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Submitted electronically

Subject: *Hermes EOS response to the Draft ICGN Global Stewardship Code*

Dear Marlice,

Hermes EOS welcomes the opportunity to provide our comments the International Corporate Governance Network's (ICGN) draft Global Stewardship Code.

By way of background, Hermes is one of the largest asset managers in the City of London, and is wholly owned by the BTPS, the UK's largest corporate pension scheme. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from around Europe and the world, the Ireland Strategic Investment Fund (ISIF), the Mineworkers' Pension Scheme (MPS), and the British Coal Staff Superannuation Scheme (BCSSS). In all, Hermes EOS advises over 40 clients with regard to assets worth a total of over £146.6 billion (as at 30 September 2015).

We commend the ICGN for its work on stewardship and related issues over the last few years and welcome the publication of its Global Stewardship Code.

We believe that the purposes and principles of the Global Stewardship Code are right and that the guidance presented provides a good starting point to build on. We would encourage the ICGN to undertake more work on how stewardship activities - or at least their main focus and techniques - differ in markets with characteristics that are very different from the UK, for example in terms of ownership structures. We also believe it would be useful to think through the implications for investors who prioritise certain markets and how in turn the expectations of regulators need to be adjusted, for example, with regard to the role of non-domestic investors in the governance of companies in smaller markets. We would encourage the ICGN to undertake more work on both points as they will be crucial in the successful implementation of stewardship codes and cultures around the world.

We commend the ICGN for trying to address some of the root causes of why stewardship activities of investors - even in the UK - remain limited or superficial. However, we believe that in order to do so effectively, more work on the proposed Principle 1, which deals with internal governance, conflicts of interest and obstacles to good stewardship, is required.

Finally, we wonder whether there is a role for the ICGN at the regulatory level, specifically in providing guidance to regulators who oversee the implementation of stewardship codes and wish to enhance transparency and disclosure of signatories.

Our more specific comments to the questions in the consultation paper are as follows:

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

Yes, we firmly believe in and support the stated aims of the ICGN Global Stewardship Code.

First, the creation of an international “passport” for investors seeking to implement their stewardship policies in markets without a stewardship code or across multiple markets with differing stewardship codes could be an important and valuable tool to enhance the transparency and disclosure around stewardship activities and ultimately the quality and quantity of engagement between investors and companies in markets around the world. Signing up to stewardship codes in very many markets around the world, which may not be of sufficient significance for a particular investor, or referring to the UK Stewardship Code only, is likely to be inefficient or may lack credibility in a specific market.

An important related point is that investors will prioritise markets and, as such, generally approach stewardship activities very differently in their home and major capital markets as opposed to smaller markets on different continents. This should not surprise, as some of the principles in stewardship codes are difficult to comply with particularly for widely diversified institutional investors without a presence in a particular market or simply too expensive in light of the funds invested in the market or individual companies. This is an issue that has not been given adequate consideration in the development and discussion of stewardship codes to date and we would encourage the ICGN to consider its implications for the successful implementation of codes (for more discussion on this topic, see, Dr Hans-Christoph Hirt, *The implications of stewardship codes for institutional investors*, Governance, November 2015, pages 9-12).

Second, investors may already feel overwhelmed by the proliferation of stewardship codes. As such, a one-stop shop for investors on what stewardship activities entail and how to implement them in practical terms is to be welcomed.

Third, the Global Stewardship Code could also act as a helpful resource for regulators in markets considering the development of their own local or regional stewardship codes and principles. Regulators and organisations in markets that have not yet introduced some stewardship guidance or a code should utilise the evolving experience in other countries to inform their approach to regulating stewardship activities. The ICGN’s Code usefully summarises this experience but also adds to the topics that existing codes generally cover (see our comments on question 3.)

Having said this, we believe it is very important to recognise that there are very different legal and cultural frameworks and environments and most significantly different models of corporate finance and ownership of listed companies in markets around the world. In particular, there is an important question about the main focus of stewardship activities in family or state-controlled companies often found in Asia or Continental Europe – as opposed to the widely dispersed ownership typically found in the UK. Unfortunately, these are issues that may not have been given adequate consideration in the development of stewardship codes in some markets (see Hirt, above).

While the issues are implicitly acknowledged through the statement that the Global Stewardship Code will provide “an overarching model of stewardship that can be adapted to the individual situations of countries or regions”, we would encourage the ICGN to assume thought leadership on this topic which will be crucial for the ultimate success of stewardship in markets that are different from the UK.

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?

Since the launch of the UK Stewardship Code in 2010, similar codes or guidance documents have emerged in Canada, Italy, Japan, Malaysia, the Netherlands and South Africa. At present, codes are being drafted or consulted on in Hong Kong, Singapore, South Korea and Taiwan while the EU is finalising the revised Shareholder Rights Directive which will comprise some stewardship requirements.

While there are some differences between the codes, guidance and requirements in these markets, it is remarkable how similar most of the principles and recommendations are around the world.

The proliferation of stewardship codes and thus the increasing amount of reflection about the role of investors in the governance of companies in which they invest is very welcome, as it is very likely good for companies, their investors and economies as a whole. At the same time, it creates some real challenges for widely diversified institutional investors who would be well advised to think through their global approach to stewardship activities before signing up to many, potentially differing codes around the world.

As mentioned in our response to question 1. above, we believe there should be more reflection on two key issues:

1. How do stewardship activities - or at least their main focus and techniques - differ in markets with characteristics that are very different from the UK, for example in terms of ownership structures?

