参考資料３

ICGN Member Consultation
Revisions to ICGN Global Stewardship Principles

Invitation to Comment

We welcome comments on the proposed revisions to ICGN's Global Stewardship Principles (Principles). The Principles were published in 2016, replacing the *ICGN Statement of Principles for Institutional Investor Responsibilities (2013),* which originally date back to 2003, and which were further revised in 2007.

The Principles align with ICGN's policy priority of making successful stewardship a reality and represent one of ICGN's core primary policy statements. The Principles have served as a resource to support the development of stewardship codes in many markets around the world, and they have also been endorsed by a significant number of ICGN's investor members.

Distinguishing aspects of the Principles are maintained in this latest version, including our focus on the investor's own governance arrangements as the first principle of stewardship. Also, the Principles provide a clear focus on the ecosystem of stewardship, including the distinct roles of asset owners, asset managers and companies.

The original Principles identify the integration of environmental, social and governance (ESG) factors as a core component of stewardship. They also establish that stewardship can extend to asset classes beyond equities and address the role of the creditor in the ecosystem of stewardship.

While we believe the Principles remain robust and fit for purpose, this review is intended to identify possible changes or improvements to keep the Principles fresh and relevant for ICGN members and other users.

Among the various changes to the Principles, some of the key features include:

- Greater emphasis on fiduciary duty, culture and values by institutional investors
- More focus on systemic risks relevant to institutional investors
- Capital allocation as a topic for engagement for both creditors and shareholders
- Protecting voting rights: against dual class shares and other forms of differential ownership
- Stewardship reporting-- focus on stewardship outcomes versus inputs
- Use of ESG factors in investment decision making, as well as stewardship

All comments from members will be reviewed and taken into consideration for inclusion in the revised draft to be submitted for member approval at the next ICGN Annual General Meeting taking place in Toronto, Canada on 9 June 2020. All member responses will be made publicly available on the ICGN website unless you inform us not to make your comments public.

Please send your response to Garvin Payne by email: garvin.payne@icgn.org by Friday 22nd November 2019.

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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.

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 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.

ICGN's Global Stewardship Principles and policy initiatives

Investor stewardship principles and practices are being adopted 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. Stewardship is increasingly supported by governmental or regulatory authorities seeking to promote sustainable capital markets and responsible investor practices. For example, the recently enacted Shareholder Rights Directive (SRD II) in the European Union is aimed at promoting transparency and engagement between asset owners and their managers through disclosure of investment strategies and engagement policies. Asset owners must disclose how their investment strategy is consistent with the profile and duration of their liabilities, including how they incentivise asset managers and how they make investment decisions based on financial and non-financial performance. Asset managers must report to their clients on how they have fulfilled these requirements.

A cornerstone of ICGN's policy programme relates to investor responsibilities and making effective stewardship a reality and ICGN's Shareholder Responsibilities Committee supports ICGN's work in this important area. The ICGN Principles themselves draw from ICGN's policy work in stewardship and responsible investment practice over the last twenty years. The Principles were published in 2016, replacing the *ICGN Statement of Principles for Institutional Investor Responsibilities (2013),* which originally date back to 2003, and which were further revised in 2007. In 2018 ICGN also published its *Guidance on Investor Fiduciary Duties.*[1] This latest version of ICGN's Principles incorporates this earlier guidance and recommendations, while adding new principles and guidance in keeping with changes in market practice and regulation.

[1] See ICGN *Guidance on Investor Fiduciary Duties (2018)*: http://icgn.flpbks.com/icgn-fiduciary_duties/

More recently, ICGN published a Viewpoint report on the role of the creditor in corporate governance and stewardship. It complements the ICGN Global Stewardship Principles by presenting an engagement agenda for fixed income investors, and provides a framework on how stewardship can work in asset classes beyond equities.[2]

ICGN's Principles also draw on the *ICGN Model Mandate*[3], published in 2012, which outlines model contract language for investment management agreements between asset owners and asset managers to integrate core stewardship practices into the asset management process. Included in the scope of the *Model Mandate* are sections on systemic responsibility, long-termism and integrating ESG factors into investment analysis and decision making.

