ICGN
International Corporate Governance Network

ICGN Global Governance Principles

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Published by the International Corporate Governance Network 2017. 5th Edition

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN 978-1-907387-21-0

ICGN Global Governance Principles

About ICGN

Established in 1995, ICGN Members include institutional investors with global assets under management in excess of US$26 trillion and present in over 45 countries. Our mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. As such, ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. For more information on ICGN, please visit **www.icgn.org**

Preamble

The ICGN Global Governance Principles (GGP) serve as ICGN's primary standard for well-governed companies, and have been developed in consultation with ICGN Members which includes investors responsible for assets under management in excess of $US26 trillion. Last updated in 2013, the GGP are reviewed periodically to ensure relevance with regulatory or market-led developments relating to high standards of corporate governance. They embody ICGN's mission to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

The GGP is focused around company governance and how board directors should promote successful companies, thereby creating sustainable value creation for investors while having regard to other stakeholders. The GGP should be read alongside the ICGN Global Stewardship Principles (GSP) (see Annex) which set out best practices in relation to investor governance and stewardship obligations, policies and processes. These two documents promote ICGN's long-held position that both companies and investors share a mutual responsibility to preserve and enhance long-term corporate value, and thereby contribute to sustainable capital markets and societal prosperity.

Sustainability implies that the company must manage effectively the governance, social and environmental aspects of its activities as well as its financial operations. In doing so, companies should aspire to meet the cost of capital invested and generate a return over and above such capital. This is achievable sustainably only if the focus on economic returns and strategic planning includes the effective management of company relationships with stakeholders such as employees, suppliers, customers, local communities and the environment as a whole.

The GGP apply predominantly to publicly listed companies and set out expectations around corporate governance issues that are most likely to influence investment decision-making. They are also relevant to non-listed companies which aspire to high standards of corporate governance practice. The GGP are relevant to all types of board structure including one-tier and two-tier arrangements.

Both non-executive and independent non-executive directors (also known as 'outside directors') are referred to throughout the GGP. This recognises the different approaches to board composition in various markets regarding the role of executive officers, non-executive directors and independent non-executive directors. The latter refers to directors who are free from any external relationships which may influence the directors' judgement.

ICGN notes that in controlled companies (where there is a dominant shareholder or block such that they ultimately have the majority power) the governance considerations are primarily concerned with protecting the interests of minority shareholders. In this regard, many of the recommendations in the GGP will apply but others may be less relevant.

Ownership of equity has provided the traditional investor focus on governance, however many investors offer a range of investment strategies, which can include corporate bonds or other fixed

income instruments as well as equities. Increasingly, holders of debt securities also recognise the importance of good corporate governance to protect their fixed income investments. Therefore the GGP are of relevance to a company's core financial stakeholders, which can include both long-term bond holders and long-term equity investors. In many areas the interests of creditors and shareholders overlap. But conflicts can also exist, and creditors and shareholders may not always define good governance the same way. The GGP focus primarily on areas where shareholder and creditor interests in governance are aligned. In areas of conflict shareholders and creditors may have different governance preferences; in such situations the GGP focus primarily on the shareholder perspective.

The GGP are intended to be of general application, irrespective of national legislative frameworks or listing rules. As global recommendations, they should be read with an understanding that local rules and cultural norms may lead to different approaches to governance practices. National codes reflect local standards and explanation is encouraged where there is divergence from the GGP against this framework. Members of the ICGN support the flexible application of GGP and the specific circumstances of individual companies, shareholders and the markets within which they operate should be recognised.

First initiated at the founding of the ICGN in 1995, this is the fifth edition of the GGP. The Principles are supplemented by ICGN Guidance on a range of governance themes which are issued periodically to elaborate on key concepts and practices. Both the GGP and the more specific Guidance pieces are often used by ICGN members as benchmarks in assessing investee company governance practices, in voting guidelines and are referenced by academia. ICGN Principles and Guidance also serve as an international source of best practice which influences corporate governance regulatory developments and standard setting around the world.

