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International Corporate Governance Network

ICGN Global Stewardship Principles

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ICGN Global Stewardship Principles

Preamble

The ICGN Global Stewardship Principles (Principles) set out ICGN's view of current 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. We encourage all ICGN investor members to endorse the Principles, and we consider them to be relevant to other investors as well.

The purpose of stewardship

The term "stewardship" does not always translate readily into some languages, so it is important to clarify what is meant by stewardship and how this is relevant to institutional investors. In general terms stewardship can be defined 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 the 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 investor 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 and the consideration of relevant systemic risks as core components of fiduciary duty.

In a broader context, stewardship enhances overall financial market stability and economic growth, and, by focusing on long-term value creation, stewardship is directly linked to sustainable benefits for the economy, environment, and society.

ICGN's Global Stewardship Principles and policy initiatives

One of ICGN's core policy priorities focuses on making successful stewardship a reality. This is both an aspirational goal and a journey. But it is a journey that many in the investment community have embarked upon, and progress is being made, even if not all investors are at the same stage along this journey.

Investor stewardship principles and practices are being adopted in many markets around the world, as the development of stewardship codes for investors complements the similar development of codes of corporate governance that have been established for companies. All global stewardship codes are publicly accessible on the ICGN website.

Stewardship is also increasingly supported by governmental or regulatory authorities seeking to promote sustainable capital markets and responsible investor practices. Examples include the Shareholder Rights Directive in the European Union and regulatory initiatives to introduce stewardship codes at a national level, noting around a dozen codes exist in different markets around the world as noted in Annex 2.

This is the context in which ICGN is publishing its updated Principles. The Principles were first published in 2016, but ICGN's commitment and policy work on stewardship dates back to its 2003 Statement on Institutional Shareholder Responsibilities, the predecessor to the current Principles. The Principles draw from ICGN's policy work in stewardship and responsible investment practice over the last 25 years. This latest version adds new principles and guidance in keeping with changes in market practice and regulation. The Principles have been developed following a peer review and consultation with ICGN Members, and we would like to thank all those who contributed.

The ICGN Principles serve as a benchmark of international reference for both investors and companies on what stewardship entails and how to implement it in practical terms. By providing a framework for investors to use when periodically reviewing and refreshing their in-house stewardship policies they enable investors with international portfolios to apply stewardship standards efficiently in a global context. This is particularly useful when investing in markets without stewardship codes or in multiple markets with differing codes.

The ICGN Principles can also serve as a global point of reference for regulators and standard setters seeking to establish their own stewardship codes by providing a model framework which has been developed from international experience and that can be adapted to the individual situations of countries or regions. The Principles can be a useful source of latest innovation and good practice, both for stewardship codes under formation and as existing codes come up for periodic review.

The recommendations set out in the Principles are intended to apply, with appropriate flexibility, to all investment styles and approaches. The Principles offer a basic framework of key stewardship responsibilities and are capable of being applied in either developed or emerging markets. They can also be applied to other asset classes in addition to listed equity, such as fixed income investment. However certain provisions of the Principles may not have the same relevance for all asset classes.

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 stewardship approach. Monitoring of the asset owner's adherence to the Principles should in turn be led by the asset owner's board or trustees 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 roles of the asset manager and asset owner are focused upon in greater detail in Part 3 of the Principles on the ecosystem of stewardship.

The seven high-level principles that comprise the ICGN Principles are summarised in Part One. For each of the 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 Principles are supplemented by ICGN Guidance and Viewpoints on a range of governance and stewardship issues. All ICGN Principles and Guidance are publicly available on the ICGN website.

Main changes from the 2016 Principles

While ICGN believes the Principles remain robust and fit for purpose, we have made specific changes or additions to reflect changes in market practice and regulation. The main changes include:

