

# IFC Corporate Governance Progression Matrix for Listed Companies

(Integrating Environmental, Social, and Governance Issues)



© International Finance Corporation 2018. All rights reserved.

2121 Pennsylvania Avenue, N.W.

Washington, D.C. 20433

Internet: [www.ifc.org](http://www.ifc.org)

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC does not guarantee the accuracy, reliability, or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties (including named herein).

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, NW, Washington, DC 20433 USA.

International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos, and trademarks are the property of IFC, and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

# IFC Corporate Governance Progression Matrix for Listed Companies

(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>Written policies/corporate governance (CG) code 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 company.</li> <li>Written policies that address, at a minimum, compliance with E&amp;S law and regulations.</li> </ol>		<ol style="list-style-type: none"> <li>CG code, which 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 approved by the board.</li> </ol>		<ol style="list-style-type: none"> <li>Code of ethics 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>Organization culture has embedded ESG awareness and a control consciousness throughout the organization.</li> </ol>
Designated Officer/Functions	<ol style="list-style-type: none"> <li>A company 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.</li> </ol>		
Recognition			<ol style="list-style-type: none"> <li>Publicly recognized as a national leader in ESG practices.</li> </ol>		<ol style="list-style-type: none"> <li>Publicly recognized as a regional leader in ESG practices.</li> </ol>		<ol style="list-style-type: none"> <li>Publicly recognized as a global leader in ESG practices.</li> </ol>

## 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> </ol>		<ol style="list-style-type: none"> <li>The board is fully elected on an annual basis.</li> </ol>		<ol style="list-style-type: none"> <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> </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>Majority of audit committee membership is independent.</li> <li>Specialized committees address special technical topics or potential conflicts of interest (e.g., nominations, compensation, technology/cybersecurity, E&amp;S/sustainability, risk management, etc.), if applicable.</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 nonfinancial performance.</li> <li>Risk management or other specialized committee with a majority of independent directors, and a majority who have experience managing risks.</li> </ol>
Meeting Frequency	<ol style="list-style-type: none"> <li>Board meets at least quarterly and is charged with objectively overseeing management.</li> </ol>				<ol style="list-style-type: none"> <li>Non-executive directors meet separately at least once a year.</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."

(continued on next page)

## 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			<ul style="list-style-type: none"> <li>5. The board as a whole undergoes periodic evaluation.</li> <li>6. Formal performance evaluation of management conducted annually.</li> </ul>		<ul style="list-style-type: none"> <li>9. Board, committees and individual directors undergo an annual evaluation.</li> </ul>		<ul style="list-style-type: none"> <li>8. Board and committee evaluations conducted/facilitated by third party.</li> </ul>
Oversight of E&S			<ul style="list-style-type: none"> <li>7. Board is trained on general E&amp;S risk issues.</li> </ul>		<ul style="list-style-type: none"> <li>10. Board is trained on industry E&amp;S risk issues.</li> <li>11. Strategy and risk appetite integrate E&amp;S issues/risks.</li> <li>12. At least 1 director has experience analyzing and interpreting E&amp;S risks.</li> <li>13. In sensitive industries,<sup>2</sup> 1 director or more has in-depth knowledge of E&amp;S risks.</li> <li>14. ESG issues are recurring board agenda items; board approves ESG strategy and E&amp;S policies; routinely reviews E&amp;S performance; ensures appropriate dialogue between the company and key stakeholders; and ensures effectiveness of External Communications Mechanism (ECM).</li> <li>15. Board ensures that management systems are in place to identify and manage E&amp;S risks and impacts.</li> </ul>		<ul style="list-style-type: none"> <li>9. Special board-level committee established to review E&amp;S issues.</li> <li>10. Board reviews independent audits on effectiveness of Environment and Social Management System (ESMS), including stakeholder engagement processes and grievance mechanism.</li> </ul>

<sup>2</sup> Examples of "sensitive industries" include: oil, gas, mining, heavy industry (steel, cement), and chemical manufacturers, and large agro-commodity production or processing.

