ICGN
International Corporate Governance Network

ICGN Global Governance Principles

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ICGN Global Governance Principles

About ICGN

An investor-led organisation of governance professionals, ICGN's mission is to inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide. Established in 1995 and present in over 50 countries, the ICGN membership includes global investors with assets under management in excess of US$26 trillion. For more information, contact the ICGN Secretariat by telephone: **+44 (0) 207 612 7011**, email: **secretariat@icgn.org** or visit **www.icgn.org**.

Preamble

The ICGN Global Governance Principles ("the Principles") describe the responsibilities of boards of directors and investors respectively, and aim to enhance dialogue between the two parties. They embody ICGN's mission to inspire effective standards of governance and to advance efficient markets world-wide. The Principles are the ICGN's primary standard for well governed companies and set the framework for a global work programme focused around influencing public policy, connecting peers around the world and informing governance debate.

The combination of responsibilities of boards of directors and investors in a single set of Principles emphasises a mutual interest in protecting and generating sustainable corporate value.

Sustainability implies that the company must manage effectively the governance, social and environmental aspects of its activities as well as financial operations. In doing so, companies should aspire to meet the cost of capital invested and generate a return over and above such capital. This is achievable if the focus on economic returns and strategic planning includes the effective management of company relationships with stakeholders such as employees, suppliers, customers, local communities and the environment as a whole.

First initiated at the founding of the ICGN in 1995, this is the fourth edition of the Principles. They generally reflect the views of the ICGN membership, the majority being institutional investors (asset owners and asset managers). The recommendations are therefore substantively developed from an investor perspective, while taking into account other relevant parties including company directors, professional advisors and the standard-setting community.

The Principles apply predominantly to publicly listed companies and set out expectations around corporate governance issues that are most likely to influence investment decision-making. They are also relevant to non-listed companies which aspire to adopt high standards of corporate governance practice. The Principles are relevant to all types of board structure including one-tier and two-tier arrangements.

We refer to both non-executive and independent non-executive directors (also known as 'outside directors') throughout the Principles. This recognises the different approaches to board composition in various markets and the role of executive officers, non-executive directors and independent non-executive directors. The latter refers to directors who are free from any external relationships which may influence the directors' judgement.

We refer to the term 'investor' throughout the Principles and, more specifically, to institutional investors in Section B who act on behalf of beneficiaries or clients, such as individual savers or pension fund members. This includes collective investment vehicles or asset owners which pool the savings of many (e.g. insurance companies, pension funds, sovereign wealth funds and mutual funds), or asset managers to which such collective vehicles or individuals allocate funds. We note that in controlled companies (where there is a dominant shareholder or block such that they ultimately have the majority power) the governance considerations are primarily concerned with protecting the interests of minority shareholders. In this regard, many of the recommendations in the Principles will apply but others may be less relevant.

We also acknowledge different investment strategies, for example as employed by passive or active funds, and advocate that investors embrace their obligations to act fully aligned in the interests of the company, or as institutional investors, to their beneficiaries or clients, over relevant time-horizons. As such, the Principles set out a series of recommendations on the governance of investors themselves as well as their external stewardship responsibilities related to investee companies.

The Principles are intended to be of general application, irrespective of national legislative frameworks or listing rules. As global recommendations, they should be read with an understanding that local rules and cultural norms may lead to different approaches to governance practices. National codes reflect local standards and explanation is encouraged where there is divergence from the Principles against this framework. Members of the ICGN support the flexible application of these Principles, and therefore the specific circumstances of individual companies, investors and the markets within which they operate should be recognised.

The Global Governance Principles are supplemented by ICGN Guidance on a range of governance themes which are issued from time to time to elaborate on key concepts and practices. A full list of ICGN Guidance Statements is provided in Annex 1. Both the Principles and the more specific Guidelines are often used by ICGN members as benchmarks in assessing investee company governance practices, in voting guidelines and are referenced by academia and standard-setters. The recommendations are subject to change in recognition of continually evolving standards and practices and are reviewed at appropriate intervals.

Contents

Section A: Board

1 Responsibilities

1.1 Duties

The board of directors should act on an informed basis and in the best interests of the company with good faith, care and diligence, for the benefit of shareholders, while having regard to relevant stakeholders.

1.2 Responsibilities

The board of directors is accountable to investors and relevant stakeholders and responsible for protecting and generating sustainable value over the long term. In fulfilling their role effectively, board members should:

a) guide, review and approve corporate strategy and financial planning, including major capital expenditures, acquisitions and divestments;

b) monitor the effectiveness of the company's governance, environmental impacts, and social practices, and adhere to applicable laws;

c) embody high standards of business ethics and oversee the implementation of codes of conduct that engender a corporate culture of integrity;

d) oversee the management of potential conflicts of interest, such as those which may arise around related party transactions;

e) oversee the integrity of the company's accounting and reporting systems, its compliance with internationally accepted standards, the effectiveness of its systems of internal control, and the independence of the external audit process;

f) oversee the implementation of effective risk management and proactively review the risk management approach and policies annually or with any significant business change;

g) ensure a formal, fair and transparent process for nomination, election and evaluation of directors;

h) appoint and, if necessary, remove the chief executive officer (CEO) and develop succession plans;

i) align CEO and senior management remuneration with the longer term interests of the company and its investors; and

j) conduct an objective board evaluation on a regular basis, consistently seeking to enhance board effectiveness.

