationship" is a relationship which could be reasonably expected to interfere with the exercise of a member's independent judgment, (i.e., employee of the company, family member of executive officer, individual who receives more than \$75,000 in direct compensation from the company, etc.).</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the board composed of a majority of independent directors (see definition above)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are a majority of the directors also shareholders of the company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. For each board meeting, is a board agenda set and distributed ahead of time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Directors receive appropriate, quality and timely information prior to each board meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Board minutes are recorded for all board meetings, committee meetings (if applicable) and for meetings of shareholders (if applicable)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Do directors have regular access and exposure to the full senior management team, without having to go through the CEO?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the board and/or committees of the board have full authority to retain, oversee, compensate and terminate outside advisors, who are required to assist the board, a committee of the board, or an individual director?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. In the past year, has the board and/or committees of the board retained outside advisors to assist them?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Is the board, in its business judgment, provided with adequate resources from management, e.g., staff and related support for board and committee meetings and activities, in order to fulfill its duties and responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Do independent directors hold separate scheduled meetings, i.e., "executive" or "in-camera" sessions, on a regular basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Do all shares outstanding have the same voting rights?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Do shareholders have the right to approve significant or unusual transactions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



**A) Board Structure, Process & Accountability (continued)**

	Yes	No	Not Applicable
14. Does every director sit on fewer than four boards of for-profit organizations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. None of the Company's Directors have sat on a board that has been sued?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Does every board member have Directors' and Officers' Liability Insurance (D&O) for every board that he/she sits on?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. As part of your risk management process, are all D&O quotes provided to your company by your broker discussed with a member of the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. If the response to question 17 is "no", does, at minimum, the Chief Financial Officer make the final purchasing decision for Directors' and Officers' Liability Insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Please list the current directors of the company below:			

Comments:

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## B) Strategic Responsibilities of the Board

	Yes	No	Not Applicable
1. Does the board annually review and approve the company's strategic plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are any deviations from the strategic plan, in the judgment of the board of directors, reported promptly by management to the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the board review at least quarterly the achievement of financial objectives, i.e., the performance of the company against the operating and capital budgets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the board hold management accountable for the achievement of the strategic plan through (i) explicit, rigorous assessment and (ii) linking management remuneration to the achievement of the strategic plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the board regularly review risk exposure (financial, operational, reputation etc.) to the company, in light of the strategic plan, and take reasonable steps to ensure that an effective risk management system is implemented by management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. In the past year, has there been at least one occasion where the board has <i>required substantial alteration or modification to a proposal by management or</i> rejected a proposal by management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. In the past year, has there been at least one non-unanimous vote taken by the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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## C) Nominating & Corporate Governance Responsibilities

	Yes	No	Not Applicable
1. Does the board have a nominating and corporate governance committee (or its equivalent)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the board and/or nominating and corporate governance committee (or its equivalent) have meetings specifically to discuss corporate governance issues, such as, the nomination and evaluation of directors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the board consider in an explicit fashion (e.g., in writing) the specific competencies and skills that the board, as a whole, should possess, given the nature of the business and the strategic environment in which the company operates?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the board explicitly assess what specific competencies and skills each director possesses and identify skills "gaps" to guide the selection of directors to the Board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Has a non or under-performing director ever been asked to step down from the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Has the board and/or nominating and corporate governance committee (or its equivalent) ever retained an independent, external advisor (e.g., director search firm, governance advisor, etc.) to assist them?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the nominating and corporate governance committee (or its equivalent) meet in executive session with such an advisor, i.e., without management present?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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## D) Management Performance & Compensation

	Yes	No	Not Applicable
1. Does the board have a compensation committee (or its equivalent)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the board and/or compensation committee (or its equivalent) have meetings specifically to discuss compensation issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does at least one director on the board and/or compensation committee (if applicable) possess executive compensation literacy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the company have a formalized compensation philosophy for executives outlining rationale of salary levels, incentive awards, stock awards, stock options, pensions (including supplemental plans) and other components of compensation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Has the board, together with the CEO, developed a clear position description for the CEO and senior management, which includes describing management's responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Has the board developed or approved the corporate goals and objectives that the CEO is responsible for meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Are the performance objectives (financial and non-financial), against which the CEO's performance is measured, well understood and accepted by the CEO and by the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the compensation committee and/or the board evaluate the CEO's performance annually against defined corporate goals and objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the compensation committee and/or the board review and approve annually management succession plans and, after consultation with the CEO, make recommendations to the board for consideration?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Are all equity based compensation plans and any changes, approved by shareholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Are stock options expensed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Does the board and/or compensation committee (if applicable) annually review and make recommendations regarding executive compensation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Does the board and/or compensation committee (if applicable) annually review and make recommendations regarding director compensation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Does the board and/or compensation committee (if applicable) annually review and make recommendations regarding incentive-compensation plans and equity-based compensation plans?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



## D) Management Performance & Compensation (continued)

	Yes	No	Not Applicable
15. Are all equity based awards (restricted stock, restricted stock units, options, etc.) subject to performance hurdles in order for vesting to occur?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Are the number of stock options available for grant limited in terms of number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Has the board and/or compensation committee (or its equivalent) ever retained independent, external advice, e.g., director search firm, compensation advisor, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Does the board and/or compensation committee use the services of an experienced, independent, third party advisor to develop and evaluate the company's executive compensation programs, processes and levels?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Does the board and/or compensation committee (or its equivalent) meet in executive session with such an advisor, i.e., without management present?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. In the past 3 years, has the board and/or compensation committee (if applicable) ever rejected a proposal from management regarding compensation levels, incentive plans, equity-based plans, etc?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21. In the past 3 years, has the board and/or compensation committee (if applicable) made substantial changes to the company's compensation plans?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22. Are there set dates for the granting of stock options ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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## E) Financial Reporting & Internal Control

