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Re: ICGN Draft Stewardship Code

CFA Institute¹ has watched with great interest in recent years as individuals and groups in different markets have adopted stewardship codes in order to improve the governance and transparency of asset owners and asset managers. We therefore commend the ICGN for taking on the task of putting forth a global stewardship code that can complement already existing codes and serve as a template for those interested in drafting a stewardship code for their own market.

In the current draft stewardship code, the ICGN states that a global stewardship code might serve several purposes, but three primary applications include the following:

1. Serve as an international “passport” for institutional investors seeking to signal their stewardship policies and practices either when investing in markets without stewardship codes or when they invest in multiple markets with differing stewardship codes. This ICGN Global Stewardship Code is intended to complement—and not supersede—other stewardship codes that are in place in different markets around the world. Rather, a commonly recognized global stewardship code could help investors to efficiently communicate fundamental stewardship standards in a global context.
2. Serve as a point of reference for investors on what stewardship entails and how to implement it in practical terms.
3. Serve as a point of reference to guide jurisdictions seeking to establish their own stewardship codes by providing an overarching model of stewardship that can be adapted to the individual situations of countries or regions.

CFA Institute feels that a global stewardship code can elevate investor stewardship standards for the reasons mentioned above. We support the setting of high standards when asset owners and asset managers are acting as stewards of the assets of their ultimate clients and beneficiaries. We support the

¹ CFA Institute is a global, not-for-profit professional association of more than 135,000 investment analysts, advisers, portfolio managers, and other investment professionals in 145 countries, of more than 129,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 147 member societies in 73 countries and territories.

ICGN's efforts to set a high standard of ethics and integrity when it comes to managing other people's assets. We hope our comments below can be helpful to the ICGN and we are happy to supply further insight if it would be helpful to the ICGN.

Specific Comments

The specific questions ICGN has asked its members when commenting on the draft code are spelled out below.

1. Do you agree or disagree with the stated purposes of ICGN Global Stewardship Code? Are there other applications you might envisage?

As mentioned above, the ICGN stewardship code is seen to have three main purposes:

1. Serve as an international "passport" for institutional investors seeking to signal their stewardship policies and practices either when investing in markets without stewardship codes or when they invest in multiple markets with differing stewardship codes.
2. Serve as a point of reference for investors on what stewardship entails and how to implement it in practical terms.
3. Serve as a point of reference to guide jurisdictions seeking to establish their own stewardship codes by providing an overarching model of stewardship that can be adapted to the individual situations of countries or regions.

CFA Institute believes that the draft global stewardship code is well suited to complement the stewardship codes already in existence and to guide efforts to draft new codes. The draft stewardship code helps set a high minimum standard for properly aligning the interests of asset owners, beneficiaries, and the agents who serve them.

2. Do you believe the draft ICGN Global Stewardship Code is appropriately positioned to complement stewardship codes that are in place in other jurisdictions or to serve as a guide for the development of stewardship codes?

We believe that the draft ICGN Global Stewardship Code is well positioned to serve as a guide to the development of stewardship codes in markets around the world. We feel it is important for the ICGN to dedicate real “human” resources to the global efforts to draft stewardship codes. ICGN is seen as a leader in global corporate governance, and although a draft stewardship code is a great place to start when a market is looking to draft its own stewardship code, all markets are different. Markets have their own nuances, different regulations, distinct investing cultures and different market structures that make offering a “plug and play” stewardship code an indispensable first step. But more is needed. We urge the ICGN to ensure that resources are dedicated to keep best practices in stewardship current and to offer ICGN member expertise to markets interested in using the draft code as a template.

3. Do you agree with the seven principles of the Code? Is there a principle that should be excluded – or another principle that should be included?

The ICGN draft stewardship code principles are as follows:

- 1.1 Addressing internal governance, conflicts of interest and obstacles to good stewardship
- 1.2 Disclosing and implementing stewardship policies on responsible investment practices
- 1.3 Monitoring investee companies
- 1.4 Exercising voting rights responsibly
- 1.5 Engaging with companies and collaborating with other investors
- 1.6 Ensuring long-term perspective and integration of environmental, social and governance (ESG) factors
- 1.7 Enhancing transparency, disclosure and reporting

1.1 We would encourage the ICGN to include language that explicitly calls on asset owners and asset managers to put the interests of their clients first. A number of guidance points in the draft speak to the issue, but is not explicitly stated.

1.2 We feel that a more clear definition of what is meant by “responsible investment practices” would be helpful to make this principle clearer to the reader.

1.5 It may be a hard thing to ask for, but we feel the draft code should call on asset owners to ensure that the appropriate resources are provided so that meaningful engagement can take place. Not all asset owners or asset managers have the capacity for such engagement, which is understandable. On size does not fit all when it comes to engagement.

However, if an asset owner or asset manager does have sufficient resources to actively engage with issuers we feel that the ICGN can encourage them to do so. A mandate to engage that is not properly resourced is ultimately just talk that will never bear the fruit that we believe engagement can. Both issuers and investors need to properly resource their engagement functions so that meaningful dialogues can result in real cooperation on issues investors care about. Such a call to properly resource stewardship responsibilities may need to be a separate principle, but we leave that to the ICGN to decide if and where such language belongs in the final stewardship code.

Finally, smaller investors who lack the resources to engage themselves should be open to potential collaboration with other investors, without imposing such an obligation.

4. Are there aspects of the guidance points that you do not agree with or are there further guidance points to consider?

Concerning Principle 6 – how would investors “promote” sustainability and long term success? It may be clearer to say that investors should have a long term perspective appropriate to their investment objectives, and that material ESG issues should be accounted for as part of stewardship responsibilities.

5. Are there aspects of the roles of asset owners, asset managers and companies that you do not agree with or are there further guidance points to consider?

The ICGN has been very thorough in addressing the roles asset owners, asset managers and companies can play in fostering better engagement. We encourage the ICGN to take a look at CFA Institute’s [Asset Manager Code of Professional Conduct](#) (AMC). The Asset Manager Code of Professional Conduct outlines the ethical and professional responsibilities of firms (“Managers”) that manage assets on behalf of clients. By adopting and enforcing a code of conduct for their organizations, Managers demonstrate their commitment to ethical behavior and the protection of investors’ interests. The AMC is targeted primarily at asset managers so there will of course be aspects of the AMC that do not apply to what the ICGN is trying to achieve with the Stewardship code. However, we encourage the ICGN to use the principles and language of the AMC where they feel they are appropriate.

Finally, we ask what compliance with the final stewardship code will look like.

The claim of compliance is tricky – both from an operational standpoint (verifying and maintaining) and from the standpoint of potentially raising obstacles for firms. If firms are already bound by regulation to do all of these things in the code, and they don’t want to have yet another thing with which to comply. Another consideration is, if a firm adopts a local code, and the local code is deemed to be at least as strict as ICGN, would that suffice for a claim of compliance with ICGN? Or would a separate formal process still be necessary?

The ICGN must decide what compliance will mean. What milestones do investors or asset managers have to reach in order to claim compliance, will such compliance be audited, if so by whom? A final

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global stewardship code has the potential to be a very powerful document, one that can improve investor governance around the world and drive more meaningful engagement between issuers and investors. We urge the ICGN to ensure that claims of compliance with the final code carry weight with the global investment community.

Concluding Remarks

CFA Institute welcomes the draft stewardship code offered by the ICGN. We are happy to discuss these matters further if you wish to contact us.

Yours faithfully,

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