1.3 Dialogue

The board of directors should make available communication channels for dialogue on governance matters with investors and stakeholders as appropriate. Boards should clearly explain such procedures to investors including guidance relating to compliance with disclosure and other relevant market rules.

1.4 Commitment

The board of directors should meet regularly to discharge its duties and directors should allocate adequate time to meeting preparation and attendance. Board members should know the business, its operations and senior management well enough to contribute effectively to board discussions and decisions.

1.5 Directorships

The number, and nature, of board appointments an individual director holds (particularly the chair and executive directors) should be carefully considered and reviewed on a regular basis and the degree to which each individual director has the capacity to undertake multiple directorships should be clearly disclosed.

1.6 Induction

There should be a formal process of induction for all new directors so that they are well-informed about the company as soon as possible after their appointment. Directors should also be enabled to regularly refresh their skills and knowledge to discharge their responsibilities.

1.7 Committees

Committees should be established to deliberate on issues such as audit, remuneration and nomination. Where the board chooses not to establish such committees, the board should disclose the fact and the procedures it employs to discharge its duties and responsibilities effectively.

1.8 Advice

The board of directors should receive advice on its responsibilities under relevant law and regulation, usually from the company secretary or an in-house general counsel. In addition, the board should have access to independent advice as appropriate and at the company's expense.

2 Leadership and independence

2.1 Chair and CEO

The board of directors should have independent leadership. There should be a clear division of responsibilities between the chairmanship of the board and the executive management of the company's business.

2.2 Lead independent director

The chair should be independent on the date of appointment. If the chair is not independent, the company should adopt an appropriate structure to mitigate any potential challenges arising from this, such as the appointment of a lead independent director. The board should explain the reasons why this leadership structure is appropriate and keep the structure under review. A lead independent director also provides investors and directors with a valuable channel of communication should they wish to discuss concerns relating to the chair.

2.3 Succession

If, exceptionally, the board of directors decides that a CEO should succeed to become chair, the board should communicate appropriately with investors in advance setting out a convincing rationale and providing detailed explanation in the annual report. Unless extraordinary circumstances exist there should be a break in service between the roles, (e.g. a period of two years).

2.4 Effectiveness

The chair is responsible for leadership of the board of directors and ensuring its effectiveness. The chair should ensure a culture of openness and constructive debate that allows a range of views to be expressed. This includes setting an appropriate board agenda and ensuring adequate time is available for discussion of all agenda items. There should also be opportunities for the board to hear from an appropriate range of senior management.

2.5 Independence

The board of directors should identify in the annual report the names of the directors considered by the board to be independent and who are able to exercise independent judgement free from any external influence. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

- is or has been employed in an executive capacity by the company or a subsidiary and there has not been an appropriate period between ceasing such employment and serving on the board;

- is or has within an appropriate period been a partner, director or senior employee of a provider of material professional or contractual services to the company or any of its subsidiaries;
- receives or has received additional remuneration from the company apart from a director's fee, participates in the company's share option plan or a performance-related pay scheme, or is a member of the company's pension scheme;
- has or had close family ties with any of the company's advisers, directors or senior management;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- is a significant shareholder of the company, or an officer of, or otherwise associated with, a significant shareholder of the company;
- is or has been a nominee director as a representative of minority shareholders or the state;
- has been a director of the company for such a period that his or her independence may have become compromised.

2.6 Independent meetings

The chair should regularly hold meetings with the non-executive directors without executive directors present. In addition, the non-executive directors (led by the lead independent director) should meet as appropriate, and at least annually, without the chair present.

3 Composition and appointment

3.1 Composition

The board of directors should comprise a majority of non-executive directors, the majority of whom are independent, noting that practice may legitimately vary from this standard in controlled companies where a critical mass of the board is preferred to be independent. There should be a sufficient mix of individuals with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making.

3.2 Diversity

There should be a policy on diversity which should include measurable targets for achieving appropriate diversity within its senior management and board (both executive and non-executive) and report on progress made in achieving such targets. Aspects of diversity include gender, nationality, and special skills required by the board.

3.3 Tenure

Non-executive directors should serve for an appropriate length of time to properly serve without compromising the independence of the board. The length of tenure of each director should be reviewed regularly by the nomination committee to allow for refreshment and diversity.

3.4 Appointment process

The process for director nomination and election/re-election should be disclosed, along with information about board candidates which includes:

a) board member identities and rationale for appointment;

b) core competencies, qualifications, and professional background;

c) recent and current board and management mandates at other companies, as well as significant roles on non-profit/charitable organisations;

d) factors affecting independence, including relationship(s) with controlling shareholders;

e) length of tenure;

f) board and committee meeting attendance; and

g) any shareholdings in the company.

3.5 Nominations

Shareholders should be able to nominate candidates for board appointment. Such candidacies should be proposed to the appropriate board committee and, subject to an appropriate nomination threshold, be nominated directly on the company's proxy.