	Yes	No	Not Applicable
1. Does the board have an audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the board and/or audit committee meet specifically to review and discuss the financial aspects of the company, such as, reviewing financial statements, overseeing the external auditor and evaluating internal controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are the majority of audit committee members / board members "financially literate", according to the applicable regulatory definitions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the external auditor report directly to the audit committee? If no audit committee exists, does the external auditor report directly to the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the board or audit committee (if applicable) have the sole authority to retain and terminate the company's external auditors, subject to shareholder approval, and to determine the terms of engagement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the board or audit committee (if applicable) obtain and review, at least annually, a report by the external auditor describing: (i) the auditors' internal quality control procedures; (ii) any material issues raised by the most recent internal, peer or outside quality control review of the audit firm, in respect of one or more independent audits carried out by the firm, and any steps taken to deal with such issues; and (iii) all relationships between the auditors and the company, including each non-audit service provided to the company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the board or audit committee (if applicable) review the report by the external auditor concerning: (i) all critical accounting policies and procedures to be used; (ii) all alternative treatments of financial information within generally accepted accounting principles and the treatment preferred by the external auditors; and (iii) other material written communications between the external auditors and management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the board or audit committee (if applicable) discuss and review with the external auditor and management current and future considerations, events, risks or uncertainties that might impact the financial health of the company's business and steps that management has taken to monitor and control such exposures ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the board or audit committee (if applicable) review the company's financial and internal audit controls at least annually?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Following each audit, does the board or audit committee (if applicable) evaluate the external auditor's qualifications, performance and independence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Following each audit, does the board or audit committee (if applicable) evaluate any difficulties the auditor has encountered in the course of the audit work, and any significant disagreements with management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



## E) Financial Reporting & Internal Control (continued)

	Yes	No	Not Applicable
12. Does any member of management or the board have any financial or non-financial agreements with the organisation for the provision of professional services, leasing of real property or equipment, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. If the answer to question 12 is "yes", are these agreements disclosed to the audit committee (if applicable) or to the board of directors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Does the organisation have written guidelines regarding conflicts of interest?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Has the board or audit committee (if applicable) established procedures for the receipt, retention, and treatment of complaints received by the company (from employees or others) regarding accounting, internal accounting controls, or auditing matters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Has the board or audit committee (if applicable) ever received a complaint regarding accounting, internal accounting controls, or auditing matters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. In the past three years, the company has not ever restated their annual financial statements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Has the board and/or audit committee ever retained independent, external advice, other than from the external auditor, e.g., risk management, regulatory, legal advisors, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Does the board and/or audit committee meet in executive session with such an advisor, e.g., without management present?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. Does the audit committee meet individually with chief officers, e.g., CFO, general counsel, corporate secretary, chief risk officer, etc., without other members of management present e.g., without the CEO?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

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## F) Orientation Program & Continuing Education

	Yes	No	Not Applicable
1. Do all new directors receive comprehensive and formal training, e.g., written materials, in-person sessions, adequate time, etc. and orientation to the company, its business and its strategic environment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are orientation and/or education materials assembled in a board "binder" or "directors information manual" for new and current directors, in print or electronic format?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the board have a comprehensive and formal continuing education program, e.g., dedicated meeting time, external training, visits to facilities, presentations to the board, etc. for all directors, directed at increasing their knowledge of the company, the industry and enhancing their competencies?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the board, committees of the board and individual directors have the authority to retain external advisors to provide continuing education to them, with costs covered by the company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do directors meet informally and regularly with members of management and outside advisors, e.g., board dinners, retreats, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

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## G) Code of Business Conduct & Ethics

	Yes	No	Not Applicable
1. Is there a published Code of Business Conduct and Ethics for the company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are directors and employees responsible for knowing its content and complying with its provisions at all times?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the board monitor company compliance with the Code and ensure that management has a comprehensive and formal monitoring, reporting and enforcement system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

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## H) Director Compensation

	Yes	No	Not Applicable
1. Does the board review and set the level and form of director compensation based on the responsibilities and risk in being an effective director and based on companies of a similar size and complexity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do shareholders approve the maximum aggregate remuneration to be paid to all directors, and any increases in that amount?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are directors compensated with a share component of directors pay, i.e., deferred share units?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the company disclose to shareholders the actual aggregate compensation paid to each director, individually, including cash, shares, deferred share units, stock options and any other benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

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## I) Evaluating Performance of Boards & Committees

	Yes	No	Not Applicable
1. Is the effectiveness and performance of the board and committees of the board assessed annually, in an explicit format, i.e., in writing, and benchmarked against best practices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are assessment tools used, e.g., self-assessment, peer-assessment, written questionnaires, face-to-face interviews, other tools?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is written feedback reported back to the board and committees of the board, in an explicit format, based on the data obtained?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Based on the data obtained, have meaningful changes been made to the board structure, membership, processes, director orientation and continuing education program?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

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## J) Evaluating Performance of Individual Directors

	Yes	No	Not Applicable
1. Is the performance of individual directors assessed annually against the contributions each individual director is expected to bring to the board and the explicit and specific competencies and skills deemed necessary or important in the judgment of the board or the nominating and corporate governance committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do the criteria for the assessment of the performance of individual directors include "softer" skills such as director behaviour?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is explicit (i.e., in writing) and appropriate feedback provided to individual directors based on the results of the individual's performance assessment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are individual director assessments linked to remediation and further training, opportunities for personal or professional development, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the tenure of the chair of the board, chairs of the committees and individual directors based on the results of their performance assessment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Have individual director assessments resulted in directors stepping down from the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. In the past few years, the board has experienced reasonable levels of turnover, i.e., at least one director has left the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

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