Building from these policy foundations, ICGN has made further contributions to consultations about stewardship codes and related developments in a number of jurisdictions globally. All global stewardship codes are publicly accessible on the ICGN website.

The recommendations set out in the Principles are intended to apply, with appropriate flexibility, to all investment styles and approaches. They are aspirational standards that ICGN encourages Members and their peers to adhere to, as appropriate to their circumstances. ICGN believes that application of the Principles should be governed and monitored by market forces in the spirit of promoting good corporate governance, responsible investment practice and the sustainable success of companies.

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. In some markets regulators also play a role in stewardship monitoring by virtue of Signatory disclosure requirements. 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 ICGN Global Stewardship Principles offer a basic framework of key stewardship responsibilities and are drafted with a view towards application in either developed or emerging markets. The Principles offer several possible applications, including:

- Serving as an international framework for global stewardship policies developed by investors seeking to signal their approach to stewardship, either when investing in markets without codes or when they invest in multiple markets with differing codes. This enables investors with international portfolios to efficiently communicate fundamental stewardship standards in a global context. The ICGN Principles serve as a single source of international reference for both investors and companies on what stewardship entails and how to implement it in practical terms. They also provide a useful benchmark for investors when periodically reviewing and refreshing their in-house stewardship policies.

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[2] See ICGN Viewpoint: *What is the role of the creditor in corporate governance and investor stewardship?* (2019) https://www.icgn.org/what-role-creditor-corporate-governance-and-investor-stewardship

[3] See *ICGN Model Contract Terms between Asset Owners and Asset Managers (2012)*: http://icgn.flpbks.com/icgn_model-contract-terms_2015/#p=1

- Enhancing dialogue between companies and investors by complementing Corporate Governance Codes applied in a 'comply or explain' context. In the event that company explanations are inadequate, it is the role of investors to use their share ownership rights to challenge companies when necessary. Without the active monitoring of explanations by investors, a "comply or explain" system would lack an ultimate means of enforcement or influence. A stewardship code therefore plays a critical role in providing a market-based system for investors to hold companies to account for their corporate governance practices.

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

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

The seven high-level principles that comprise the ICGN Principles are summarised in Part One. For each of these principles, ICGN provides guidance on how they can be implemented in practice; this is presented in Part Two. We also reference other relevant ICGN guidance throughout which is sign-posted. 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 on a range of governance themes which are published periodically to elaborate on key concepts. All ICGN Principles and Guidance are publicly available on the ICGN website along with previous versions.

Part One: 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 national requirements, taking into account the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries and clients.

Principle 2 Developing and implementing stewardship policies

Investors should commit to developing and implementing 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 Protecting and exercising 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 Two: Guidance to the ICGN Global Stewardship Principles

1. Internal governance: foundations 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. Particularly for investors with long-term investment strategies, fiduciary responsibility extends beyond the traditional duties of care and loyalty to include considerations of timeframe and systemic risks. Understanding of stewardship and its purpose as part of fiduciary duty should be a fundamental requirement of an investor's executive management, including its chief executive officer and its chief investment officer.

1.2 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. This has clear relevance for asset owners with long-term liabilities and for asset managers who act on behalf of asset owners. Investor disclosures should address how investment strategies link to investment mandates and contributes to medium or long-term sustainable value creation.

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. In particular, 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, even if this is not mandatory.

1.4 Governance effectiveness and independent review

Investor governance structures should be subject to periodic independent review as consistent with good corporate governance practice. 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. As corporate entities themselves, the investor's own governance practices should be aligned with relevant national corporate governance codes and/or ICGN's Global Governance Principles.

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 that reflects the investor's core values and which guides investment and fiduciary activities on behalf of their beneficiaries or clients. The investor's board or trustees are ultimately accountable for the investor's stewardship activities, and they should provide the proper tone and ensure that a framework is in place for meaningful 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. This includes devoting time and training to decision-makers along all parts of the investment chain, particularly coordinating withy fund managers, to exercising stewardship and fiduciary duties. It can also include delegating, with appropriate oversight, ~~governance~~ stewardship specialists to guide governance policies and voting.

