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International Corporate Governance Network
Garvin Payne (garvin.payne@icgn.org)

15th September 2020

Review of the ICGN Global Governance Principles

Dear Sirs,

EOS at Federated Hermes is a leading stewardship provider advising on US$ 1.1 tn[1] assets on behalf of international institutional investors. Federated Hermes is a global leader in active, responsible investing with US$ 628.8 bn[2] in assets under management, whose goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

We welcome the opportunity to provide our comments to the consultation as part of the review of the ICGN Global Governance Principles (GGP).

1- The purpose and use of the Global Governance Principles

At EOS, we have developed a set of country-specific governance principles which we use to set out our preferred approach to particular governance matters, reinforcing or complementing the recommendations of the local governance code. We outline priorities that will assist companies in taking concrete steps to improve corporate governance.

In comparison with the ICGN GGP, our principles are country-specific and with a level of granularity adequate to their purpose of communicating our expectations to all companies listed in the main local stock exchange index.

[1] As at 30 June 2020
[2] As at 30 June 2020

We use the ICGN GGP in situations when we wish to reinforce our view, particularly in public policy engagement with local regulators and stock exchanges.

2- The structure of the guidance

We suggest expanding and updating the following topics:

Board role and responsibilities

Responsibilities: the guidance rightly highlights that one of the board's responsibilities is to "monitor the effectiveness of the company's governance, environmental policies, and social practices, and adhere to applicable laws". We believe the responsibility goes beyond monitoring the compliance with environmental and social regulations, and should include also the oversight of the performance in this area to deliver positive environmental and social outcomes. We also suggest the strengthening of the language on business purpose, stating that the board is responsible for ensuring that companies' long-term strategy and capital allocation are in line with the business purpose, making clear the connection to positive environmental and social outcomes. This would then align corporate board responsibility with those of investors, in line with latest stewardship code best practices (e.g. the UK Stewardship Code).

Dialogue: although this section covers the dialogue between boards and stakeholders in general, we suggest an explicit mention to the workforce and possible mechanisms that can be used to establish such dialogue, such as an employee representative on the board or a NED tasked with leading the engagement with employees.

Directorships

Over boarding is an area of concern for us. The pandemic brought increased workload to boards in overseeing the companies' response to the crisis. Directors may have had their capacity to discharge their duties impaired due to excessive number of directorships. Although we acknowledge that the GGP are not meant to be prescriptive, we suggest that, in addition to the current guidance, an emphasis on CEOs having no more than one directorship.

Leadership and independence

Lead Independent Director (LID):

Beyond "providing shareholders and directors with a valuable channel of communication should they wish to discuss concerns relating to the chair", we see the LID playing a valuable role in regularly engaging with stakeholders, especially when the chair is non-independent and the ownership is concentrated.

Constructive dialogue:

We highlight the role of the chair in prioritising the issues where the board can add the most value and allocating its time accordingly, ensuring that the board agenda is not completely driven by the management.

Independence criteria:

We suggest it is emphasised that the objective independence criteria, although a necessary condition for independence, is far from sufficient. Not all directors who are considered independent on paper will live up to this definition. We expect the directors who are deemed independent to behave in an independent way, such as representing the perspective of minority shareholders on boards where most directors are nominated by the controlling shareholder, holding regular meetings of the independent directors and challenging management in a constructive way.

Composition and appointment

Diversity:

We suggest expanding the concept of diversity to clarify that boards should seek *genuine diversity and inclusion*. Diversity in its broadest sense – including skills, personality types, experience, gender, nationality, age, ethnicity, sexual orientation, and networks – is consistently shown to result in improved culture, quality of debate and decision-making. We expect boards to address the issue of ethnic diversity and racial equality in the context of policies and actions taken on other underrepresented groups.

Diversity across all dimensions becomes a simplified proxy for the diversity of thought on the board, if diversity is accompanied by an inclusive and egalitarian board culture.

Corporate culture

Political Lobbying:

This section should be expanded to include the board oversight on other forms of lobbying financed by the company, especially lobbying on climate change.

3- Topics to be covered

We suggest expanding the following topics (the headings are the ones used in the consultation):

The role of the creditor in corporate governance

Although we were consulted about the role of the creditor in corporate governance, we suggest that this is expanded to the role of the financial stakeholder, holding instruments such as shares, bonds, private equity, loans or hybrid instruments, given that the interests of financial stakeholders in the sustainable growth and long-term health of businesses are substantially aligned. In Principle 1 (Board Role and Responsibilities) boards should establish a dialogue with financial stakeholders not just on corporate governance matters, but also on other long-terms strategic issues, such as risk management, climate change, human capital management, human rights and capital allocation.

Business groups/subsidiary governance

We acknowledge that listed subsidiaries, especially ones listed in overseas markets, have to comply with local regulation, however we expect the board of the parent company and its committees to be diligent on the oversight of its subsidiaries' board composition and effectiveness, audit and reporting and executive remuneration. We suggest this is emphasised across Principles 1, 6 and 7.

Should you wish to discuss our response to the consultation, please do not hesitate to contact me at jaime.gornsztejn@hermes-investment.com or +44 20 7680 2350.

Yours sincerely,

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