



**ICGN**

International Corporate Governance Network

# ICGN Global Stewardship Principles

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# ICGN Global Stewardship Principles



## Preamble

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The ICGN Global Stewardship Principles set out ICGN's view of best practices in relation to investor stewardship obligations, policies and processes. These Principles provide a framework to implement stewardship practices in fulfilling an investor's fiduciary obligations to beneficiaries or clients.

Stewardship can be defined in general terms as the responsible management of something entrusted to one's care. This suggests a fiduciary duty of care on the part of those agents entrusted with management responsibility to act on behalf of the end beneficiaries. In an investment context institutional investors are the agents acting on behalf of beneficiaries, who are often long-term savers or members of pension funds.

At an individual company level stewardship helps to promote high standards of corporate governance which contributes to sustainable value creation, thereby increasing the long-term risk adjusted rate of return to investors and their beneficiaries or clients. At an investor level, stewardship is about preserving and enhancing long-term value as part of a responsible investment approach. This includes the consideration of wider ethical, environmental and social factors as core components of fiduciary duty. In a broader context, stewardship enhances overall financial market stability and economic growth.

A cornerstone of ICGN's policy programme relates to investor responsibilities and making effective stewardship a reality. The ICGN Global Stewardship Principles draw from ICGN's policy work in this area over the last twenty years. These Principles replace the ICGN Statement of Principles for Institutional Investor Responsibilities (2013), which date back to 2003. These new Global Stewardship Principles incorporate this earlier guidance and recommendations, while adding new principles and guidance in keeping with changes in market practice and regulation. In particular, there is now a principle dedicated to promoting long-term value creation and the integration of environmental, social and governance (ESG) factors into investment decision-making.

The ICGN Global Stewardship Principles also draw on the ICGN Model Mandate, published in 2012, which outlines model contract language for investment management agreements between asset owners and asset managers to integrate core stewardship practices into the asset management process. Included in the scope of the Model Mandate are sections on systemic responsibility, long-termism and integrating ESG factors into investment analysis and decision-making.

The more recent publication of the ICGN Global Governance Principles builds further on the responsibilities of institutional investors, and focuses on the internal governance arrangements of investors which sit alongside an investee company's responsibility to maintain good corporate governance practices. Drawing from these policy foundations, ICGN has made contributions to consultations about stewardship code developments in a number of jurisdictions. Such codes are publicly available on the ICGN website.

The standards set out here are intended to apply, with appropriate flexibility, to all investment styles and approaches. They are aspirational standards that ICGN encourages Members and their peers to adhere to as appropriate to their circumstances. The application of the Global Stewardship Principles should be governed and monitored by market forces in the spirit of promoting good corporate governance, investor stewardship and the sustainable success of companies. While ICGN encourages asset managers and asset owners to make constructive use of the Principles, ICGN does not currently intend to monitor statements of compliance. Monitoring of the asset manager's compliance to the Principles should be undertaken in the first instance by the asset owner to ensure that the asset manager is robust in its approach to supporting the Principles. Monitoring of the asset owner's governing body adherence to the Principles should in turn be undertaken by the asset owner's to ensure that the asset owner is taking the necessary steps to conform to the Principles on behalf of the asset owner's end beneficiaries.

The ICGN Global Stewardship Principles offer a basic framework of key stewardship responsibilities, and is drafted with a view towards application in either developed or developing countries. The Principles offer several possible applications, including:

- Serving as an international framework for global stewardship policies developed by investors seeking to signal their approach to stewardship, either when investing in markets without codes or when they invest in multiple markets with differing codes. This enables investors with international portfolios to efficiently communicate fundamental stewardship standards in a global context. The ICGN Global Stewardship Principles serve as a single source of international reference for both investors and companies on what stewardship entails and how to implement it in practical terms. It also provides a useful benchmark for investors when periodically reviewing and refreshing their in-house stewardship policies.
- Enhancing dialogue between companies and investors by complementing Corporate Governance Codes applied in a 'comply or explain' context. In the event that company explanations are inadequate, it is the role of investors to use ownership rights to challenge companies when necessary. Without the active monitoring of explanations by investors, a "comply or explain" system would lack an ultimate means of enforcement or influence. A stewardship code therefore plays a critical role in providing a market-based system for investors to hold companies to account for their corporate governance practices.