3.6 Elections

Board directors should be conscious of their accountability to investors. Accountability mechanisms may require directors to stand for election on an annual basis or to stand for election at least once every three years. Shareholders should have a separate vote on the election of each director, with each candidate approved by a simple majority of shares voted.

3.7 Evaluation

The nomination committee should evaluate the process for a rigorous review of the performance of the individual directors, the company secretary (where such a position exists), the board's committees and the board as a whole prior to being proposed for re-election. The board of directors should also periodically (preferably every three years) engage an independent outside consultant to undertake the evaluation. The non-executive directors, led by the lead independent director, should be responsible for performance evaluation of the chair, taking into account the views of executive officers. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence.

3.8 Nomination committee

A nomination committee should be comprised of non-executive directors, the majority of whom are independent. The main role and responsibilities of the nomination committee should be described in the committee's terms of reference. This includes:

a) developing a skills matrix, by preparing a description of the desired roles, experience and capabilities required for each appointment, and then evaluating board composition.

b) leading the process for board appointments and putting forward recommendations to shareholders on directors to be elected and re-elected;

c) upholding the principle of director independence by addressing conflicts of interest (and potential conflicts of interest) among committee members and between the committee and its advisors during the nomination process;

d) considering and being responsible for the appointment of independent consultants for recruitment or evaluation, including their selection, and terms of engagement and publicly disclosing their identity and consulting fees;

e) entering into dialogue with shareholders on the subject of board nominations either directly or via the board; and

f) board succession planning.

4 Corporate culture

4.1 Codes of conduct/ethics

High standards of business ethics should be adopted through codes of conduct/ethics (or similar instruments) and oversee a culture of integrity, notwithstanding differing ethical norms and legal standards in various countries. This should permeate all aspects of the company's operations, ensuring that its vision, mission, business model and objectives are ethically sound and demonstrative of its values. Codes should be effectively communicated and integrated into the company's strategy and operations, including risk management systems and remuneration structures.

4.2 Bribery and corruption

The board of directors should ensure that management has implemented appropriately stringent policies and procedures to mitigate the risk of bribery and corruption or other malfeasance. Such policies and procedures should be communicated to investors and other interested parties.

4.3 Whistle-blowing

There should be an independent, confidential mechanism whereby an employee, supplier or other stakeholder can raise (without fear of retribution) issues of particular concern with regard to potential or suspected breaches of a company's code of ethics or local law.

4.4 Political lobbying

In jurisdictions where corporate political donations are allowed, a policy should exist on political engagement, covering lobbying and donations to political causes or candidates where allowed under law. The policy should ensure that the benefits and risks of the approach taken are understood, monitored, transparent and regularly reviewed.

4.5 Employee share dealing

There should be clear rules regarding any trading by directors and employees in the company's own securities. Individuals should not benefit directly or indirectly from knowledge which is not generally available to the market.

4.6 Behaviour and conduct

A corporate culture should be fostered which ensures that employees understand their responsibility for appropriate behaviour. There should be appropriate board level and staff training in all aspects relating to corporate culture and ethics. Due diligence and monitoring programmes should be in place to enable staff to understand relevant codes of conduct and apply them effectively to avoid company involvement in inappropriate behaviour.

5 Risk oversight

5.1 Proactive oversight

The board of directors should proactively oversee, review and approve the approach to risk management regularly or with any significant business change and satisfy itself that the approach is functioning effectively. Strategy and risk are inseparable and should permeate all board discussions and, as such, the board should consider a range of plausible outcomes that could result from its decision-making and actions needed to manage those outcomes.

5.2 Comprehensive approach

A comprehensive approach to the oversight of risk which includes all material aspects of risk should be adopted, including financial, strategic, operational, environmental, and social risks (including political and legal ramifications of such risks), as well as any reputational consequences.

5.3 Risk culture

The board of directors should lead by example and foster an effective risk culture that encourages openness and constructive challenge of judgements and assumptions. The company's culture with regard to risk and the process by which issues are escalated and de-escalated within the company should be evaluated periodically.

5.4 Dynamic process

Risk should be reflected in the company's strategy and capital allocation. It should be managed accordingly in a rational, appropriately independent, dynamic and forward-looking way. This process of managing risks should be continual and include consideration of a range of plausible impacts.

5.5 Risk committee

While ultimate responsibility for a company's risk management approach rests with the full board, having a risk committee (be it a stand-alone risk committee, a combined risk committee with nomination and governance, strategy, audit or other) can be an effective mechanism to bring the transparency, focus and independent judgement needed to oversee the company's risk management approach.

6 Remuneration

6.1 Alignment

Remuneration should be designed to effectively align the interests of the CEO and other executive officers with those of the company and its investors. Remuneration should be reasonable and equitable in terms of both structure and quantum, and should be determined within the context of the company as a whole.

6.2 Performance

Performance measurement should integrate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its investors. Performance related elements should be rigorous and measured over timescales, and with methodologies which help ensure that performance pay is directly correlated with sustained value creation.

6.3 Malus and Clawback

Incentive plans should include provisions to withhold the payment of any sum ('malus'), or recover sums paid ('clawback'), in the event of serious misconduct or a material misstatement in the company's financial statements.