2. What are the implications of investors prioritising certain markets, for example, how do expectations of local regulators need to be adjusted with regard to the role of non-domestic investors in the governance of companies in smaller markets?

We would encourage the ICGN to undertake more work and offer further thoughts on both points as they will be crucial in the successful implementation of stewardship codes and cultures around the world. As an initial step we suggest the ICGN highlights differences between local standards and the proposed global code and seeks to explain the reasons for them. In this context it also is worth further clarifying the ICGN’s expectation that in the event of a material difference or conflict between the ICGN code and local codes, it is ICGN’s recommendation that the domestic investor in the local market should first adhere to standards of stewardship articulated in the domestic stewardship code.

We commend the ICGN for trying to address some of the root causes of why stewardship activities of investors - even in the UK - remain limited or superficial through the inclusion of Principle 1 (for a recent discussion of these fundamental issues, see Simon Wong, *Is institutional investor stewardship still elusive?*, Butterworths Journal of International Banking and Financial Law, September 2015, pages 508-512). Principle 1 deals with internal governance, conflicts of interest and obstacles to effective stewardship. Drawing on the ICGNs *Model Contract Terms Between Asset Owners and Their Managers* (2012) and the *Global Governance Principles* (2014), it covers a range of issues that are not addressed in existing stewardship codes which tend to focus on policies, processes and reporting.

We applaud the ICGN for trying to place issues, such as investment horizons, performance periods, fee and remuneration structures and conflicts of interests, firmly within the stewardship code debate. Having said this, we also note that some of these underlying problems and resulting questions, which extend far beyond narrowly defined stewardship activities, such as monitoring, voting and engagement, may overwhelm investors in markets where they historically have played a more limited role. Nevertheless we believe it is right to start the debate on these issues as soon as possible so as to create a framework in which a stewardship culture can develop over time. We would suggest, however, that Principle 1. is renamed and reworded, so as to make it clear that it deals with the framework and the prerequisites of effective stewardship.

We invite the ICGN to consider renaming Principle 1 “The foundations of effective stewardship” (or a similar derivative) and by simplifying the wording of the principle clarify its focus on the underlying framework and structures necessary for effective stewardship activities to take place. We would also suggest the ICGN undertakes a mapping exercise to its other policy documents, specifically the documents mentioned above, and provides cross-references in the Global Stewardship Code. As mentioned above providing much fuller guidance and cross reference to other ICGN documents as appropriate would serve as an important bridge in aiding investors in this area.

Having said all this, we believe that following reconsideration of Principle 1. - along the lines described above - the draft Global Stewardship Code is appropriately positioned to complement stewardship codes that are in place already or to serve as a guide for the development of stewardship codes.

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?

We agree with the seven core principles contained in the draft Global Stewardship Code which cover the issues commonly found in codes and guidance around the world. However, as discussed within our response to question 2. above, we would suggest that Principle 1. is revisited and related ICGN policy documents are referenced more effectively than they are at present.

Also, we would note that the requirements and guidance under Principle 6, entitled Ensuring long-term perspective and integration of environmental, social and governance (ESG) factors, are somewhat unclear. Specifically, are we talking about integration of ESG factors in investment decisions (similar to Principle 1 of the UN Principles for Responsible Investment) or only coverage of ESG factors in monitoring, voting and engagement activities? If it is the former, this may make signing up to and implementation of the Global Stewardship Code more difficult for many investors. We would recommend clarifying this point and providing more practical guidance on implementation. For the purposes of this discussion, to avoid undue confusion we think it is better to clearly separate investment and stewardship practices and therefore not to include integration of ESG factors into investment decision-making as a feature of a stewardship code, even if this is a worthwhile goal to pursue. However, we support the inclusion of ESG factors in stewardship activities such as monitoring, engagement and voting.

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

The guidance points provided are comprehensive and cover a wide range of important issues. Having said this, it is questionable whether they would be sufficient for an investor who is new to the topic of stewardship to understand what is required and to start putting the necessary framework in place. As such, we would recommend providing cross-references to existing ICGN policy documents and existing stewardship code guidance and websites of the leading regulators. The ICGN may also want to consider providing workshops for signatories or potential signatories on the implementation of the Global Stewardship Code.

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?

We strongly believe that monitoring of the activities of signatories of stewardship codes and ultimately enforcement, such as removal of signatories falling short in their implementation by regulators, are now the key issues in moving towards more effective stewardship in markets around the world.

We very much agree with the ICGN that monitoring of asset managers' compliance with stewardship codes should principally be undertaken by asset owners. They should ensure that asset managers are robust in their implementation of the principles. Similarly, monitoring of asset owners' compliance with codes should be undertaken by their trustees on behalf of the ultimate beneficiaries.

We wonder, however, whether the ICGN should provide some guidance to regulators who oversee the implementation of stewardship codes to enhance transparency and disclosure of signatories in order to facilitate monitoring of asset owners and trustees respectively. For example, we are supportive of efforts by the UK's Financial Reporting Council (FRC) to scrutinise the reporting of signatories. We believe that other regulators may learn from the experience in the UK and perhaps there is a role for the ICGN in facilitating the sharing of best practice.

We hope that our comments and suggestions are of assistance. If you would like to discuss our views in further detail, please do not hesitate to contact Dr. Hans-Christoph Hirt (Hans-Christoph.Hirt@hermes-investment.com , tel. 0207 680 2826) or Darren Brady (Darren.Brady@hermes-investment.com. Tel 0207 680 3783)

Yours sincerely,

Darren Brady

Hermes EOS