- Serving as a point of reference for regulators and standard setters seeking to establish their own stewardship codes by providing an overarching model of stewardship which has been developed from international experience that can be adapted to the individual situations of countries or regions. As a global point of reference the ICGN Global Stewardship Principles can be a useful source of latest innovation both for stewardship codes under formation, and also as existing codes come up for periodic review. The ICGN Global Stewardship Principles are therefore intended to complement (and not supersede) national or regional codes which reflect domestic realities, laws and governance standards. If there is a difference or conflict between the ICGN Global Stewardship Principles and the local code, it is ICGN's expectation that the investor in the local market should first adhere to standards of stewardship articulated in the domestic stewardship code.

The ICGN Global Stewardship Principles have been developed following a peer review and consultation with ICGN Members and were ratified at the 2016 ICGN Annual General Meeting in San Francisco, USA. As such ICGN hopes to encourage a robust commitment by all market participants to continuously refresh and contribute to the evolution of defining good stewardship policies and practices. It is in this spirit that ICGN will ensure that the Principles remain relevant and fit for purpose over time, which will call for periodic reviews and updates of the Principles themselves.

The seven high-level principles that comprise the ICGN Global Stewardship Principles are summarised in Part One. For each of these principles, ICGN provides guidance on how they can be implemented in practice; this is presented in Part Two. The final part of this document outlines the ecosystem of stewardship and the pre-conditions for effective adoption within the context of a 'comply or explain' system of corporate governance oversight.

The ICGN Global Stewardship Principles are supplemented by ICGN Guidance on a range of governance themes which are published from time to time to elaborate on key concepts. All ICGN Principles and Guidance are publicly available on the ICGN website along with previous versions.





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# Part 1: Principles

## 1 **Internal governance: foundations of effective stewardship**

**Principle 1:** Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements and the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients.

## 2 **Developing and implementing stewardship policies**

**Principle 2:** Investors should commit to developing and implementing stewardship policies which outlines the scope of their responsible investment practices.

## 3 **Monitoring and assessing investee companies**

**Principle 3:** Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

## 4 **Engaging companies and investor collaboration**

**Principle 4:** Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to communicate areas of concern.

## 5 **Exercising voting rights**

**Principle 5:** Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients.

## 6 **Promoting long-term value creation and integration of environmental, social and governance (ESG) factors**

**Principle 6:** Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities.

## 7 **Enhancing transparency, disclosure and reporting**

**Principle 7:** Investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties.

# Part 2: Guidance

## 1. Internal governance: foundations of effective stewardship

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**Principle 1: Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements and the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients.**

### 1.1 Time horizons for delivering value

Investors should recognise that a primary responsibility is to preserve and enhance value which is aligned in the interest of beneficiaries or clients over an appropriate time horizon, which in most cases requires a long-term perspective.

consistent with good corporate governance practice. This includes the conduct of regular internal evaluations and periodic third-party led evaluations, to ensure they meet expectations of accountability and effectiveness. The way in which individuals are appointed to serve on the governing body should be disclosed.

### 1.2 Independent oversight

Investors should be overseen by governance structures that act independently and without bias to advance beneficiary or client interests. This may involve the need to separate or ring-fence investment activities for clients from the investor's own commercial pressures. Such governance structures should be subject to periodic independent review as

### 1.3 Ethics and conduct

Investors should have in place a code of ethics or conduct that guides investment and fiduciary activities on behalf of their beneficiaries or clients. The investor's board or trustees are ultimately accountable for the investor's stewardship activities, and they should provide the proper tone and support for meaningful execution of stewardship duties.