6.4 Disclosure

The remuneration Policy should be clear, understandable and comprehensive it should be publicly disclosed, and aligned with the company's long-term strategic objectives. The remuneration report should also describe how awards granted to individual directors and the CEO were determined and deemed appropriate in the context of the company's underlying performance in any given year. This extends to non-cash items such as director and officer insurance, fringe benefits and terms of severance packages if any.

6.5 Share ownership

The company policy concerning ownership of shares by the CEO and other executive officers should be disclosed. This should include how share ownership requirements are to be achieved and for how long they are to be retained. The use of derivatives or other structures that enable the hedging of an individual's exposure to the company's shares should be discouraged.

6.6 Shareholder approval

Shareholders should have an opportunity to vote on the remuneration policies, particularly where significant change to remuneration structures is proposed or where significant numbers of shareholders have opposed a remuneration resolution. In particular, share-based remuneration plans should be subject to shareholder approval before being implemented.

6.7 Employee incentives

Remuneration structures for company employees should reinforce, and not undermine, sustained value creation. Performance-based remuneration for staff should incorporate risk, including measuring risk-adjusted returns, to help ensure that no inappropriate or unintended risks are being incentivised. While a major component of most employee incentive remuneration is likely to be cash-based, these programmes should be designed and implemented in a manner consistent with the company's long-term performance drivers.

6.8 Non-executive director pay

Pay for a non-executive director and/or a non-executive chair should be structured in a way which ensures independence, objectivity, and alignment with investors' interests. Performance-based pay should not be granted to non-executive directors and non-executive chairs.

6.9 Remuneration committee

A remuneration committee should be established and comprised of non-executive directors, the majority of whom are independent. The main role and responsibilities of the remuneration committee should be described in the committee terms of reference. This includes:

a) determining and recommending to the board the remuneration philosophy and policy of the company;

b) designing, implementing, monitoring and evaluating short-term and long-term share-based incentives and other benefits schemes including pension arrangements, for the CEO and other executive officers;

c) ensuring that conflicts of interest among committee members and between the committee and its advisors are identified, disclosed and integrated;

d) appointing any independent remuneration consultant including their selection and terms of engagement and disclosing their identity and consulting fees; and

e) maintaining appropriate communication with shareholders on the subject of remuneration either directly or via the board.

7 Reporting and audit

7.1 Comprehensive disclosure

A balanced and understandable assessment of the company's position and prospects should be presented in the annual report and accounts in order for investors to be able to assess the company's performance, business model, strategy and long-term prospects.

7.2 Materiality

Relevant and material information should be disclosed on a timely basis so as to allow investors to take into account information which assists in identifying risks and sources of wealth creation. Issues material to investors should be set out succinctly in the annual report, or equivalent disclosures, and approved by the board itself.

7.3 Affirmation

The board of directors should affirm that the company's annual report and accounts present a true and fair view of the company's position and prospects. As appropriate, taking into account statutory and regulatory obligations in each jurisdiction, the information provided in the annual report and accounts should:

a) be relevant to investment decisions, enabling investors to evaluate risks, past and present performance, and to draw inferences regarding future performance;

b) enable investors, who put up the risk capital, to fulfil their responsibilities as owners to assess company management and the strategies adopted;

c) be a faithful representation of the events it purports to represent;

d) generally be neutral and report activity in a fair and unbiased way except where there is uncertainty. Prudence should prevail such that assets and income are not overstated and liabilities and expenses are not understated. There should be substance over form. Any off-balance sheet items should be appropriately disclosed;

e) be verifiable so that when a systematic approach and methodology is used the same conclusion is reached;

f) be presented in a way that enables comparisons to be drawn of both the entity's performance over time and against other entities; and

g) recognise the 'matching principle' which requires that expenses are matched with revenues.

7.4 Solvency risk

The board of directors should confirm in the annual report that it has carried out a robust assessment of the state of affairs of the company and any material risks, including to its solvency and liquidity that would threaten its viability. The board should state whether, in its opinion, the company will be able to meet its liabilities as they fall due and continue in operation for the foreseeable future, explaining any supporting assumptions and risks or uncertainties relevant to that and how they are being managed. In particular, disclosure on risk should include a description of:

a) risk in the context of the company's strategy;

b) risk to returns expected by investors with a focus on key consequences;

c) risk oversight approach and processes;

d) how lessons learnt have been applied to improve future outcomes; and

e) the principal risks to the company's business model and the achievement of its strategic objectives, including risks that could threaten its viability.

7.5 Non-financial information

An integrated report that puts historical performance into context should be published and portray the risks, opportunities and prospects for the company in the future, helping investors and stakeholders understand a company's strategic objectives and its progress towards meeting them. Such disclosures should:

a) be linked to the company's business model;

b) be genuinely informative and include forward-looking elements where this will enhance understanding;

c) describe the company's strategy, and associated risks and opportunities, and explain the board's role in assessing and overseeing strategy and the management of risks and opportunities;

d) be accessible and appropriately integrated with other information that enables investors to obtain a picture of the whole company;

e) include environmental, social and governance related information that is material to the company's strategy and performance;

f) use key performance indicators that are linked to strategy and facilitate comparisons;

g) use objective metrics where they apply and evidence-based estimates where they do not; and

h) be strengthened where possible by independent assurance that is carried out annually having regard to established disclosure standards.