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

1.7 Conflicts of interest
Investors should have robust policies to minimise or avoid conflicts of interest and such policies should address how matters are handled when interests with clients or beneficiaries diverge. Conflict of interest policies should make it clear that the interest of the client or beneficiary should be prioritised Investors should rigorously review their investment activities and their client interests to identify and appropriately manage real or potential conflicts of interest. Policies should identify specific cases where conflicts might be intense, for example this might include situations in which an investor in a company also provides financial products and services to the same company~~; it is positive for a company to identify specific cases where conflicts might be intense~~. Such conflicts of interest should be disclosed, along with the remedies to mitigate them. Comprehensive compliance capabilities should help in minimizing conflicts and ensuring investors have effective policies to deal with issues including insider information and market manipulation.

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

2. Developing and implementing stewardship policies

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

2.1 Developing policies
Investors should develop stewardship policies which address the components of relevant national stewardship code requirements (if one exists) and the ICGN Global Stewardship Principles (as appropriate).

2.2 Scope
Stewardship policies should disclose the scope of stewardship practices, as it may relate to differing asset classes, investment strategies and geographies. ICGN encourages stewardship beyond listed equities, and it is good practice to be clear on whether and how the investor approaches engagement in a range of asset classes.

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

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

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

2.5 Stewardship oversight 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. Asset owners with passive or index-linked strategies should take into account the stewardship capabilities of the asset manager, particularly given the often large number of holdings in institutional indexed portfolios.

3. Monitoring and assessing investee companies

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

3.1 Regular monitoring

Investors should regularly monitor investee companies in order to assess their individual circumstances, financial performance and long-term potential, including monitoring of material environmental, social and governance (ESG) factors. Company monitoring should be integrated with the investor's engagement programme, particularly to help identify situations where there is ~~value in intervening to encourage change.~~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. This can take the shape of risk model dashboards combining ESG and financial information and is particularly important for asset owners and managers with passively run portfolios, where the number of companies held in portfolios 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. This can include consideration of the UN's Sustainable Development Goals that may have relevance to the company and its business model.

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

3.5 Reasoned judgements

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

3.6 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 selecting 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. Pressures on investor resources for engagement call for due weight to be placed on quality, evidence-based engagement focusing on clear outcomes. The effectiveness of the engagement approach should be reviewed periodically.

4.2 Engagement policies

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

4.3 Engagement escalation

Investors should clarify how engagement might be escalated when company dialogue is failing including: a) expressing concerns to corporate representatives or non-executive directors, 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

Investors, from both stewardship and portfolio management teams, should be fully aligned to ensure consistent messages are relayed to companies. They should seek to engage, not only with company executive management, but also with board directors. When both equity and debt is held in a company, investors from both equity and fixed income teams should participate in the engagement, at least in areas of shared concern. 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

As providers of risk capital, a relevant theme of engagement is in the area of capital allocation, where corporate governance meets corporate finance. Long-term creditors and shareholders must communicate their preferences to company management and must recognise their mutual requirements. Creditors generally seek a stable and predictable credit risk profile and shareholders have a focus on upside potential and risk adjusted returns on capital. Effective engagement by creditors and shareholders reflects the understanding that a sustainable company must satisfy the basic and legitimate requirements of its capital providers.

4.5 Investor collaboration

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

4.6 Public policy

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

5. Protecting and 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 how individual voting decisions are reached including how potential conflicts of interest are addressed and the process for undertaking due diligence. 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 good corporate governance practices. In doing so, investors should seek to explain to companies the reasons underlying their voting decisions, preferably before the shareholders' meeting. 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. Voting records should indicate whether resolutions were cast for, against or abstained.

5.5 Vote confirmation

Investors should include voting activity in client and beneficiary reporting and, where possible, seek to confirm from companies whether or not such voting instructions have been received and formally counted.

5.6 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 to vote and how stock lending of individual shares may have affected voting activity. In order to preserve the integrity of the shareholders' meeting, shares should not be borrowed or lent for the primary purpose of voting them.