ICGN Principles and Guidelines are freely and publicly available on the ICGN website (www.icgn.org).

Contents

Part 1: **ICGN Global Governance Principles**

Part 2: **Guidance**

2.1 Board role and responsibilities	**11**
2.2 Leadership and independence	**14**
2.3 Composition and appointment	**16**
2.4 Corporate culture	**19**
2.5 Risk oversight	**20**
2.6 Remuneration	**21**
2.7 Reporting and audit	**24**
2.8 Shareholder rights	**29**

Annex: **ICGN Global Stewardship Principles** **33**

Part 1: ICGN Global Governance Principles

Principle 1: Board role and responsibilities

The board should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of shareholders, while having regard to relevant stakeholders, including creditors.

Principle 2: Leadership and independence

Board leadership calls for clarity and balance in board and executive roles and an integrity of process to protect the interests of minority investors and promote success of the company as a whole.

Principle 3: Composition and appointment

There should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making.

Principle 4: Corporate culture

The board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company's strategy and operations, including risk management systems and remuneration structures.

Principle 5: Risk oversight

The board should proactively oversee, review and approve the approach to risk management regularly or with any significant business change and satisfy itself that the approach is functioning effectively.

Principle 6: Remuneration

Remuneration should be designed to effectively align the interests of the CEO and executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividends to shareholders and retain capital for future investment.

Principle 7: Reporting and audit

Boards should oversee timely and high quality company disclosures for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance and material environmental and social factors. A robust audit practice is critical for necessary quality standards.

Principle 8: Shareholder rights

Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that shareholder voting rights are directly linked to the shareholder’s economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

Part 2: Guidance to the Principles

Principle 1: Board role and responsibilities

The board should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of shareholders, while having regard to relevant stakeholders, including creditors.

Guidance

1.1 Responsibilities

The board is accountable to shareholders and relevant stakeholders and responsible for preserving and enhancing sustainable value over the long-term. In fulfilling their role effectively, board members should:

a) guide, review and approve the company's mission and purpose, its corporate strategy and financial planning, including major capital expenditures, acquisitions and divestments;

b) monitor the effectiveness of the company's governance, environmental policies, and social practices, and adhere to applicable laws;

c) embody high standards of business ethics and oversee the implementation of codes of conduct that engender a corporate culture of integrity;

d) oversee the management of potential conflicts of interest, such as those which may arise around related party transactions;

e) oversee the integrity of the company's accounting and reporting systems, compliance with internationally accepted accounting standards, the effectiveness of systems of internal control, and the independence of the external audit process;

f) oversee the implementation of effective risk management and proactively review the risk management approach and policies annually or with any significant business change;

g) ensure a formal, fair and transparent process for nomination, election and evaluation of directors;

h) appoint and if necessary remove, the chief executive officer (CEO) and develop a CEO succession plan which should be regularly reviewed;

i) align CEO and senior management remuneration against appropriate performance criteria with the longer-term interests of the company; and

j) conduct an objective board evaluation on a regular basis, consistently seeking to enhance board effectiveness including an external review once every three years.

1.2 Dialogue

The board, particularly non-executive directors, should make available communication channels for meaningful dialogue on governance matters with shareholders, creditors and other stakeholders as appropriate. Boards should clearly explain such procedures to shareholders, including how they assess stakeholder input, and provide guidance relating to compliance with disclosure and other relevant market rules.

1.3 Commitment

The board should meet regularly to discharge its duties and directors should allocate adequate time to board meeting preparation and attendance. Board members should know the business, its operations and senior management well enough to contribute effectively to board discussions and decisions.

1.4 Directorships

The number, and nature, of board appointments an individual director holds (particularly the chair and executive directors) should be carefully considered and reviewed on a regular basis and the degree to which each individual director has the capacity to undertake multiple directorships should be clearly disclosed. This consideration should reflect the nature of existing board commitments, as well as any commitments relating to foundations or charities. While ICGN generally seeks to avoid prescriptive caps, normally, an individual director should not hold more than 3 or 4 directorships of any sort, and this should be substantially less for a director with executive responsibilities, as well as for the board chairman and key committee chairs.