7.6 Internal controls

The board of directors should oversee the establishment and maintenance of an effective system of internal control which should be measured against internationally accepted standards of internal audit and tested periodically for its adequacy. Where an internal audit function has not been established, full reasons for this should be disclosed in the annual report, as well as an explanation of how adequate assurance of the effectiveness of the system of internal controls has been obtained.

7.7 Independent external audit

The report from the external auditor should provide an independent and objective opinion whether the accounts give a true and fair view of the financial position and performance of the company. The engagement partner should be named in the audit report and the company should publish its policy on audit firm rotation. If the auditor resigns then the reasons for the resignation should be publicly disclosed by the resigning auditor.

7.8 Non-audit fees

The audit committee should, as far as practicable, approve any non-audit services and related fees provided by the external auditor to ensure that they do not compromise auditor independence. The non-audit fees should be disclosed in the annual report with explanations where appropriate. Non-audit fees should normally be less than the audit fee and, if not, there should be a clear explanation as to why it was necessary for the auditor to provide these services and how the independence and objectivity of the audit was assured.

7.9 Audit committee

The audit committee should be comprised of non-executive directors, the majority of whom are independent. At least one member of the audit committee should have recent and relevant financial experience. The chair of the board should not be the chair of the audit committee, other than in exceptional circumstances which should be explained in the annual report. The main role and responsibilities of the audit committee should be described in the committee's terms of reference. This includes:

a) monitoring the integrity of the accounts and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;

b) maintaining oversight of key accounting policies and accounting judgements which should be in accordance with generally accepted international accounting standards, and disclosing such policies in the notes to the company's accounts;

c) agreeing the minimum scope of the audit as prescribed by applicable law and any further assurance that the company needs. Shareholders (who satisfy a reasonable threshold shareholding) should have the opportunity to expand the scope of the forthcoming audit or discuss the results of the completed audit should they wish to;

d) assuring itself of the quality of the audit carried out by the external auditors and assessing the effectiveness and independence of the auditor each year. This includes overseeing the appointment, reappointment and, if necessary, the removal of the external auditor and the remuneration of the auditor. There should be transparency in advance when the audit is to be tendered so that investors can engage with the company in relation to the process should they so wish;

e) having appropriate dialogue with the external auditor without management present and overseeing the interaction between management and the external auditor, including reviewing the management letter provided by the external auditors and overseeing management's response; and

f) reporting on its work and conclusions in the annual report.

8 General meetings

8.1 Shareholder identification

The company should maintain a record of the registered owners of its shares or those holding voting rights over its shares. Registered shareholders, or their agents, should provide the company (where anonymity rules do not preclude this) with the identity of beneficial owners or holders of voting rights when requested in a timely manner. Shareholders should be able to review this record of registered owners of shares or those holding voting rights over shares.

8.2 Notice

The general meeting agenda should be posted on the company's website at least one month prior to the meeting taking place. The agenda should be clear and properly itemised and include the date and location of the meeting as well as information regarding the issues to be decided at the meeting.

8.3 Vote deadline

A date by which shareholders should cast their voting instructions should be clearly published. The practice of share blocking or requirements for lengthy share holdings should be discontinued.

8.4 Vote mechanisms

Efficient and accessible voting mechanisms should be promoted that allow shareholders to participate in general meetings either in person or remotely (preferably by electronic means or by post) and should not impose unnecessary hurdles.

8.5 Vote disclosure

Equal effect should be given to votes whether cast in person or in absentia and all votes should be properly counted and recorded via ballot. The outcome of the vote, the vote instruction (reported separately for, against or abstain) and voting levels for each resolution should be published promptly after the meeting on the company website. If a board-endorsed resolution has been opposed by a significant proportion of votes, the company should explain subsequently what actions were taken to understand and respond to the concerns that led shareholders to vote against the board's recommendation.

9 Shareholder rights

9.1 Share classes

Sufficient information about the material attributes of all of the company's classes and series of shares should be disclosed on a timely basis. Ordinary or common shares should feature one vote for each share. Divergence from a 'one-share, one-vote' standard which gives certain shareholders power disproportionate to their economic interests should be disclosed and explained. Dual class share structures should be kept under review and should be accompanied by commensurate extra protections for minority shareholders, particularly in the event of a takeover bid.

9.2 Major decisions

Shareholders should have the right to vote on major decisions which may change the nature of the company in which they have invested. Such rights should be clearly described in the company's governing documents and include:

a) amendments to governing documents of the company such as articles or by-laws;

b) company share repurchases (buy-backs);

c) any new share issues. The board should be mindful of dilution of existing shareholders and provide full explanations where pre-emption rights are not offered;

d) shareholder rights plans ('poison pills') or other structures that act as anti-takeover mechanisms. Only non-conflicted shareholders should be entitled to vote on such plans and the vote should be binding. Plans should be time limited and put periodically to shareholders for re-approval;

e) proposals to change the voting rights of different series and classes of shares; and

f) material and extraordinary transactions such as mergers and acquisitions.

9.3 Conflicts of interest

Policies and procedures on conflicts of interest should be established, understood and implemented by directors, management, employees and other relevant parties. If a director has an interest in a matter under consideration by the board, then the director should promptly declare such an interest and be precluded from voting on the subject or exerting influence.