#### 1.4 Capacity and experience

Investors should have appropriate capacity and experience to effectively oversee and manage their stewardship obligations (particularly in terms of monitoring, voting and engagement) in the interests of beneficiaries or clients. This includes devoting time and training to decision-makers along all parts of the investment chain, particularly co-ordinating with fund managers, to exercising stewardship and fiduciary duties. It can also include, delegating to governance specialists to guide governance policies and voting.

#### 1.5 Investment chain

Investors should consider their position in the chain of responsibility for stewardship matters and be prepared to call to account other agents in the investment chain, including custodians and service providers, to preserve or enhance value on behalf of beneficiaries or clients.

#### 1.6 Conflicts of interest

Investors should have robust policies to minimise or avoid conflicts of interest and such policies should address how matters are handled when the interests of clients or beneficiaries diverge from each other. Investors should rigorously review their investment activities and their client interests to identify and appropriately manage real or potential conflicts of interest. Examples of conflicts might include

situations in which an investor in a company also provides financial products and services to the same company. Such conflicts of interest should be disclosed, along with the remedies to mitigate them. Comprehensive compliance capabilities should help in minimizing conflicts and ensuring investors have effective policies to deal with issues, including insider information and market manipulation.

#### 1.7 Appropriate remuneration

Investors should reinforce their obligations to act fully in the interests of beneficiaries or clients by setting fee and remuneration structures that provide appropriate alignment over relevant time horizons. Investors should disclose to their beneficiaries or clients an explanation of how their remuneration structures and performance horizons for individual staff members advance alignment with the interests of beneficiaries or clients.

## 2. Developing and implementing stewardship policies

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**Principle 2: Investors should commit to developing and implementing stewardship policies which outline the scope of their responsible investment practices.**

### 2.1 Developing policies

Investors should develop stewardship policies which address the components of relevant national stewardship code requirements (if one exists) and the ICGN Global Stewardship Principles (as appropriate). Such policies should address the scope of assets held in an investment portfolios including, but not limited to, listed equities and debt obligations.

### 2.2 Periodic review

Investors should periodically review stewardship policies which should be endorsed at the highest level of the investor's management and governance structure. This provides an accountability mechanism to ensure that the investor is taking the necessary steps to conform to recommended principles and guidance on behalf of their beneficiaries or clients.

### 2.3 Delegation

Asset owners cannot delegate their fiduciary responsibilities, and where they are unable to exercise stewardship over investee companies directly, they should ensure that their asset managers are undertaking these activities on their behalf through contracts or by other means.

### 2.4 Investment contracts

Asset owners should clearly incorporate their expectations regarding stewardship practices in the awarding of investment management agreements and in selecting asset managers to ensure that the responsibilities of share ownership are appropriately and fully delivered in the interests of their beneficiaries.

### 2.5 Stewardship oversight

Asset owners should effectively oversee and monitor asset manager stewardship activities and their consistency with the asset owner's investment beliefs, policies and guidelines. Asset owners with passive or index-linked strategies should take into account the stewardship capabilities of the asset manager, particularly given the often large number of holdings in institutional indexed portfolios.

## 3. Monitoring and assessing investee companies

**Principle 3: Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.**

### 3.1 Regular monitoring

Investors should regularly monitor investee companies in order to assess their individual circumstances, performance and long-term potential. Company monitoring should be integrated with the investor's engagement programme, particularly to help identify situations where there is value in intervening to encourage change.

- b) the company's approach to environmental and social matters that may influence its sustainable long-term success;
- c) the effectiveness of the company's governance and leadership; and
- d) the quality of the company's reporting.

### 3.2 Risk analysis

Investors should develop methods or risk-based tools to identify and prioritise portfolio companies for further analysis and engagement, which can include environmental, social and governance issues. This is particularly important for asset owners and managers with passively run portfolios, where the number of companies held in portfolios may be large.

### 3.4 Corporate governance

Investors should develop an understanding of the company's corporate governance practices and consider the quality of company reporting against relevant national or international codes. They should also understand the specific circumstances of the investee company, taking into account the legal environment, cultural norms and ownership characteristics.