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

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Internal Controls	<ol style="list-style-type: none"> <li>Company has established documented internal control policies and procedures.</li> </ol>		<ol style="list-style-type: none"> <li>Audit committee ensures corrective actions on control deficiencies identified in Management Letters.</li> </ol>		<ol style="list-style-type: none"> <li>"Three lines of defense" model of risk management, internal control and internal audit has been adopted.<sup>3</sup></li> </ol>		<ol style="list-style-type: none"> <li>Control environment in accordance with highest international standards, including but not limited to IIA,<sup>4</sup> COSO, ISO 31000, 19600, 37001, and 27001.</li> <li>The organizational structure adopted by management has a positive effect on performance, productivity, and leadership effectiveness.</li> </ol>
Internal Audit	<ol style="list-style-type: none"> <li>Internal audit function regularly interfaces with external auditors and is accountable to the board.</li> </ol>				<ol style="list-style-type: none"> <li>Internal audit function is independent, objective, risk-based, and has unlimited scope of activity.</li> <li>Head of internal audit reports to the audit committee and administratively to management.</li> </ol>		<ol style="list-style-type: none"> <li>Audit committee ensures that the internal audit function is subject to periodic quality assessment by third party.</li> </ol>
Risk Governance			<ol style="list-style-type: none"> <li>Board approves risk appetite.</li> <li>Company has established risk-management framework with a chief risk officer (CRO) or equivalent with unfettered access to the board.</li> </ol>		<ol style="list-style-type: none"> <li>Board routinely monitors risk management and compliance with policies and procedures.</li> <li>CRO reports to board-level risk management committee or equivalent.</li> </ol>		
Compliance			<ol style="list-style-type: none"> <li>Comprehensive compliance program annually reviewed, with mechanisms to report wrongdoing and misconduct.</li> <li>Designated compliance officer.</li> </ol>		<ol style="list-style-type: none"> <li>Chief compliance officer reports to the audit committee or equivalent and administratively to management.</li> </ol>		
External Audit	<ol style="list-style-type: none"> <li>Written Management Letters provided by external auditor.</li> </ol>				<ol style="list-style-type: none"> <li>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.</li> <li>Company has established CFO function.</li> </ol>		<ol style="list-style-type: none"> <li>Audit committee reviews long association of EA.</li> </ol>

(continued on next page)

<sup>3</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>4</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
Integrating of E&S		<p>6. Company has established industry practices in its E&amp;S risk-management practices.</p>	<p>9. ESG activities are highly integrated, effective, and efficient and support the strategic and operational business objectives, and controls support objectives.</p> <p>10. Periodic ESG, IT, and Information Security internal audits.</p> <p>11. Comprehensive ESMS integrated in risk-management framework, and E&amp;S risks are part of establishing the risk appetite.</p> <p>12. E&amp;S/sustainability head has unfettered access to senior management and CRO.</p>	<p>5. Board or sustainability committee ensures corrective actions on E&amp;S issues.</p> <p>6. Head of ESG reports to board E&amp;S/sustainability committee.</p> <p>7. ESMS is consistent with international standards (e.g., ISO 14001).</p>
Subsidiary Governance	<p>4. Company can identify its subsidiaries.</p>	<p>7. Company has policies and procedures to control the creation and dissolution of subsidiaries.</p>	<p>13. Company has a centralized subsidiary governance function and subsidiaries are categorized based on complexity and an appropriate governance framework applied to each category.</p>	<p>8. Board exercises oversight over the organizational structure and the activities of its subsidiaries.</p>

## D. Disclosure and Transparency

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Financial Reporting	<ol style="list-style-type: none"> <li>1. Financial statements are audited by recognized independent external auditing firm.</li> </ol>		<ol style="list-style-type: none"> <li>1. Financial statements prepared in accordance with International Financial Reporting Standards (IFRS) or equivalent.</li> <li>2. Financial statements are audited in accordance with International Standards on Auditing (ISA).</li> </ol>		<ol style="list-style-type: none"> <li>1. Audit committee oversees financial and nonfinancial reporting and audit.</li> <li>2. Disclosure policy in place.</li> </ol>		
Risk Appetite					<ol style="list-style-type: none"> <li>3. Company discloses its risk appetite.</li> </ol>		<ol style="list-style-type: none"> <li>1. Risk appetite disclosure includes both qualitative and quantitative information.</li> </ol>
Corporate Disclosure	<ol style="list-style-type: none"> <li>2. Compliance with all disclosure requirements and listing rules. Investors and financial analysts are treated equally regarding information disclosure.</li> <li>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).</li> </ol>		<ol style="list-style-type: none"> <li>3. Company discloses its code of ethics/conduct.</li> </ol>		<ol style="list-style-type: none"> <li>4. Significant ultimate beneficial shareholders are disclosed.</li> <li>5. All disclosure and communications with shareholders and stakeholders made available online in a relevant and timely fashion.</li> </ol>		<ol style="list-style-type: none"> <li>2. Tax transparency statement disclosed.</li> <li>3. Executive compensation is disclosed.</li> <li>4. Dividend policy is disclosed.</li> </ol>
ESG Disclosure	<ol style="list-style-type: none"> <li>4. ESG/sustainability reporting, if any, follows minimum national requirement.</li> </ol>				<ol style="list-style-type: none"> <li>6. Annual report includes ESG information.</li> <li>7. E&amp;S/sustainability committee reviews annual report ESG information.</li> <li>8. ESG data subject to independent review.</li> <li>9. Information disclosed to Affected Communities is in understandable format and language.</li> <li>10. Annual updates to locally Affected Communities.</li> </ol>		<ol style="list-style-type: none"> <li>5. Nonfinancial disclosure in accordance with highest international standards (e.g., GRI, IIRC, SASB).</li> <li>6. Periodic nonfinancial reporting of ESG issues that are of concern to stakeholders.</li> <li>7. ESG data subject to an annual audit by an independent provider.</li> </ol>