- More emphasis on fiduciary duty, culture, and values by institutional investors. Good stewardship requires not only policies and processes, but it is essential that investors embrace its underlying principles and adapt these within their organisations.
- An explicit link between fiduciary duty and long-term value creation, which is in turn directly linked to sustainable benefits for the economy, environment, and society. Particularly for investors whose beneficiaries are pensioners and individuals saving for retirement, a long-term perspective is fundamental to stewardship. In turn, sustainable value creation for long-term savers is a social good with broad social and economic benefits.
- The use of ESG factors in investment decision making, as well as stewardship. ESG factors are clearly linked to long-term company performance and should be considered not only in the context of engagement and voting, but also in investment decisions relating to valuation and the buying or selling of financial assets.
- Greater focus on systemic risks relevant to institutional investors. It is important for investors to recognise that systemic risks, including those relating to climate change, wealth inequality and anti-corruption, can affect the sustainable value creation of individual companies as well as the health of economies and financial markets.
- More emphasis on the application of stewardship to asset classes beyond listed equities. Institutional investors invest in a wide range of assets on behalf of their beneficiaries. While listed equities are a logical starting point, reflecting investor ownership rights, the broad principles of stewardship are relevant to other classes, including corporate and public sector debt, private equity, real estate, and infrastructure.
- Identifying capital allocation as an important topic for engagement for both creditors and shareholders. Sustainable companies must recognise and respect the different requirements of both providers of corporate capital. Creditors generally seek a stable and predictable credit risk profile and shareholders have a focus on upside potential and risk adjusted returns on capital.
- Protecting voting rights against dual class shares and other forms of differential ownership which have the practical effect of marginalising stewardship and the accountability of companies to minority shareholders by diluting their voting rights. This stands in sharp contrast to the ambition of stewardship to empower shareholders, through voting and engaging, to exercise their voice in direct proportion to their economic stake in a company.
- Encouraging investors to disclose more information about stewardship activities and outcomes. Stewardship has the greatest meaning when it is directly relates to practical outcomes, and not just a policy framework. Beneficiaries should have a clear understanding as to how stewardship provides meaningful benefits.

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Part 1: ICGN Global Stewardship Principles

Principle 1:

Internal governance: the foundation of effective stewardship

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.

Principle 2:

Developing and implementing stewardship policies

Investors should develop and implement stewardship policies which outline the scope of their responsible investment practices.

Principle 3:

Monitoring and assessing investee companies

Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

Principle 4:

Engaging companies and investor collaboration

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 enhance engagement outcomes.

Principle 5:

Exercising and protecting voting rights

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.

Principle 6:

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

Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in investment decision-making and stewardship activities.

Principle 7:

Meaningful transparency, disclosure and reporting

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 to the ICGN Global Stewardship Principles

1. Internal governance: the foundation of effective stewardship

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

1.1 Fiduciary duty

Investors' governance should be driven by their primary fiduciary duty to preserve and enhance value which is aligned in the interest of beneficiaries and clients. Fiduciary responsibility extends beyond the traditional duties of care and loyalty to include considerations of timeframe and systemic risks.

1.2 Leadership from the top

The purpose of stewardship as a fundamental aspect of an investor's fiduciary duty should be fully understood and promoted by the chief executive officer and chief investment officer as a prerequisite of professional investment practices.

1.3 Independent oversight

Investors should be overseen by boards or other 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. Independent decision making is more readily achieved if the structure of the governing body includes representation from a variety of relevant interests.

For asset owners, it is not desirable that the plan sponsor or employer dominate the governing body. Where this is the case, consideration should be given to the representation of individuals accountable to beneficiaries.

1.4 Governance effectiveness and independent review

Investor governance structures should be consistent with good corporate governance practice and subject to periodic independent review as. Investors' own boards should conduct regular evaluations, including 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.

1.5 Ethics and conduct

Investors should be guided by a strong culture that reflects the investor's values and supports its fiduciary duty to its clients and beneficiaries. Investors should have in place a code of ethics or conduct to mandate adherence to these values and duties. The investor's board or trustees are ultimately accountable for the investor's stewardship activities, and they should provide the proper tone and ensure that a framework is in place for the effective execution of stewardship duties.

1.6 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 and clients.

1.7 Investment chain

Investors should consider their position in the chain of responsibility for stewardship matters and be prepared to work with and 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.

1.8 Conflicts of interest

Investors should have robust policies to minimise or avoid conflicts of interest, covering identification, assessment, escalation, mitigation, and disclosure of real or potential conflicts of interest. These policies should address how matters are handled when interests with clients or beneficiaries diverge and make it clear that the interest of the client or beneficiary should be prioritised. Policies should identify specific cases where conflicts might arise. Investors should rigorously review their investment activities and their client interests to identify and appropriately manage real or potential conflicts of interest. Such conflicts of interest should be disclosed, along with the remedies to mitigate them.