### 3.3 Comprehensive factors

Investors should be clear about what standards they are applying and how they monitor investee companies. Monitoring companies encompasses a wide range of factors including:

### 3.5 Reasoned judgements

Investors should carefully assess the quality of explanations given for any deviations from relevant corporate governance codes that a company may report from a "comply or explain" perspective, and be prepared to engage with companies regarding their reasoned judgements.

- a) the company's business model, strategy and ongoing performance, as well as developments within and external to the company that might affect its value and the risks it faces;

### 3.6 Periodic review

Investors should periodically review and measure the effectiveness of their monitoring activities and communicate the results to beneficiaries or clients.

## 4. Engaging companies and investor collaboration

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**Principle 4: Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to communicate areas of concern.**

### 4.1 Strategic approach

Investors should develop their own risk-based approaches to select individual companies for engagement in alignment with the overall investment strategy. The spectrum of engagement activities may vary, depending on the nature of the investment or the size of shareholding, and this will affect the appropriateness of the engagement approach taken with investee companies. Pressures on investor resources for engagement call for due weight to be placed on quality, evidence based engagement focusing on clear outcomes.

### 4.2 Engagement policies

Investors should establish clear policies outlining their approach to the engagement process which should be communicated to companies as part of a framework for company dialogue. Part of this policy should address how engagement might be escalated in the event any concerns are unresolved.

### 4.3 Engagement escalation

Investors should clarify how engagement might be escalated when company dialogue is failing including:

- a) expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholders' meeting;
- b) expressing their concern collectively with other investors;
- c) making a public statement;
- d) submitting shareholder resolutions;
- e) speaking at general meetings;
- f) submitting one or more nominations for election to the board as appropriate and convening a shareholders' meeting;
- g) seeking governance improvements and/or damages through legal remedies or arbitration; and
- h) exit or threat to exit from the investment as a last resort.

Note that many of the engagement tactics noted above, shareholder nominations to the board for example, are also relevant in normal engagement situations when escalation is not required.



#### 4.4 Integrated approach

Investors, from both corporate governance teams and portfolio management, should seek to engage not only with company executive management, but also with board directors. In the case of controlled companies, investor engagement may also extend to meeting with controlling shareholders.

#### 4.5 Investor collaboration

Investors should be open to collaborating with other investors (both domestic and overseas investors) to leverage the voice of minority investors and exert influence, where required, with investee companies. Investors should respect individual market regulations relating to acting in concert and market manipulation, and be prepared to form or join investor associations to promote collective engagement.

#### 4.6 Public policy

Where relevant, investors should engage with policy makers on issues that affect responsible investment and corporate governance. Organisations like ICGN and national investor membership organisations can be useful to help encourage public policy changes.

## 5. Exercising voting rights

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**Principle 5: Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients.**

### 5.1 Voting policies

Investors should develop and publicly disclose clear voting policies, including how potential conflicts of interest are addressed in the exercise of voting rights. Where an investor chooses not to vote in specific circumstances, for example where holdings are below a certain threshold, this should be disclosed.

### 5.2 Decision-making

Investors should be prepared to abstain or vote against management resolutions if such resolutions are regarded as inconsistent with good corporate governance practices. In doing so, investors should seek to explain to companies the reasons underlying their voting decisions, preferably before the shareholders' meeting.

### 5.3 Voting records

Investors should regularly disclose their actual voting records publicly on their website as well as directly to clients. Voting records should indicate whether resolutions were cast for, against or abstained.

### 5.4 Vote confirmation

Investors should include voting activity in client and beneficiary reporting and, where

possible, seek to confirm from companies whether or not such voting instructions have been received and formally counted.

### 5.5 Voting services

Investors should disclose the extent to which they use proxy research and voting services, including the identity of the provider and the degree to which any recommendations are followed. Use of a proxy voting advisor is not a substitute for the investor's own responsibility to ensure that votes are cast in an informed and responsible manner. Investors should clearly specify how they wish votes to be cast and should ensure that such votes are cast in a manner consistent with their own voting policies.