1.5 Induction

The board should have in place a formal process of induction for all new directors so that they are well-informed about the company as soon as possible after their appointment. This includes building an understanding of its strategy, business operations, regulatory obligations and other fundamental business drivers. Directors should regularly refresh their skills and knowledge, through training as required, to discharge their responsibilities.

1.6 Committees

The board should establish committees to deliberate on issues such as audit, executive and non-executive director remuneration and director nomination. Where the board chooses not to establish such committees, the board should disclose this and the procedures it employs to discharge its responsibilities effectively in an independent manner. The duties and membership of such committees should be fully disclosed.

1.7 Advice

The board should receive advice on its responsibilities under relevant law and regulation, usually from the company secretary or an in-house general counsel. In addition, the board should have access to independent advice as appropriate and at the company's expense.

1.8 Access to management

The board should have a process where directors, including independent non-executive independent directors, can have access to a company's executive management and other relevant senior management.

Principle 2: Leadership and independence

Board leadership calls for clarity and balance in board and executive roles and an integrity of process to protect the interests of minority investors and promote success of the company as a whole.

Guidance

2.1 Chair and CEO

The board should be chaired by an independent non-executive director. There should be a clear division of responsibilities between the role of the chair of the board and executive management. The chair should be independent on the date of appointment.

2.2 Lead Independent Director

The board should appoint a Lead Independent Director (sometimes referred to as Senior Independent Director), even when the company chair is independent. The Lead Independent Director provides shareholders and directors with a valuable channel of communication should they wish to discuss concerns relating to the chair. The board should explain the reasons why its leadership structure is in the best interests of the company in the annual report and keep the structure under review.

2.3 CEO succession to Chair

The practice of a company's retiring CEO remaining on the board as a director should be discouraged, regardless of any cooling off period, or in the event this practice does take place, the retiring CEO should not serve on board committees that require independent representation. If, exceptionally, the board decides that a retiring CEO should succeed to become chair, the board should communicate appropriately with shareholders in advance setting out a convincing rationale and provide detailed explanation in the annual report. Unless extraordinary circumstances exist there should be a break in service between the roles (e.g. a period of at least two years).

2.4 Constructive dialogue

The chair is responsible for leadership of the board and ensuring its effectiveness. The chair should ensure a culture of openness and constructive dialogue that allows a range of views to be expressed. This includes setting an appropriate board agenda and ensuring adequate time is available for discussion of all agenda items. There should also be opportunities for the board to hear from an appropriate range of senior management.

2.5 Independence

The board of a widely-held company should comprise a majority of independent non-executive directors. Controlled companies should preferably have a majority of independent non-executive directors, or at least, three (or one-third) independent directors, on the board.

2.6 Independence criteria

The board should identify in the annual report the names of the directors considered by the board to be independent and who are able to exercise independent judgement free from any external influence. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

a) is or has been employed in an executive capacity by the company or a subsidiary and there has not been an appropriate period between ceasing such employment and serving on the board;

b) is or has within an appropriate period been a partner, director or senior employee of a provider of material professional or contractual services to the company or any of its subsidiaries;

c) receives or has received additional remuneration from the company apart from a director's fee, participates in the company's share option plan or a performance-related pay scheme, or is a member of the company's pension scheme;

d) has or had close family ties with any of the company's advisers, directors or senior management;

e) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;

f) is a significant shareholder of the company, or an officer of, or otherwise associated with, a significant shareholder of the company;

g) is or has been a nominee director as a representative of controlling shareholders or the state;

h) has been a director of the company for such a period that his or her independence may have become compromised. There is no fixed date that automatically triggers lack of independence; the norm can differ in varying jurisdictions between 8-12 years after which a non-executive director may no longer be deemed independent. Companies should be guided by local norms, and directors with longer tenure should not be classified as independent in terms of committee appointments or other board functions requiring independence.

2.7 Independent meetings

The chair should regularly hold meetings with the non-executive directors without executive directors present. In addition, the non-executive directors (led by the lead independent director) should meet as appropriate, and at least annually, without the chair present.