1.9 Compliance

Comprehensive compliance capabilities should help in minimizing conflicts and ensuring that investors have effective policies to deal with issues including insider information and market manipulation.

1.10 Appropriate remuneration

Investors should set fee and remuneration structures that provide appropriate alignment with the interests of beneficiaries or clients over relevant time horizons. Investors should disclose to their beneficiaries or clients how their remuneration structures and performance horizons for individual staff members advance such alignment.

2. Developing and implementing stewardship policies

Principle 2: Investors should develop and implement 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 the ICGN Global Stewardship Principles and relevant national stewardship code requirements (if one exists). The policies should reflect the objectives and timeframes of their clients and beneficiaries.

2.2 Time horizons for delivering value

While specific investment strategies can have differing time horizons, the practice of investor stewardship and engagement with companies should focus primarily on promoting long-term company success and sustainable value creation. Investor disclosures should address how investment strategies link to investment mandates and contributes to medium or long-term sustainable value creation.

2.3 Scope

Stewardship policies should disclose the scope of the assets and activities they cover, as they may relate to differing investment strategies and geographies. Particularly for investors with holdings in both corporate equities and debt it is important that the perspective of both shareholders and creditors, as providers of corporate capital, is reflected in stewardship activities. Investors should aim to apply the Principles to asset classes beyond listed equities and corporate debt and explain whether and how the investor approaches engagement in those asset classes.

2.4 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 clients or beneficiaries.

2.5 Delegation

Asset owners are accountable to their beneficiaries to fulfil their fiduciary responsibilities with regard to stewardship. 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.

With appropriate executive and board oversight, investors can delegate certain stewardship activities to stewardship specialists (which can be third parties) to guide governance policies and voting. In such cases investors should clearly set out their expectations when delegating stewardship activities to third parties along the investment chain and oversee and monitor how these activities are carried out.

2.6 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.¹

2.7 Stewardship oversight by asset owners

Asset owners should effectively oversee and monitor asset manager stewardship activities and their consistency with the asset owner's own investment beliefs, policies, and guidelines. Both in new asset manager selection and in the ongoing monitoring of existing asset managers, 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.

¹ ICGN's Model Mandate (2015) provides examples of contract language that can be used in investment management agreements to hardwire stewardship into the investment services provided: http://icgn.flpbks.com/icgn_model-contract-terms_2015/#p=1

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, financial performance and long-term potential. Company monitoring should be integrated with the investor's engagement programme, particularly to help identify situations where there is a risk of loss of value or an opportunity to add significant long-term value through engagement. Where monitoring is outsourced, there should be periodic assessment of quality and performance.

3.2 Risk analysis

Investors should develop methods or risk-based tools to identify and prioritise portfolio companies for further analysis and engagement which should include ESG issues. For example, risk model dashboards which combine ESG and financial information can be important for investors with passively run portfolios, where the number of companies held may be large.

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:

- 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;
- b) the company's approach to environmental and social matters that may influence a company's sustainable long-term success, for example, as described in the UN Sustainable Development Goals.
- c) the effectiveness of the company's governance and leadership; and
- d) the quality of the company's reporting.

3.4 Corporate governance

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

3.5 Periodic review

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

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 enhance engagement outcomes.

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 and stewardship policies. 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. The effectiveness of the engagement approach should be reviewed periodically.

4.2 Engagement policies

Investors should establish clear policies defining the purpose and approach to the engagement process, how engagement is prioritised and how it will be escalated in the event concerns are unresolved.

These policies should be communicated to companies as part of a framework for company dialogue. Engagement should be conducted in a constructive spirit to promote company success and seek to address investor questions or concerns. It should be evidence based and focused on clear outcomes.

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, directly, in writing 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) formally adding the company to an exclusion list or otherwise exiting or threatening to exit from the investment.