### 5.6 Stock lending

Investors should disclose their approach to stock lending and voting in a clear policy which should clarify the types of circumstances where shares would be recalled to vote and how stock lending of individual shares may have affected voting activity. In order to preserve the integrity of the shareholders' meeting, shares should not be borrowed or lent for the primary purpose of voting them.

## 6. Promoting long-term value creation and integration of environmental, social and governance (ESG) factors

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**Principle 6: Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities.**

### 6.1 Long-term focus

Investors should understand the objectives and timeframes of their clients and beneficiaries and should promote a company's long-term success and sustainable value creation over short-term considerations. This long-term perspective is particularly relevant for pension funds and other long-term savings or retirement funds.

### 6.2 Awareness and understanding

Investors should build awareness of factors that may affect a company's long-term prospects which includes an understanding of the investee company's business model and strategy and how ESG factors may influence risks and opportunities affecting a company's long-term performance and sustainable value.

### 6.3 Systemic threats

Investors should build awareness of long-term systemic threats, including ESG factors, relating to overall economic development, financial market quality and stability and should prioritise the mitigation of system-level risk and respect for basic norms (e.g. anti-corruption, human rights) over short-term value.

### 6.4 ESG integration

Investors should consider ways to analyse, monitor, assess and integrate ESG related risks and opportunities as part of their approach to stewardship and in particular in their monitoring, voting and engagement practices.

### 6.5 Integrated reporting

Investors should encourage integrated reporting by companies to link ESG and other qualitative factors more clearly with company strategy and operations, and ultimately long-term value creation. If a company's ESG disclosures are insufficient to allow for investors to gain an appropriate understanding of a company's sustainability-related risks, investors should encourage more robust ESG reporting.

## 7. Enhancing transparency, disclosure and reporting

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**Principle 7: Investors should publicly disclose their stewardship policies and activities and report to beneficiaries and clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties.**

### 7.1 Signifying commitment

Investors should signify their commitment to stewardship by becoming a signatory to a relevant national code (if one exists) while also taking into consideration appropriate recommendations in the ICGN Global Stewardship Principles.

### 7.2 Meaningful disclosure

Investors should publicly disclose their stewardship policies, preferably on their website and, in a 'comply or explain' context, should provide meaningful explanations regarding aspects of the stewardship code that the investor does not comply with.

### 7.3 Periodic review

Investors should annually review their public disclosure regarding stewardship, and review activities with respect to the national stewardship codes, while also having regard to the ICGN Global Stewardship Principles.

### 7.4 Maintaining records

Investors should maintain records of meetings, voting and engagement to

document summaries of stewardship activities for the benefit of their beneficiaries or clients.

### 7.5 Accountability

Investors should disclose to their beneficiaries or clients their key internal governance arrangements in order to be held effectively accountable for exercising stewardship duties on their behalf.

### 7.6 Client reporting

Investors should provide regular and appropriate reports to clients, which may be more detailed than public disclosure, regarding stewardship activities and performance. Such reports should include their major stewardship priorities and forward-looking engagement strategy.

### 7.7 Assurance

Investors should recognise that external assurance of stewardship code activities is encouraged as good practice.

# Part 3: Ecosystem of stewardship

Applied in an investment and capital markets context, institutional investors are the agents, or stewards, on behalf of assets owned by the end beneficiaries of stewardship. These beneficiaries include individual savers, pensioners and holders of long-term insurance policies. They rely on institutional investors as their agents, which include both asset owners and asset managers to act in their interests.

Institutional investors invest in a range of assets, including the equity and debt of listed companies, to produce investment returns for their beneficiaries. Particularly for pension funds and insurance companies funding annuities, the perspective of institutional investors is typically long-term. Both institutional investors and their beneficiaries therefore have a strong interest in ensuring that investee companies are successful and sustainable over time. This has broader systemic implications in terms of promoting healthy capital markets and economic development.