Principle 3: Composition and appointment

There should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making.

Guidance

3.1 Diversity

The board should disclose the company's policy on diversity (including gender, ethnicity, cognitive and social) in relation to its senior management and board (both executive and non-executive). Companies should report on current board diversity, measurable targets and progress made in achieving such targets. This should include reference to how diversity is being achieved through appropriate succession planning in the executive and board levels.

3.2 Tenure

Non-executive directors should serve for an appropriate length of time to ensure they bring an objective perspective to the board without compromising the independence of the board. The length of tenure of each director should be reviewed regularly by the nomination committee to allow for board refreshment and diversity and retention of corporate knowledge.

3.3 Director nomination disclosure

The board should disclose the process for director nomination and election / re-election along with information about board candidates which includes:

a) board member identities and rationale for appointment;

b) core competencies, qualifications, and professional background;

c) recent and current board and management mandates at other companies, as well as significant roles on non-profit / charitable organisations;

d) factors affecting independence, including relationship/s with controlling shareholders;

e) length of tenure;

f) board and committee meeting attendance; and

g) any shareholdings in the company.

Consolidating this disclosure in a skills matrix can be an efficient way to identify how key skills are accounted for within the board as a whole. Company disclosure could provide information on the board recruitment process, including on the use of external advisors, search and selection criteria and diversity.

3.4 Shareholder nominated directors

The board should ensure that shareholders are able to nominate candidates for board appointment, subject to an appropriate threshold of share ownership. Such candidacies should be proposed to the appropriate board committee and, subject to an appropriate nomination threshold, be nominated directly on the company's proxy.

3.5 Elections

Accountability mechanisms may require directors to stand for election on an annual basis or stand for election at least once every three years, with annual elections recognised as best practice. Shareholders should have a separate vote on the election of each director, with each candidate approved by a simple majority of shares voted.

3.6 Evaluation

The board should rigorously evaluate the performance of itself (as a collective body), the company secretary (where such a position exists), the board's committees and individual directors prior to being proposed for re-election. The board should also periodically (preferably every three years) engage an independent outside consultant to undertake such evaluations. The non-executive directors, led by the lead independent director, should be responsible for performance evaluation of the chair, taking into account the views of executive officers. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Extending a director's tenure for additional terms should be premised on satisfactory evaluations of his/her contribution.

3.7 Nomination committee

The board should establish a nomination committee comprised of a majority of independent non-executive directors. The main role and responsibilities of the nomination committee should be described in the committee's terms of reference. This includes:

a) evaluating the composition of the board taking into account the board diversity policy;

b) developing a skills matrix, by preparing a description of the desired roles, experience and capabilities required for each appointment;

c) leading the process for board appointments and putting forward recommendations to shareholders on directors to be elected and re-elected;

d) upholding the principle of director independence by addressing conflicts of interest (and potential conflicts of interest) among committee members and between the committee and its advisors during the nomination process;

e) considering and being responsible for the appointment of independent consultants for recruitment or evaluation including their selection and terms of engagement and publically disclosing their identity and consulting fees; and

f) entering into dialogue with shareholders on the subject of board nominations either directly or via the board; and

g) proactively leading and being accountable for the development, implementation and continual review of director succession planning.

Principle 4: Corporate culture

The board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company's strategy and operations, including risk management systems and remuneration structures.

Guidance

4.1 Anti-corruption

The board should ensure that management has implemented appropriately stringent policies and procedures to mitigate the risk of bribery and corruption or other malfeasance. Such policies and procedures should be communicated to shareholders and other interested parties.

4.2 Whistleblowing

The board should ensure that the company has in place an independent, confidential mechanism whereby an employee, supplier or other stakeholder can (without fear of retribution) raise issues of particular concern with regard to potential or suspected breaches of a company's code of ethics or local law.

4.3 Political lobbying

The board should have a policy on political engagement, covering lobbying and donations to political causes or candidates where allowed under law, and ensure that the benefits and risks of the approach taken are understood, monitored, transparent and regularly reviewed by the board.