4.4 Integrated approach

In cases where investors have both stewardship and portfolio management teams, these teams should be fully aligned to ensure consistent messages are relayed to companies. When both equity and debt is held in a company, investors from both equity and fixed income teams should participate in the engagement in areas of shared concern. Investors should seek to engage not only with company executive management, but also with board directors. In the case of controlled companies, investor engagement should extend to meeting with controlling shareholders, to explore where their interests may be aligned or at odds.

4.5 Capital Allocation

Creditors and shareholders should communicate their preferences as regards capital allocation to company management. Effective engagement by creditors and shareholders must reflect the understanding that a sustainable company must satisfy the basic and legitimate requirements of its capital providers.

4.6 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.

4.7 Public policy

Where relevant, investors should engage with policy makers on issues that affect responsible investment and corporate governance. Participating in organizations like ICGN and national investor membership organisations can be useful to help promote public policy changes and protect shareholder rights, as well as wider systemic integrity.

5. Exercising and protecting 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.

5.1 Voting policies

Investors should publicly disclose clear voting policies which should be reviewed periodically. The voting policy should outline the principles guiding voting decisions, highlight scope for derogation in specific cases and make clear any differences in approach between domestic and international holdings. 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 Voting process

Investors should disclose the process by which voting decisions are reached, including how potential conflicts of interest are addressed and how due diligence is undertaken. Disclosure should clarify who is responsible for the vote decision, including if this differs depending on the nature of the resolution, geography, or scale of holdings.

5.3 Decision-making

Investors should be prepared to abstain or vote against management resolutions if such resolutions are regarded as inconsistent with the investor's stewardship and corporate governance policies. In doing so, investors should seek to explain to companies the reasons underlying their voting decisions, preferably before the shareholders' meeting. Investors should also clarify the circumstances in which physical attendance at shareholder meetings is appropriate.

5.4 Voting records

Investors should regularly disclose their actual voting records (by individual resolution as well as by aggregate) publicly on their website as well as directly to clients ideally with limited delay from the date of the vote itself. Where investors vote against resolutions or abstain, the reason should be given.

5.5 Vote confirmation

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

5.6 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.

5.7 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 voting 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.

5.8 Protecting voting rights

Investors should be prepared to challenge companies with dual class or unequal share structures which have the effect of diluting their voting rights. They should also engage with policy makers to ensure the rights of minority shareholders are protected.

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 investment decision-making and stewardship activities.

6.1 Time horizon

Investors should understand the objectives and timeframes of their clients and beneficiaries and should promote a company's long-term success over short-term considerations.

6.2 Awareness

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 their 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 (for example climate risk, pandemics, human rights and anti-corruption) over short term value.

6.4 ESG integration

Investors should consider ways to analyse, monitor, assess and integrate ESG related risks and opportunities into investment processes across asset classes, aligning with and empowering better-informed investment decision-making, voting and engagement practices.

6.5 Integrated reporting

Investors should encourage integrated reporting, use of standardised metrics and independent verification of ESG data by companies to link ESG and other qualitative factors more clearly with company strategy and operations, and ultimately long-term value creation. Investors should engage with companies when necessary to ensure the company's material ESG disclosures are sufficient to allow investors to gain an appropriate understanding of its material sustainability-related risks.

7. Meaningful transparency, disclosure, and reporting

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) and publicly endorsing the ICGN Global Stewardship Principles.

7.2 Meaningful disclosure and outcomes

Investors should publicly disclose their stewardship policies on their websites and, in a ‘comply or explain’ context, should provide meaningful explanations regarding aspects of the stewardship code that the investor does not comply with. Investors should report on the stewardship activities they have undertaken on behalf of clients and beneficiaries, providing information on outcomes as well as inputs and examples of engagement successes (and failures).

7.3 Periodic review

Investors should annually review their public disclosure regarding stewardship and update their policies if necessary, while having regard to any changes to regulation, national stewardship codes, as well as other relevant guidance such as these Stewardship Principles. Investors should seek feedback from clients and beneficiaries on how useful they find the disclosures.

7.4 Maintaining records

Investors should maintain records of meetings, voting and engagement to document summaries of stewardship activities to support reporting on stewardship for the benefit of their beneficiaries and clients.

7.5 Accountability

Investors should disclose to their beneficiaries or clients their internal governance arrangements in order to be held effectively accountable for exercising stewardship duties on their behalf. This should include an overview of how stewardship is managed and governed, an explanation of what external assurance of stewardship activities is carried out (if any), and details of the process by which beneficiaries or clients can raise any concerns.