While stewardship codes are most fundamentally a statement of investor responsibilities, the effective implementation of stewardship activities requires constructive coordination of many market participants. The ICGN Global Stewardship Principles

recognise that these participants have differing agency roles throughout the investment chain for the successful application of stewardship. The success of stewardship implementation also relies on participants understanding their roles and working in good faith to contribute positive outcomes.

These participants extend along the “investment chain” from the end provider of capital to the user of capital and include specific roles for asset owners and asset managers, companies, regulators and service providers to play in making stewardship a reality:

## **Asset owners**

One of the main applications of the ICGN Global Stewardship Principles is to serve as a guide for asset owners and their trustees in terms of monitoring an asset manager’s adherence to stewardship practices. Many asset owners have limited in-house capacity to implement all aspects of stewardship; where this may be the case asset owners should instead satisfy themselves that stewardship principles are being implemented satisfactorily by their asset managers and service providers.

## **Asset managers**

In many cases asset managers provide stewardship services on behalf of asset owners and their beneficiaries, often including monitoring, engaging and voting. As such, they should signify commitment to stewardship to their clients by adhering to investment management agreements and ensuring alignment with their client's own investment beliefs, policies and guidelines. It is of particular importance that asset managers dedicate capacity to meet stewardship commitments, which include reviewing internal resourcing in light of the asset manager's business models. They should be prepared to challenge investee companies on governance, strategy and other management practices when these do not align with the long-term interests of the company and its minority shareholders, and report regularly to clients on how they fulfil their stewardship obligations.

## **Companies**

While companies (as issuers of equity and debt to investors) are not themselves signatories to stewardship codes, they do have a role to play in supporting the spirit and ambitions of a stewardship code in order for it to be effective. Companies should recognise the benefits of building investor relationships that can strengthen trust and enhance financial flexibility by enhancing access to cost effective capital. In doing so companies should cooperate in good faith with investors, particularly in facilitating engagement and constructive dialogue, including willingness to meeting with investors acting collectively. Companies should recognise the responsibility of board members to meet with key investors to build understanding and dialogue about governance matters.

For listed companies with their own pension funds, companies also act as asset owners, and companies should call for appropriate stewardship practices in corporate pension funds.

## **Regulators**

Regulators wishing to promote effective stewardship in any market have a primary role in developing, publishing and requiring reporting against a national stewardship code. The ICGN Global Stewardship Principles are intended to complement local requirements, and are not intended to supersede national codes. Instead the ICGN Global Stewardship Principles offer an internationally recognised set of principles which are applicable across markets and can be viewed as a statement of high standards. Some investors, particularly those with internationally diversified portfolios, may prefer to provide a global stewardship policy statement as a means to respond to multiple local code disclosure requirements.

## **Creditors**

Stewardship in the first instance is often focused on an investor's equity holdings given voting and other ownership rights. However, stewardship need not be limited to listed or private equity as an asset class. It is also relevant in the area of fixed income investment. Bondholders in particular provide long-term risk capital to companies and share with equity holders an interest in promoting responsible and sustainable corporate governance and investor stewardship practices. The ICGN Global Stewardship Principles can therefore be applied to fixed income investors, though certain provisions, such as those relating to voting, will not have the same relevance.

A key focus on stewardship from a creditor's perspective will be on a company's risk management oversight and on the company maintaining financial policies that appropriately balance the interests of shareholders and creditors. The stewardship principles of monitoring and engagement are both relevant to creditors in this context.

### **Investment consultants and advisors**

Investment consultants and advisors can assist asset owner and asset managers with developing and implementing their responsibilities as part of their advisory services. Such consultants and advisors provide research and voting services which can assume stewardship responsibilities and they are therefore subject to many of the principles outlined in the ICGN Global Stewardship Principles. In doing so consultants, advisors and other service providers – which include proxy voting agencies, analytical services and custodians – should endeavour to understand their role in the investment chain and to provide services in the interests of their immediate clients and ultimate beneficiaries.

