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Bank Strategy Briefing

Ideas and analysis for community bank executives

Emeritus directors and advisory boards

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Retaining long-time directors on emeritus status and organizing a well-heeled advisory board are underutilized, but often valuable strategies for community banks.

What are emeritus directors and advisory boards?

The term 'emeritus director' typically describes a long-time board member who, either voluntarily or due to age limits in the bylaws, retires from the board but continues to attend meetings and offers expertise informally. An 'advisory board' is generally a small group of individuals, separate from the board of directors, who regularly meet and provide advice or feedback to the board and management.

Emeritus directors and advisory board members share an important common attribute: they are not members of the board of directors. As such, they cannot vote, have no right to notice of or attendance at board meetings, and have no statutory indemnification protections. Importantly, these individuals owe no fiduciary duties to the bank or its shareholders and are not obligated to keep sensitive information (e.g. customer information) confidential. For legal purposes, they are akin to consultants or independent contractors.

Why are emeritus directors and advisory boards valuable?

Often, emeritus directors have long-standing institutional knowledge, significant stock ownership or other attributes that make them valuable to keep engaged. Similarly, advisory board members typically offer unique talents, expertise or business development connections. Advisory board seats are also sometimes filled with some of the bank's most important clients to maintain close contact, to further nurture those relationships and to turn great clients into cheerleaders for the bank within the community. Advisory boards can also be valuable to keep a leadership presence in a market that may be independent or isolated from the bank's primary location.

Key emeritus director and advisory board considerations

The following are several key considerations for your emeritus directors and advisory boards:

Recruitment

Recruit emeritus directors and advisory board members who offer diverse and valuable expertise that will benefit your board and management team. The ability to be compensated as a director while not being subject to fiduciary duties or formal board obligations can be an attractive recruitment pitch.

Have a contract

Because these individuals are essentially consultants or independent contractors, you **must** have a contract in place, especially if they may have access to confidential information. These contracts should be prepared by counsel and be ready to share with regulators upon request.

Compensation

Choose a compensation structure that aligns with the emeritus director's or advisory board member's role. This can include per meeting fees, referral bonuses or other arrangements.

Exclude from certain information

Be thoughtful when deciding what information should be shared with emeritus directors and advisory board members. For example, they should not be involved in discussions regarding examination findings, CAMELS ratings or supervisory enforcement actions. Certain other sensitive information, such as litigation or mergers and acquisitions activity, may also be inappropriate to share.

Act at your next board meeting

Consider including an agenda item for your next board meeting to discuss whether emeritus directors or an advisory board is right for your bank, or, if you already have them, whether they have been instituted and maintained properly.