4.4 Employee share dealing

The board should develop clear rules regarding any trading by directors and employees in the company's own securities. Individuals should not benefit directly or indirectly from knowledge which is not generally available to the market.

4.5 Behaviour and conduct

The board should foster a corporate culture which ensures that employees understand their responsibility for appropriate behaviour. There should be appropriate board level and staff training in all aspects relating to corporate culture and ethics. Due diligence and monitoring programmes should be in place to enable staff to understand relevant codes of conduct and apply them effectively to avoid company involvement in inappropriate behaviour.

4.6 Reincorporation

Boards should carefully assess a range of impacts if considering reincorporation or related corporate transformations. These include specific governance and investor protections, as well as broader systemic issues relating to tax, financial markets and economic impact.

Principle 5: Risk oversight

The board should proactively oversee, review and approve the approach to risk management regularly or with any significant business change and satisfy itself that the approach is functioning effectively.

Guidance

5.1 Proactive oversight

Strategy and risk are inseparable and should permeate all board discussions and, as such, the board should consider a range of plausible outcomes that could result from its decision-making and actions needed to manage those outcomes.

5.2 Comprehensive approach

The board should adopt a comprehensive approach to the oversight of risk which includes material financial, strategic, operational, environmental, and social risks (including political and legal ramifications of such risks), as well as any reputational consequences. Fundamental to this is the board's agreement on its risk appetite, and the board should seek to publicly communicate this in basic terms.

5.3 Risk culture

The board should lead by example and foster an effective risk culture that encourages openness and constructive challenge of judgements and assumptions. The company's culture with regard to risk and the process by which issues are escalated and de-escalated within the company should be evaluated periodically.

5.4 Dynamic process

The board should ensure that risk is appropriately reflected in the company's strategy and capital allocation. Risk should be managed accordingly in a rational, appropriately independent, dynamic and forward-looking way. This process of managing risks should be continual and include consideration of a range of plausible impacts.

5.5 Risk committee

While ultimate responsibility for a company's risk management approach rests with the full board, having a risk committee (be it a stand-alone risk committee, a combined risk committee with nomination and governance, strategy, audit or other) can be an effective mechanism to bring the transparency, focus and independent judgement needed to oversee the company's risk management approach.

Principle 6: Remuneration

Remuneration should be designed to effectively align the interests of the CEO and executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividends to shareholders and retain capital for future investment.

Guidance

6.1 Level

The board is responsible for ensuring that remuneration is reasonable and equitable in both structure and quantum, and is determined within the context of a company's values, internal reward structures and competitive drivers while being sensitive to the expectations of stakeholders and societal norms.

6.2 Structure

Remuneration should be structured in a simple manner and balance salary levels appropriately in comparison with the level of benefits such as bonuses, deferred stock options or long-term incentive plans (LTIPs). The use of restricted stock with long-term vesting and holding periods brings the benefit of simplicity compared with metric-based performance awards (such as LTIPs). Remuneration Committees are encouraged to consider whether restricted stock could be introduced alongside, or as an alternative to LTIPs, as long as their use is consistent with the company's capital allocation model, and provided that award size is reduced materially to take account of the greater certainty of vesting due to absence of performance hurdles.

6.3 Performance

Performance related elements (such as LTIPs) should integrate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders. Performance related elements should be rigorous and measured over timescales, and with methodologies, which help ensure that performance pay is directly correlated with sustained value creation. Companies should include provisions in their incentive plans that enable the company to withhold the payment of any sum ('malus'), or recover sums paid ('clawback'), in the event of serious misconduct or a material misstatement in the company's financial statements.

6.4 Disclosure

The board should disclose clear and understandable remuneration policies and reports which are aligned with the company's long-term strategic objectives. Such disclosure should facilitate comparability and accountability, and include reference to how awards were deemed appropriate in the context of the company's underlying performance and long term strategic objectives. It should also indicate whether remuneration consultants were involved in the process. Disclosure should refer to executive officers, directors and the CEO, and be reported on an individual basis, whilst also taking into account the company's overall approach to human resource strategy. This extends to non-cash items such as director and officer insurance, pension provisions, fringe benefits and terms of severance packages if any.