5.8 Protecting voting rights

While stewardship with companies may call for investor engagement along a wide range of themes, investors should be prepared to challenge companies with unequal voting rights. Dual class share structures and other forms of differential ownership 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.

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 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.

6.2 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, human rights and anti-corruption) over short term value.

6.3 ESG integration

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

6.4 Integrated reporting

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

7. Enhancing 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) while also taking into consideration appropriate recommendations in the ICGN Global Stewardship Principles.

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

7.3 Outcomes and stewardship effectiveness
Stewardship disclosures should seek to communicate the effectiveness of stewardship activities on behalf of beneficiaries focusing on outputs, not just inputs to the stewardship process. In particular clear examples of engagement successes (and failures) can not only inform the investor's clients and beneficiaries, but also help to spread awareness of which stewardship practices have the most effective outcomes.

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 the national stewardship codes, as well as other relevant international guidance such as the ICGN Global Stewardship Principles.

7.4 Maintaining records
Investors should maintain records of meetings, voting and engagement to document summaries of stewardship activities for the benefit of their beneficiaries 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.

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

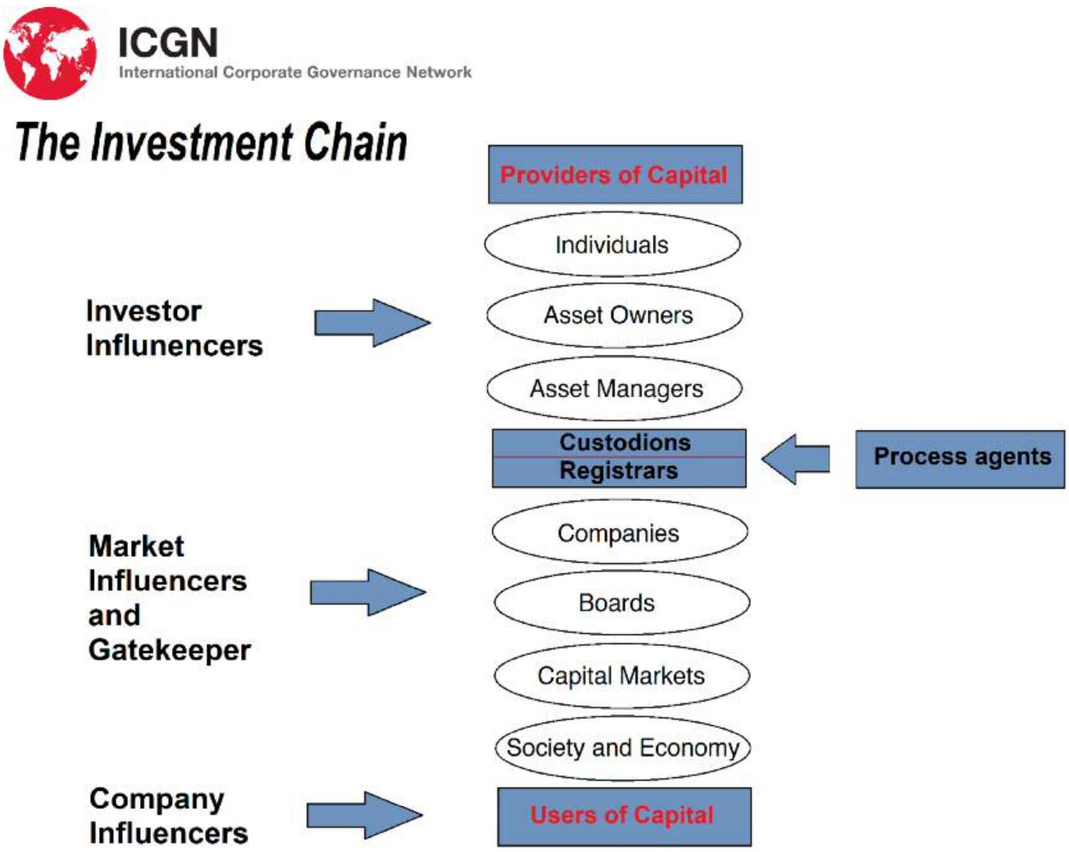
7.7 Assurance
Investors should recognise that external assurance of stewardship code activities is encouraged as good practice.