### **Pre-conditions of effective stewardship**

The pre-conditions to effective stewardship in a given market include having a critical mass of investors willing to adopt stewardship and the willingness of companies to engage with investors in good faith. Asset owners play a particularly important role to ensure that stewardship responsibilities are built into investment management mandates as a standard feature of asset management practices. It is also very important to have regulatory encouragement for stewardship activities to take place.

It is important to recognise that there are very different legal and cultural frameworks in each market and this will influence the way in which stewardship is implemented and monitored. Perhaps more important is the understanding that there are different models of corporate finance and ownership of listed companies around the world, for example the family or state owned corporate model prevalent in Asia and Continental Europe, compared with a more widely dispersed ownership type of company typically found in the UK, USA or Australia. Such models can differ in very basic principles such as shareholder primacy versus stakeholder primacy, and may require deeper consideration in terms of how stewardship can be effectively applied.

The risk of an overly prescriptive approach to a stewardship code would be to encourage a counterproductive “tick box” compliance exercise by investors – which is not what lies behind the intent of ICGN Global Stewardship Principles. In this context, it is important to highlight the intangible qualities of tone and culture as critical components to a stewardship code's success in any market.

Investors play a critical role in ensuring the effectiveness of a “comply or explain” corporate governance framework. “Comply or explain” provides companies with flexibility to not adhere to provisions of a corporate governance code, without legal or regulatory sanction. This reflects recognition that not all aspects of a corporate governance code may be relevant for an individual company to apply to be well governed. But this approach also carries the obligation for companies to explain the reasoning as to why specific governance practices have not been adopted.

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For a “comply or explain” system to be effective, a company’s explanation of non-compliance with its corporate governance code needs to be monitored to ensure a company’s explanations are robust. While regulators must be able to monitor company compliance with hard law and regulation, they are less well placed to make sometimes subjective judgements as to the quality of a company’s explanations. This is where institutional investors have a role to play to be proactive in engaging with companies whose explanations are unsatisfactory.

In the event that company explanations are inadequate, it is the role of institutional investors to use ownership rights to challenge companies when necessary. Without the active monitoring of explanations by investors, a “comply or explain” system would lack an ultimate means of enforcement or influence. A stewardship code therefore plays a critical role in providing a market-based system for investors to hold companies to account for their corporate governance practices.



## Annex 1: Excerpts from the ICGN Model Mandate: A selection of model contract terms to embed stewardship practices in investment management agreements

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Integrating stewardship activities in investment management agreements between asset owners and asset managers can play an important role in embedding stewardship as a component of institutional investment. ICGN's Model Contract Terms Between Asset Owners and Managers (2012) contain detailed provisions of contract terms that can be inserted into investment management agreements to promote stewardship practices. Some of the key model contract clauses, including possible alternative clauses, are summarised below – sometimes with an indication of the circumstances under which one alternative may be more appropriate than another. The Model Contract itself includes additional clauses that are of relevance, as well as suggestions as to how these might be structured in schedules attached to investment management agreements.

An asset owner's ability to negotiate acceptance and wording of these specific clauses is likely to vary between managers, investment vehicles and situations. Not all clauses will be suitable for all contracts, and asset owners may need to consider whether they should seek clauses such as those below in the fund management agreement or within a side letter or the equivalent. Questions of enforceability may be particularly relevant to this consideration.

