

Provisional translation

Material 2

Outline of the ICGN Global Stewardship Principles

Outline of the ICGN Global Stewardship Principles

- The ICGN* Global Stewardship Principles replace the ICGN Statement of Principles for Institutional Investor Responsibilities (2013), which date back to 2003. These Principles were approved at the Annual General Meeting taking place on 27th June, 2016.

* ICGN (The International Corporate Governance Network) is composed of members from 47 countries, including 122 investors (organizations) and 134 companies/advisories. The mission of ICGN is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

- The ICGN Global Stewardship Principles set out ICGN's view of best practices in relation to investor stewardship obligations, policies and processes. These principles serve as a point of reference for regulators and standard setters seeking to establish their own stewardship codes by providing an overarching model of stewardship which has been developed from international experience that can be adapted to the individual situations of countries or regions. As a global point of reference the ICGN Global Stewardship Principles can be a useful source of latest innovation both for stewardship codes under formation, and also as existing codes come up for periodic review.
- The seven high-level principles that comprise the ICGN Global Stewardship Principles are summarized in Part One. For each of these principles, ICGN provides guidance on how they can be implemented in practice; this is presented in Part Two. The final part of this document outlines the ecosystem of stewardship and the pre-conditions for effective adoption within the context of a “comply or explain” system of corporate governance oversight.

7 Principles of Outline of the ICGN Global Stewardship Principles

Principle 1 Internal governance: foundations 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 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, aiming to preserve or enhance value on beneficiaries' or clients' behalf, and should be prepared to collaborate with other investors to communicate areas of concern.

Principle 5 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 stewardship activities.

Principle 7 Enhancing 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.

Point 1: Description about Governance of institutional investors/conflicts of interest in the ICGN Global Stewardship Principles ①-1

Principle 1 Internal governance: foundations 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.

1.1 Time horizons for delivering value

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

1.2 Independent oversight

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

1.3 Ethics and conduct

Investors should have in place a code of ethics or conduct that guides investment and fiduciary activities on behalf of their beneficiaries or clients.

1.4 Capacity and experience

Investors should have appropriate capacity and experience to effectively oversee and manage their stewardship obligations (particularly in terms of monitoring, voting and engagement) in the interests of beneficiaries or clients.

1.5 Investment chain

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

Point 1: Description about Governance of institutional investors/conflicts of interest in the ICGN Global Stewardship Principles ①-2

1.6 Conflicts of interest

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

Examples of conflicts might include situations in which an investor in a company also provides financial products and services to the same company. Such conflicts of interest should be disclosed, along with the remedies to mitigate them.

1.7 Appropriate remuneration

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

Principle 7 Enhancing transparency, disclosure and reporting

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.

7.5 Accountability

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

Point 2: Description about Disclosure of proxy voting results by individual company basis in the ICGN Global Stewardship Principles

Principle 5 Exercising voting rights

Investors with voting rights should seek to vote on 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.

5.3 Voting records

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

Point 3: Description about Engagement of passive funds in the ICGN Global Stewardship Principles

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.

2.5 Stewardship oversight

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.

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.

3.2 Risk analysis

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

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 communicate areas of concern.

4.1 Strategic approach

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

Point 4: Description about Roles of asset owners in the ICGN Global Stewardship Principles

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.

2.3 Delegation

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

2.4 Investment contracts

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

2.5 Stewardship oversight

Asset owners should effectively oversee and monitor asset manager stewardship activities and their consistency with the asset owner's investment beliefs, policies and guidelines.

Part 3 The ecosystem of stewardship

Asset owners

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