Part Three: 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.

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.

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

Regulators
Regulators wishing to promote 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 are intended to complement local requirements and are not intended to supersede national Codes. Instead the ICGN Global Stewardship Principles offer an internationally recognised set of principles which are applicable across markets and can be viewed as a statement of high standards. Some investors, particularly those with internationally diversified portfolios, may prefer to provide a global stewardship policy statement as a means to respond to multiple local Code disclosure requirements.

Creditors
Stewardship in the first instance is often focused on an investor’s equity holdings given voting and other ownership rights. However, stewardship need not be limited to listed or

private equity as an asset class. It is also relevant in the area of fixed income investment. Bondholders in particular provide long-term risk capital to companies and share with equity holders an interest in promoting responsible and sustainable corporate governance and investor stewardship practices. The ICGN Global Stewardship Principles can therefore be applied to fixed income investors, though certain provisions, such as those relating to voting, will not have the same relevance. 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.[4]

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 within a comply- or-explain context

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.

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.

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.

[4] See ICGN Viewpoint: "What is the role of the creditor in corporate governance and investor stewardship?", September 2019

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. A stewardship code therefore plays a critical role in providing a market-based system for investors to hold companies to account for their corporate governance practices.

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

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

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

Proposed model terms for high-level commitment
The Manager acknowledges that it acts as a fiduciary on behalf of the Client and its investors/beneficiaries.

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

Proposed model terms for integration of long-term factors including ESG issues
The Manager will have an investment process which incorporates relevant long-term factors such as ESG issues consistent with the Client's responsible investment policy.

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

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

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

Proposed model terms for stewardship and engagement

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

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

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

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

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

Proposed model terms for fees, remuneration and culture
The Manager will ensure that the pay structures of its staff align their interests appropriately with those of the Client and its investors/beneficiaries, as well as the investment time horizon of the Portfolio.

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

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

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

Annex 3: 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 4: To be Updated

International Corporate Governance Network: Global Governance Principles, 2014
International Corporate Governance Network: Statement of Principles for Institutional Investor Responsibilities, 2013
International Corporate Governance Network: Model Contract Terms Between Asset Owners and Their Managers, 2012
G20/OECD Principles of Corporate Governance, 2015
Principles for Responsible Investment: Fiduciary Duty in the 21st Century, 2015.
United Nations Environment Programme Finance Initiative: The Financial System We Need, 2015
CFA Institute: Asset Manager Code of Professional Conduct and Pension Trustee Code of Conduct
Australia: FSC Standard 23: Principles of Internal Governance and Asset Stewardship, Financial Services Council, 2015
Canada: Principles for Governance Monitoring, Voting and Shareholder Engagement, Canadian Coalition for Good Governance, 2010
European Union: Code for External Governance, European Fund and Asset Management Association, 2011
Hong Kong: Consultation Paper on the Principles of Responsible Stewardship, Securities and Futures Commission, 2015
Italy: Stewardship Principles for the Exercise of Administrative and Voting Rights in Listed Companies, Assogestioni, 2013
Japan: Principles for Responsible Institutional Investors, Financial Services Agency, 2014
Kenya: Draft Stewardship Code for Institutional Investors, Capital Markets Authority, 2015
Malaysia: Code for Institutional Investors, Minority Shareholders Watchdog Group, 2014
Netherlands: Best Practices for Engaged Share-Ownership, EUMEDION Corporate Governance Forum, 2011
Singapore: Singapore Stewardship Code, Monetary Authority of Singapore, forthcoming 2016
South Africa: Code for Responsible Investing, Institute of Directors of Southern Africa, 2011
Switzerland: Guidelines for institutional investors, governing the exercising of participation rights in public limited companies, Ethos Foundation, 2013
Taiwan: Draft Stewardship Principles for Institutional Investors, Taiwan Stock Exchange, 2016
United Kingdom: The UK Stewardship Code, Financial Reporting Council, 2012