6.5 Share ownership

The board should disclose the company policy concerning ownership of shares by the CEO, non-executive directors and executive officers. This should include the company policy as to how share ownership requirements are to be achieved and for how long they are to be retained. The use of derivatives or other structures that enable the hedging of an individual's exposure to the company's shares should be discouraged.

6.6 Remuneration policy

Shareholders should have an opportunity, where a jurisdiction allows, to a binding vote on executive remuneration policies (usually every three years), particularly where significant change to remuneration structure is proposed.

6.7 Annual remuneration report

Shareholders should have an advisory vote on the annual remuneration report. In the absence of local legal requirements for a binding vote or equivalent, and in cases where a significant minority of shareholders (e.g. 25%) vote against a report, a binding vote should be triggered the following year.

6.8 Employee incentives

The board should ensure that the development of remuneration structures for company employees reinforce, and do not undermine, sustained value creation. Performance-based remuneration for staff should incorporate risk, including measuring risk-adjusted returns, to help ensure that no inappropriate or unintended risks are being incentivised. While a major component of most employee incentive remuneration is likely to be cash-based, these programmes should be designed and implemented in a manner consistent with the company's long-term performance drivers.

6.9 Non-executive director pay

The board should ensure that pay for a non-executive director and/or a non-executive chair is structured in a way which ensures independence, objectivity and alignment with shareholders' interests. Performance-based pay should not be granted to non-executive directors and non-executive chairs.

6.10 Remuneration committee

The board should establish a remuneration committee comprised of a majority of independent non-executive directors. The main role and responsibilities of the remuneration committee should be described in the committee terms of reference. This includes:

a) determining and recommending to the board the company's remuneration philosophy and policy which should take into account pay and employment conditions within the context of the company as a whole and its human resource strategy;

b) designing, implementing, monitoring and evaluating short-term and long-term share-based incentives and other benefits schemes including pension arrangements, for all executive officers, directors and the CEO;

c) ensuring that conflicts of interest among committee members and between the committee and its advisors are identified and avoided;

d) appointing any independent remuneration consultant including their selection and terms of engagement and disclosing their identity and consulting fees; and

e) maintaining appropriate communication with shareholders on the subject of remuneration either directly or via the board.

Principle 7: Reporting and audit

Boards should oversee timely and high quality company disclosures for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance and material environmental and social factors. A robust audit practice is critical for necessary quality standards.

Guidance

7.1 Comprehensive disclosure

The board should present a balanced and understandable assessment of the company's position and prospects in the annual report and accounts in order for shareholders and other stakeholders to be able to assess the company's financial performance, business model, strategy and long-term prospects. While shareholders are a primary audience for company reporting it is also of relevance to creditors who provide risk capital and bear the residual risk of the company.

7.2 Materiality

The board should disclose relevant and material information on a timely basis so as to allow shareholders to take into account information which assists in identifying risks and sources of wealth creation. Issues material to shareholders should be set out succinctly in the annual report, or equivalent disclosures, and approved by the board itself.

7.3 Affirmation

The board should affirm that the company's annual report and accounts present a true and fair view of the company's position and prospects. As appropriate, taking into account statutory and regulatory obligations in each jurisdiction, the information provided in the annual report and accounts should:

a) be relevant to investment decisions, enabling shareholders to evaluate risks, past and present performance, and to draw inferences regarding future performance;

b) enable investors, who put up the risk capital, to fulfil their stewardship responsibilities to assess company management and the strategies adopted;

c) be a faithful representation of the events it purports to represent;

d) generally be neutral and report activity in a fair and unbiased way except where there is uncertainty. Prudence should prevail such that assets and income are not overstated and liabilities and expenses are not understated. There should be substance over form. Any off-balance sheet items should be appropriately disclosed;

e) be verifiable so that when a systematic approach and methodology is used the same conclusion is reached;

f) be presented in a way that enables comparisons to be drawn of both the entity's performance over time and against other entities; and

g) recognise the 'matching principle' which requires that expenses are matched with revenues.