9.4 Related party transactions

The process for reviewing and monitoring related party transactions should be disclosed. For significant transactions, a committee of independent directors should be established to vet and approve the transaction. This can be a separate committee or an existing committee comprised of independent directors, for example the audit committee. The committee should review significant related party transactions to determine whether they are in the best interests of the company and, if so, to determine what terms are fair and reasonable. The conclusion of committee deliberations on significant related party transactions should be disclosed in the company's annual report to shareholders.

9.5 Shareholder approval

Shareholders should have the right to approve significant related party transactions and this should be based on the approval of a majority of disinterested shareholders. The board should submit the transaction for shareholder approval and disclose (both before concluding the transaction and in the company's annual report):

a) the identity of the ultimate beneficiaries including, any controlling owner and any party affiliated with the controlling owner with any direct/indirect ownership interest in the company;

b) other businesses in which the controlling shareholder has a significant interest; and

c) shareholder agreements (e.g. commitments to related party payments such as licence fees, service agreements and loans).

9.6 Shareholder questions

There should be a reasonable opportunity for the shareholders as a whole at a general meeting to ask questions about or make comments on the management of the company, and to ask the external auditor questions related to the audit.

9.7 Shareholder resolutions

Shareholders should have the right to place items on the agenda of general meetings, and to propose resolutions subject to reasonable limitations. Shareholders should be enabled to work together to make such a proposal.

9.8 Shareholder meetings

Shareholders, of a specified portion of its outstanding shares or a specified number of shareholders, should have the right to call a meeting of shareholders for the purpose of transacting the legitimate business of the company.

9.9 Thresholds

Any threshold associated with shareholder resolutions, shareholder proposals or other such participation, should balance the need to ensure the matter under consideration is likely to be of importance to all shareholders and not only a small minority.

9.10 Equality and redress

Shareholders of the same series or class should be treated equally and afforded protection against abusive or oppressive conduct by the company or its management, including market manipulation, false or misleading information, material omissions and insider trading. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Proper remedies and procedural rules should be put in place to make the protection effective and affordable. Where national legal remedies are not afforded the board is encouraged to ensure that sufficient shareholder protections are provided in the company's bylaws.

Section B: Institutional Investors

10 Responsibilities

10.1 Duties

Institutional investors, both asset owners and asset managers, should focus on delivering value by promoting and safeguarding the interests of beneficiaries or clients over an appropriate time-horizon. This is often expressed as a fiduciary duty, requiring prudence, care and loyalty on the part of all agents which are subject to such obligations.

10.2 Asset owners should actively consider which of their agents should be subject to the strictures of fiduciary duty and if such requirements are not applied what lower standards of behaviour are appropriate. Asset owners cannot delegate their underlying fiduciary duties. Even when they employ agents to act on their behalf, asset owners need to ensure through contracts or by other means that the responsibilities of ownership are appropriately and fully delivered in their interests and on their behalf by those agents, who are to be held to account for doing so.

10.3 While different agents in the investment chain play different roles, each should focus on the needs of its beneficiaries or clients such that it is always seeking to deliver value over their required time-horizon. Benchmarks for measuring success should be tailored to the needs and risk exposures of beneficiaries or clients, with reporting designed to provide them with an understanding of success toward meeting those needs and managing related risks, in addition (as relevant) to providing applicable market-relative performance metrics.

10.4 Responsibilities

Asset owners should fully align the interests of their fund managers with their own obligations to beneficiaries by setting out their expectations in fund management contracts (or similar instruments) to ensure that the responsibilities of ownership are appropriately and fully delivered in their interests. This should include:

a) ensuring that the timescales over which investment risk and opportunity are considered match those of the client;

b) setting out an appropriate internal risk management approach so that material risks are managed effectively;

c) effectively integrating relevant environmental, social and governance factors into investment decision-making and ongoing management;

d) aligning interests effectively through appropriate fees and pay structures;

e) where engagement is delegated to the fund manager, ensuring adherence to the highest standards of stewardship recognising a spectrum of acceptable stewardship approaches;

f) ensuring commission processes and payments reward relevant and high quality research;

g) ensuring that portfolio turnover is appropriate, in line with expectations and managed effectively; and

h) providing appropriate transparency such that clients can gain confidence about all these issues.

10.5 Reporting

Institutional investors should adopt and disclose clearly stated, understandable and consistent policies to guide their approaches to stewardship and voting. Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution. Fund managers and other agents should seek a clear set of objectives and expectations from their clients and beneficiaries, in particular with regard to their investment time-horizon.

10.6 Public policy

Institutional investors should engage as appropriate in the development of relevant public policy and good practice standards and be willing to encourage change where this is deemed helpful by beneficiaries or clients to the delivery of value over appropriate time horizons.

11 Leadership and independence

11.1 Oversight

Institutional investors should be overseen by boards or other governance structures that act independently and without bias, advancing beneficiary or client interests as their primary obligation. Governing bodies, and where relevant, individuals in a fiduciary position of responsibility for ultimate investors, such as pension fund trustees and representative boards, should be aware of their primary oversight role.