## E. Treatment of Minority Shareholders

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Voting Rights	<ol style="list-style-type: none"> <li>All shareholders of the same class have equal voting, subscription, and transfer rights.</li> <li>Minority shareholders receive adequate notice and the agenda for all shareholders' meetings; and are permitted to participate and vote at shareholders' meetings.</li> </ol>		<ol style="list-style-type: none"> <li>Effective representation of minority shareholders through cumulative voting or similar mechanisms; and economic rights such as inspection rights, exit rights, and tag-along rights.</li> <li>Company has a dividend policy.</li> <li>Clearly articulated and enforced policies on treatment of minority shareholders in changes of control.</li> </ol>		<ol style="list-style-type: none"> <li>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).</li> <li>Shareholders are consulted on executive compensation.</li> </ol>		<ol style="list-style-type: none"> <li>Treatment of shareholders consistent with best international market practices.</li> <li>Executive compensation subject to shareholder approval.</li> <li>Each share is afforded one vote at the AGM.</li> </ol>
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> </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 transactions and shareholder agreements.</li> </ol>		<ol style="list-style-type: none"> <li>3. Well-understood policy and practices of company 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> </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>5</sup></li> </ol>
Investor Relations	<ol style="list-style-type: none"> <li>4. Investor relations function established.</li> </ol>				<ol style="list-style-type: none"> <li>5. Investor relations functions include program for engaging minority shareholders.</li> </ol>		

<sup>5</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.

## F. Governance of Stakeholders Engagement <sup>6</sup>

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Stakeholder Mapping	<ol style="list-style-type: none"> <li>Ad hoc stakeholder-identification, including workers, customers, regulators, and the locally Affected Community.</li> </ol>		<ol style="list-style-type: none"> <li>Key stakeholders identified also include local nongovernmental organizations (NGOs) and civil society organizations (CSOs).</li> </ol>		<ol style="list-style-type: none"> <li>Formal stakeholder-mapping process and expanded definition of stakeholders includes contracted workers, primary-supply-chain workers, neighboring projects, and international NGOs and CSOs.</li> </ol>		<ol style="list-style-type: none"> <li>Senior executive responsible for stakeholder relationships, including ensuring integration with strategy and target setting.</li> </ol>
Stakeholder Engagement Policy			<ol style="list-style-type: none"> <li>Established Stakeholder Engagement (SE) policy and procedures.</li> </ol>		<ol style="list-style-type: none"> <li>SE policy and strategy includes procedures with stakeholder analysis, differentiated approaches for priority groups, iterative disclosure and consultation requirements, and reporting.<sup>7</sup></li> </ol>		<ol style="list-style-type: none"> <li>Commitment to SE visible to staff, contractors, suppliers, and collaborators via codes of conduct setting out expectations for stakeholder interactions and human rights.</li> <li>SE practices incorporated into requirements for primary suppliers.</li> <li>SE activities and outcomes included in board decision making and external reporting procedures.</li> </ol>
Worker Grievance Mechanism	<ol style="list-style-type: none"> <li>HR policy and procedures for worker engagement.</li> </ol>		<ol style="list-style-type: none"> <li>Basic grievance mechanism for workers.</li> </ol>		<ol style="list-style-type: none"> <li>Management responds to grievances from workers and contracted workers on a regular basis.</li> </ol>		<ol style="list-style-type: none"> <li>Issues raised through grievance mechanism for workers are analyzed and resolved with the participation of a worker representative.</li> <li>The board is informed about grievance outcomes and trends on a regular basis.</li> </ol>
Affected Communities Grievance Mechanism	<ol style="list-style-type: none"> <li>Informal response to stakeholder requests and concerns.</li> </ol>		<ol style="list-style-type: none"> <li>External Communications Mechanism for stakeholder questions and complaints, and if there are Affected Communities, a grievance mechanism is established.</li> </ol>		<ol style="list-style-type: none"> <li>External and publicly accessible communication procedure.<sup>8</sup></li> <li>Grievance mechanism facilitates the resolution of concerns from Affected Communities.</li> <li>Designated Affected Communities engagement personnel have clearly defined responsibilities, training, and reporting lines to senior management and the board.</li> <li>SE policy incorporated into requirements for contractors.</li> <li>Unresolved stakeholder issues require a management action plan.</li> </ol>		<ol style="list-style-type: none"> <li>Periodic analysis of grievances to identify trends and root causes is conducted by senior management.</li> <li>Senior management participate actively in international industry discussions on related topics.</li> <li>SE and reporting consistent with international standards (AA 1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 26000).</li> </ol>

<sup>6</sup> This section should not be completed without consulting with the assigned E&S Specialist. If assigned E&S Specialist is not a Social Specialist, consult with Social Specialist.

<sup>7</sup> Consult with Social Specialist to determine quality of SE policy, strategy, and procedures, if applicable.

<sup>8</sup> Consult with Social Specialist to determine whether communication procedure is adequate to (a) receive and register external communication from the public; (b) assess issues raised and determine response; (c) provide and document responses, if any; and (d) adjust the management program, as appropriate and if applicable.







2121 Pennsylvania Avenue, NW  
Washington, DC 20433 USA

Tel: +1 (202) 458-8097

[www.ifc.org/corporategovernance](http://www.ifc.org/corporategovernance)  
[www.ifc.org/sustainability](http://www.ifc.org/sustainability)

September 2018