7.6 Client reporting

Investors should provide regular and appropriate reports to clients and beneficiaries, 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.

Part 3: The 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 as well as positive environmental and social outcomes.

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

Asset Owners invest capital to preserve and enhance the value of beneficiaries’ assets. They set investment beliefs, allocate assets, award mandates, develop and disclose investment strategies, and monitor and measure performance of asset managers who they incentivise to act on their behalf. 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 includes 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.

Creditors

Stewardship should 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. Creditor engagement can be particularly relevant in the due diligence process leading to new bond issues (or the refinancing of outstanding debt); they can influence company governance by establishing covenants in indenture agreements to protect their creditor rights.

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.²

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 (including non-executive directors) to meet with key investors to build understanding and dialogue about governance matters. For listed companies

² See ICGN Viewpoint: "What is the role of the creditor in corporate governance and investor stewardship?", September 2019: <https://www.icgn.org/what-role-creditor-corporate-governance-and-investor-stewardship>

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 can play an important role in championing stewardship in individual markets and should seek to support the ability of investors to exercise stewardship, for example, by providing effective rights for minority shareholders and facilitating collective engagement on ESG matters. Regulators wishing to promote the concept of stewardship in any market have a primary role in developing, publishing, and requiring reporting against a national stewardship code. The ICGN Global Stewardship Principles offer an internationally recognised framework for regulators to support and guide the development and ongoing revisions of national codes.

Investment consultants / advisors/ service providers

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 preconditions 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 effectively 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.

A stewardship code can play a critical role in providing a market-based system for investors to hold companies to account for their corporate governance practices. The risk of an overly prescriptive approach to a stewardship code would be to encourage a counterproductive “tick box” compliance mentality of 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.

Effective stewardship within a “comply or explain” context

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.

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. Collaborative engagement together with other investors sharing similar views can be both an efficient and an effective way for investors to engage with companies on key issues. Without the active monitoring of explanations by investors, a “comply or explain” system would lack an ultimate means of enforcement or influence.

Annex 1: Acknowledgements

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 2: Global Stewardship Codes

- International Corporate Governance Network: Global Stewardship Principles, 2020
- International Corporate Governance Network: Statement of Principles for Institutional Investor Responsibilities, 2004
- International Corporate Governance Network: Model Contract Terms Between Asset Owners and Their Managers, 2012
- Australia: Australian Asset Owner Stewardship Code, 2018
- Brazil: AMEC Stewardship Code, 2016
- Canada: Stewardship Principles, Canadian Coalition for Good Governance, 2010
- Denmark: Denmark Stewardship Code, Committee on Corporate Governance, 2016
- European Union: EFAMA Stewardship Code, European Fund and Asset Management Association, 2018
- Germany: German Stewardship Guidelines, DVFA, 2020
- Hong Kong: Principles of Responsible Ownership, Hong Kong Securities and Exchange Commission, 2015
- India: Indian Stewardship Code, Securities and Exchange Board of India, 2019
- Italy: Italian Stewardship Principles, Assogestioni, 2013
- Japan: Japan's Stewardship Code, The Council of Experts on the Stewardship Code, Financial Services Agency, 2020
- Kenya: Stewardship Code for Institutional Investors, Capital Markets Authority, 2017
- Malaysia: Malaysian Code for Institutional Investors, Minority Shareholders Watchdog Group, 2014
- Netherlands: Dutch Stewardship Code, Eumedion, 2018
- Singapore: Singapore Stewardship Principles, Stewardship Asia 2016
- South Africa: Code for Responsible Investing, Institute of Directors of Southern Africa, 2011
- South Korea: Korea Stewardship Code, Korea Stewardship Code Council, 2016
- Switzerland: Guidelines for institutional investors, governing the exercising of participation rights in public limited companies, Ethos Foundation, 2013
- Taiwan: Stewardship Principles for Institutional Investors, Taiwan Stock Exchange, 2016
- United Kingdom: The UK Stewardship Code, Financial Reporting Council, 2019
- United States: US Stewardship Framework for Institutional Investors, The Investor Stewardship Group, 2018

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