11.2 Constitution

All decisions should be taken in the interests of the beneficiaries or clients. The governing bodies of investment institutions should therefore have a structure and constitution that reflects this and should be disclosed to beneficiaries and clients, together with explanations as to how such arrangements address alignment with beneficiary interests. They should have mechanisms in place to solicit and receive ongoing feedback from beneficiaries and respond to their concerns.

11.3 Review

Institutional investors should also make use of regular independent reviews of their internal governance structures, and respond to recommendations arising from them, to ensure that they meet expectations of accountability.

11.4 Time horizons

Governing bodies should clearly understand the objectives of their beneficiaries or clients, communicate such objectives to fund managers and other agents employed, and ensure they are being met. They should oversee the management of risk and the work of all their agents such that they deliver fully in the interests of the beneficiaries or clients over appropriate time-horizons. In considering what time-horizons are appropriate, institutional investors will need to consider the best interests of their clients and beneficiaries, and any issues of intergenerational fairness between them as well as where the ultimate risk-bearing lies. They should make clear which, if any, public or regulatory authorities have responsibility to monitor and enforce their fiduciary functioning.

11.5 Appointments

The way in which individuals are appointed to serve on the governing body should be disclosed to beneficiaries as well as the criteria that are applied to such appointments. Such criteria should always take account of the need for expertise and understanding of the matters for which the governing body is responsible. Governing bodies, particularly of institutional investors where the beneficiaries or clients face the underlying investment risk, should also include representatives of those beneficiaries or clients to build confidence in the collegiality of interests between them. They should reflect the diversity of interests of those whom they represent.

12 Capacity

12.1 Experience

Institutional investors should be led by governing bodies and staff with the appropriate capacity and experience to oversee effectively and manage all relevant activities in the interests of beneficiaries or clients. Decision-makers along all parts of the investment chain should be appropriately resourced and meet relevant standards of experience and skill in matters subject to deliberation. All should have appropriate training and induction processes made available to them, and should be able to allocate sufficient time both to that training and induction and to ongoing decision-making.

12.2 Advice

Governing bodies should have the right to outside advice, independent from any received by the sponsoring body; they need to have the capacity critically and prudently to evaluate any advice received and to take appropriate decisions themselves, not simply defer to that advice. Fund managers and others in a similar agency position should deploy sufficient, qualified resources to deliver properly on clients' expectations. Institutional investors should be able to justify to beneficiaries or clients specific actions taken on their behalf whether by themselves or by their agents. Institutional investors remain accountable for the delivery of actions even where they have delegated the day-to-day responsibility for carrying them out.

12.3 Collaboration

Where an investment institution is not of sufficient scale to have governance structures or internal resources to deliver effective oversight on behalf of beneficiaries or clients, it should consider ways to consolidate, collaborate or build scale such that it is capable of this necessary oversight. This may require dialogue with policymakers and government authorities to facilitate such developments.

13 Conflicts of interest

13.1 Policies

Institutional investors should have robust policies to clarify, minimise and help manage conflicts of interest to help ensure that they maintain focus on advancing beneficiary or client interests. In particular, policies should address how matters are handled when the interests of clients or beneficiaries diverge from each other. Any conflict should be promptly disclosed to those to whom the party is immediately accountable in the investment chain.

13.2 Compliance

Institutional investors should have effective programmes for dealing with compliance matters and should also consider their obligations to beneficiaries or clients in terms of broader ethical considerations. For example, they should manage appropriately and effectively the risks of bribery and corruption, money laundering and other like risks. They should have effective policies to deal with inside information, avoid market manipulation, and foster transparency and fairness in share trade execution and reporting.

14 Remuneration

14.1 Alignment

Institutional 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, and communicate this to beneficiaries or clients. In large part this will require the structure for fees paid to parties in the investment chain to be more associated with the long-term perspectives which will generate returns over the time-horizon that beneficiaries or clients are seeking. Collective investment vehicles may also seek transparency of the remuneration structures for individuals within the agents that they hire, in particular to gain assurance that these provide appropriate incentives to those individuals. In particular, they may wish to assure themselves that pay structures for individuals do not inappropriately incentivize risk-taking behaviours.

14.2 Performance

Consideration should be given to including a long-term performance incentive that reflects long-term investment results or is in the form of an interest in the fund that extends through the period of responsibility for the investments. Good practice is for institutional investors to 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. Asset owners may wish to ensure that remuneration frameworks do not unduly constrain their ability to attract and retain well-qualified personnel.

14.3 Culture

Remuneration plays a crucial role in establishing and maintaining an appropriate culture or 'investment behaviour' within an organisation. As such, institutional investors should consider whether pay is adequately aligned with performance, whether there is an appropriate balance between base pay and incentives, and whether the period over which performance is measured is both short term and longer term. Having greater proportions of variable rewards deferred for longer periods of time and subject to performance adjustment mechanisms such as claw-back structures, particularly if the deferred awards are invested alongside beneficiaries or clients, is likely to help instil the right mind-set and culture. These measures are an appropriate context for the delivery of value over time for beneficiaries and clients.