### **Proposed model terms for high-level commitment**

*The Manager acknowledges that it acts as a fiduciary on behalf of the Client and its investors/beneficiaries.*

*The Manager will not make investments which would contravene the Investment Policy Statement/Statement of Investment Principles or would be in contravention of the restrictions on investments referred to in the Regulations governing the Client's authority.*

### **Proposed model terms for integration of long-term factors including ESG issues**

*The Manager will have an investment process which incorporates relevant long-term factors such as ESG issues consistent with the Client's responsible investment policy.*

### **Proposed model terms for investment horizon**

*The Manager acknowledges that the risks which the Client and its investors/beneficiaries face are not solely related to deviations from market benchmarks. The Manager acknowledges its need to consider long-term and systemic risk factors in order to manage risks which are relevant on the Client's long-term investment horizon and to the Client's fiduciary responsibilities.*

### **Proposed model terms for systemic responsibility**

*The Manager acknowledges that both it and the Client rely on the integrity of the marketplace to generate returns for the Client's investors/beneficiaries. The Manager will play a positive role in supporting the maintenance of appropriate and fit-for-purpose market regulation and infrastructure and will at least annually report to the Client on its activities in this regard.*

### **Proposed model terms for ongoing due diligence**

*The Manager will facilitate access by the Client to its staff and systems such that the Client can gain assurance on an ongoing basis that the Manager is appropriately implementing the Client's responsible investment policy, monitoring key long-term risks and integrating such factors into its investment and risk management decision-making.*

### **Proposed model terms for stewardship and engagement**

*The Manager will engage in stewardship activities as are appropriate in the circumstances to monitor and influence the management of the investee companies/ underlying funds/underlying assets, where such activity is considered by the Manager to be likely to enhance the value of such securities or assets and in the best financial interests of the Client.*

### **Proposed model terms for voting**

*The Manager will enable the Client or its designated agent to direct the exercise of any voting rights attaching to the Portfolio investments.*

*The Manager will procure the exercise of any voting rights attaching to the Portfolio investments in accordance with the Client's expressed voting guidelines, with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim of adding value to, and/or preserving value in, the Portfolio, as well as reducing unwanted risk exposures.*

*The Manager will procure the exercise of all voting rights attached to the Portfolio investments on the Client's behalf, in accordance with the Managers' voting policy and any market-specific guidelines approved by the Client.*

*The Manager will have in place appropriate policies to manage any conflicts of interest in relation to voting matters and shall report at least quarterly on all votes involving companies where the Manager or an affiliate have a contractual relationship or other material financial interest.*

### **Proposed model terms for fees, remuneration and culture**

*The Manager will ensure that the pay structures of its staff align their interests appropriately with those of the Client and its investors/beneficiaries, as well as the investment time horizon of the Portfolio.*

**Proposed model terms for conflicts of interest**

*The Manager will establish and maintain a conflicts of interest policy. The Manager will inform the Client of material amendments to, and waivers of, this policy from time to time, within [one month] of such event. The Manager will ensure that it adheres to this policy such that it effectively identifies and manages conflicts with the Manager’s duty to the Client or otherwise entailing a material risk of damage to the interests of the Client or its investors/beneficiaries. Where the Manager does not consider that the arrangements under its conflicts of interest policy are sufficient to manage a particular conflict, it will inform the Client of the nature of the conflict so that the parties can agree how to proceed.*

**Proposed model terms for reporting**

*In addition to reporting requirements set forth elsewhere, the Manager will prepare no later than x business days after the end of the relevant [quarter], reports covering the reporting period, including:*

- Standards and High Level Commitment
- Systemic Risk
- Monitoring
- Stewardship, voting and stock lending
- Portfolio turnover
- Developments and conflicts
- Commission and counterparties.

## Annex 2: Acknowledgements

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ICGN was established in 1995 and its members are led by investor's responsible for US\$26 trillion in assets under management.

ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. This sets the tone for our work programme which is centered around:

**Influencing** policy by providing a reliable source of investor-led opinion and experience around governance and stewardship;

**Connecting** peers at global events to provide a forum for dialogue between companies, investors and other stakeholders; and

**Informing** debate through knowledge and education to enhance the professionalism of corporate governance and investor stewardship.

The ICGN Global Stewardship Principles replace the ICGN Statement of Principles for Institutional Investor Responsibilities (2013); and includes references to the original recommendations, while adding new principles and guidance in keeping with changes in regulation and market practice.

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## Annex 3: References

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International Corporate Governance Network

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