The International Cooperative Banks Association (ICBA) is the sectorial body of the International Cooperative Alliance (ICA), one of the oldest NGO’s created 120 years ago, to gather and represent at the worldwide level the cooperative enterprises.

Like any other cooperative enterprise, cooperative banks have to fulfil their activities by complying with the Cooperative Principles\(^1\), which are considered by international institutions such United Nations (UN) and the International Labour Organisation (ILO) as major component of the cooperative specificity. This means that any sectorial international recommendation have to take into account these Cooperative Principles to check on the way they could be affected.

When reading the consultative document the ICBA felt that the authors had little consideration of the Cooperative specificity. In the herein comment we shall try to give some clarifications on the way the proposed guidelines for the corporate governance of banks could be adapted at the international or national level to fit with our Cooperative Principles.

**Specificity of the Cooperative banks**

Referring to the Cooperative Principles, especially three of them\(^2\), which have major influence on the corporate governance, cooperative banks,

\(^1\) These Principles could be read in the ICA documentation: [http://ica.coop/en/whats-co-op/co-operative-identity-values-principles](http://ica.coop/en/whats-co-op/co-operative-identity-values-principles)

Also it can be referred to the ICBA documentation on what is a Cooperative bank: [http://www.icba.coop/co-operative-bank/what-is-a-co-operative-bank.html](http://www.icba.coop/co-operative-bank/what-is-a-co-operative-bank.html)

\(^2\) 1. Democratic member control
2. Member economic participation
3. Autonomy and independence
which are the second largest financial networks in the world, have a specific governance model:
- Clients are owners of the bank, they are at the same time members, and are the core basis of the impetus of the enterprise and of the governance of these organisations
- The client-members vote and decide in General Assembly upon the governance procedures (in approving the statutes or other by laws), but they decide through a democratic process on the persons in charge of managing the governance
- The client-members are involved in the governance until the top, especially in getting accounts and financial information to base the economic participation of members
- The Executive management is controlled by a Board of client-members

**Advantages of the democratic governance:**
- Control by client-members / services oriented in the direction of members which can be diverse in size and expectations
- Long term attitude resulting of the building up of surplus a part of which can be kept as intangible reserves
- Transparency of information towards members
- Better spread cautiousness give a safer attitude towards risks

**COMMENTS ON THE DOCUMENT**

1. **“Enhance the authority and independence of Chief Risk Officers (CRO)”**

   - When it is said that “more work is needed (...) to enumerate expectations of third-party review” we want to remind that adding too many so called “independent reviews” can be counterproductive. All this matter has to be closely linked with the proportionality principle and the need for the board to define priorities in the sometimes very diverse constraints the bank has to fulfil.
   - the independence of CROs has to be guaranteed regarding the Executive management, the best way is to connect this function to the Board of client-members, which is in charge of the control in general of the organisation and not involved in the day-to-day business;
15. one-tier/two-tier structure

- Regarding the history, the practices, the countries, each organisation could use a different or specific model in governance;
- The main thing is to guarantee the control of the organisation, cooperative banks by the election of representative of client-members find a logical balanced system regarding its ownership system;
- The governance model of cooperative banks is based on:
  o a non executive Board - composed by members elected by client-members in General Assembly- in charge of the strategy, the control, the promotion of the interest of members, the representative of the organisation;
  o an executive management team - appointed by the Board - in alignment of interests with the board decisions in executing the strategy.

17. Share holders rights

It is strange to read that the Committee only considers the respect of ownership right for listed companies. The same matter can be rose for Cooperative banks where members have an obvious interest that their economical participation, through ownership of shares could be considered and protected by the Board.

23. Responsibilities of the Board

In reading the list proposed we wonder why there is no mention of the annual or periodical accounts, the use of the surpluses and information given to the owners of the bank. Considering the Cooperative Principles for Cooperative banks these matters have fully to be under the Board control.

29. A bank’s code of conduct or code of ethics

- Cooperative banks have several written rules as statutes; a code of conduct has to be realized connected to the several existing documents and especially the Cooperative Principles.

45. “The Board should be comprised of a sufficient number of independent directors”

- The concept of “Independent board members” – who were reinforced after the Enron crash as a warranty of good governance for stakeholders (as pension funds) who did not want to be involved in the governance – has to be clarified for the cooperative governance model: involvement of people in the governance and the control are a logical consequence of the
functioning of democratic model of cooperative banks. Consequently, it is important to remember that “independent” is a concept referring to the check and balance Principle. It means that board members in charge of the control supervision have to be independent from the “day to day management”. Consequently, different options are conceivable for the cooperative banks: either to consider that any member designated by the members through a democratic process are independent, especially when the votes are based on the Principle “one person, one vote” regardless of the capital detention, or consider that the involvement of non members as board members has to be decided directly by the members in General Assembly.

- If the issue is to “have a composition that facilitates effective oversight”, cooperative banks should find within their client-members several skills, profiles but not outsight of the members circle. Several mechanisms could be developed to find the right person at the right place. Then training programmes could develop skills and capabilities to manage.

47. "Collective suitability of the Board“

Board members should have a range of knowledge and experience in several and relevant areas; these competences should be viewed through the long experience of the Board members. If no one could be an expert on each specific topic, one of the major things is to ensure a deep involvement of Board members in their function. For this reason, specific measure have to be facilitate to help board members to exercise their mandates : training, access to information, meeting with employees and the General manager, financial compensation – remuneration, agreement with the main employer of the board member in order to facilitate the participation to the Board and other meetings.

52. Nomination Committee

- This committee could help the Board to identify the missing skills inside the Board and help the Board to find the right person.
- This Committee has to be under the authority of the Board and specifically of the chairman.
- This Committee could not replace the General Assembly in the nomination

66. Committee chair independence

There we ask to take into consideration what is written above under the item 45.
67. Audit Committee

When it is said that the Audit committee should be made up entirely of independent or non executive board members we ask to refer to our comments under item 45.

70. Risk Committee

When it I said that this committee should “include a majority of members who are independent” we ask to refer to our comments under item 45.

155. Disclosure and transparency

We believe that the Cooperative Principles are a good base to set the principle of disclosure and transparency for the cooperative banks.