15 Monitoring

15.1 Monitoring approach

Institutional investors should regularly monitor investee companies in order to assess their individual circumstances, performance and long-term potential, and to consider whether there is value in intervening to encourage change. Investors should be clear what standards they are applying, and how they monitor investee companies. Monitoring should include:

a) maintaining awareness of the company's ongoing performance, as well as developments within and external to the company that might affect its value and the risks it faces;

b) all relevant factors including the company's approach to environmental and social matters;

c) assessing the effectiveness of the company's governance and leadership;

d) considering the quality of the company's reporting;

e) attending relevant meetings with senior company officers and board directors when appropriate; and

f) where practicable, attendance at general meetings.

15.2 Company dialogue

Institutional investors should seek to identify, as early as possible, any problems that may put significant investment value at risk. If they have concerns they should seek to ensure that the appropriate members of the investee company's board or management are made aware of them as soon as possible.

15.3 Institutional investors should carefully consider explanations given for any departure from relevant corporate governance codes and make reasoned judgements in each case. Where this could lead to a negative vote or an abstention at a general meeting, the investee company's board should, at least in respect of significant holdings, be contacted to discuss the issue and, if it remains unresolved, notified in writing of the reasons for the decision.

15.4 Review

Institutional investors should periodically measure and review the effectiveness of their monitoring and ownership activities and communicate the results to their clients or beneficiaries. Asset owners should monitor the activities and effectiveness of their fund managers and other agents, holding them to account for delivery of value over time according to relevant mandates.

16 Engagement

16.1 Proactive engagement

Institutional investors should engage proactively as appropriate with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients. This is particularly constructive in advance of general meetings, to identify agreeable positions and enhance understanding around company strategy, financial performance, risk to long term performance, governance, operations and with respect to social and environmental matters.

16.2 Market abuse

Institutional investors should respect market abuse rules and not seek trading advantage through possession of price-sensitive information when engaging with companies. Where appropriate and feasible, investors should consider formally becoming insiders in order to support a process of longer term change, and the intention whether or not to become insiders should be made clear at the outset of the engagement. Companies should ensure that all sensitive information and decisions resulting from engagement are made public for the benefit of all investors at the appropriate time.

16.3 Engagement approach

Institutional investors should have a clear approach to engagement which should be communicated to companies as part of an engagement policy. The spectrum of engagement activities may vary, for example 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. In situations where dialogue is not producing the desired result, additional engagement steps that may be taken by investors include:

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 of exit from the investment as a last resort.

16.4 Collective engagement

Institutional investors should act collectively as appropriate when engaging with investee companies where this would assist in advancing beneficiary or client interest, taking account of relevant law and regulation. Institutional investors should disclose their policy on collective engagement. Concert party rules and/or takeover regulations should not prevent investors from sharing perspectives about companies in which they have mutual interests and/or concerns.

17 Voting

17.1 Informed voting

Institutional investors should seek to vote shares held and make informed and independent voting decisions at investee companies, applying due care, diligence and judgement. They should have a clear policy on voting made available to investee companies and beneficiaries or clients.

17.2 Proxy voting

Institutional investors should disclose the extent to which they use proxy research and voting services, including the identity of the service provider and the degree to which any recommendations are followed. Investors should clearly specify how they wish votes to be cast, noting that they cannot delegate their ownership responsibilities, and should ensure that votes cast by intermediaries are carried out in a manner consistent with their own voting policies.

17.3 Vote decisions

Institutional investors should seek to reach a clear decision either for or against each resolution or, in specific cases, may wish to abstain. Voting decisions and the rationale taken should be made publicly available in due course and, where a vote is contrary to the company board’s recommended position, should be communicated to the company. Where an institutional investor chooses not to vote in specific circumstances, or in particular markets or where holdings are below a certain scale threshold, this should be disclosed to clients or beneficiaries in a clear policy.

17.4 Voting records

Institutional investors should regularly disclose (e.g. quarterly or annually) a summary of their voting activity on a website or other appropriate means and, where possible, their full voting records. Voting records should include an indication of whether the votes on company resolutions were cast for, against or withheld.

17.5 Stock lending

Institutional investors should disclose their approach to stock lending and voting in a clear policy which should clarify the types of circumstances when shares would be recalled to vote. The policy should be communicated to relevant agents in the chain of the vote execution, and, in respect of shares out on loan, to the agent lender.

17.6 Institutional investors should recognise that if shares are lent out, they temporarily lose their voting rights for the duration of the loan because they are no longer the legal owner of those shares (unless contractual arrangements to the contrary are made). In order for the votes to be cast, lent stock must be recalled before the record date declared by the company. In order to preserve the integrity of the shareholders' meeting it is important that the shares never be borrowed or received as collateral for the primary purpose of voting them.

17.7 The results of stock lending should be transparent to the beneficial owners of shares. The portion of the return from a position due to lending activity should be made known in the regular reports. Similarly, the percentage and number of shares of a given security which were not voted due to stock lending should also be reported to beneficiaries.

Annex 1: ICGN Guidance

- Anti-corruption Practices
- Corporate Risk Oversight
- Executive Remuneration
- Gender Diversity on Boards
- Integrated Business Reporting
- Institutional Investor Responsibilities
- Model Contract Terms Between Asset Owners and Managers
- Non-executive Director Remuneration
- Political Lobbying and Donations
- Securities Lending Code of Best Practice
- What investors want from financial reporting

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