7.4 Solvency risk

The board should confirm in the annual report that it has carried out a robust assessment of the state of affairs of the company and any material risks, including to its solvency and liquidity that would threaten its viability. The board should state whether, in its opinion, the company will be able to meet its liabilities as they fall due and continue in operation for the foreseeable future, explaining any supporting assumptions and risks or uncertainties relevant to that and how they are being managed. In particular, disclosure on risk should include a description of:

a) risk in the context of the company's strategy;

b) risk to returns expected by shareholders with a focus on key consequences;

c) risk oversight approach and processes;

d) how lessons learned have been applied to improve future outcomes; and

e) the principal risks to the company's business model and the achievement of its strategic objectives, including risks that could threaten its viability.

7.5 Integrated reporting

The board should provide an integrated report that puts historical performance into context, and portrays the risks, opportunities and prospects for the company in the future, helping shareholders and stakeholders understand a company's strategic objectives and its progress towards sustainable value creation. Such disclosures should:

a) be linked to the company's business model;

b) be genuinely informative and include forward-looking elements where this will enhance understanding;

c) describe the company's strategy, and associated risks and opportunities, and explain the board's role in assessing and overseeing strategy and the management of risks and opportunities;

d) be accessible and appropriately integrated with other information, for example remuneration, that enables shareholders to obtain a picture of the whole company;

e) include information around risks and opportunities associated with environmental, social and governance matters which are material to the company's strategy and performance;

f) use key performance indicators that are linked to strategy and facilitate comparisons;

g) use objective metrics from external standard setters to allow for comparisons between companies or apply evidence-based estimates where external metrics do not exist; and

h) be strengthened where possible by independent assurance that is carried out annually having regard to established disclosure standards.

7.6 Internal controls

The board should oversee the establishment and maintenance of an effective system of internal control which should be measured against internationally accepted standards of internal audit and tested periodically for its adequacy. Where an internal audit function has not been established, full reasons for this should be disclosed in the annual report, as well as an explanation of how adequate assurance of the effectiveness of the system of internal controls has been obtained.

7.7 Independent external audit

The board should publish the report from the external auditor which should provide an independent and objective opinion whether the accounts give a true and fair view of the financial position and performance of the company.

7.8 Audit rotation

The engagement partner should be named in the audit report and audit rotation should be promoted at appropriate intervals both at the audit partner and firm level. The company should publish its policy on audit firm rotation. If the auditor resigns then the reasons for the resignation should be publicly disclosed by the resigning auditor.

7.9 Shareholder approval of auditor appointment

The selection of the external auditor should be subject to shareholder approval and the board should consider and report to shareholders on the independence of the auditor on an annual basis.

7.10 Auditor communications

The audit committee should engage with the company's auditor to discuss any risks or other concerns that were significant to the audit process, including any significant questions or disputes regarding accounting practices. The audit committee report should include a summary of its discussions with auditors, including how any major concerns were addressed, to enhance investor confidence in the audit process.

7.11 Non-audit fees

The audit committee should, as far as practicable, approve any non-audit services and related fees provided by the external auditor to ensure that they do not compromise auditor independence. The non-audit fees should be disclosed in the annual report with explanations where appropriate. Non-audit fees should normally be less than the audit fee and, if not, there should be a clear explanation as to why it was necessary for the auditor to provide these services and how the independence and objectivity of the audit was assured.

7.12 Audit committee

The board should establish an audit committee comprised entirely of independent non-executive directors. At least one member of the audit committee should have recent and relevant financial expertise. The chair of the board should not be the chair of the audit committee, other than in exceptional circumstances which should be explained in the annual report. The main role and responsibilities of the audit committee should be described in the committee's terms of reference. This includes:

a) monitoring the integrity of the accounts and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;

b) maintaining oversight of key accounting policies and accounting judgements which should be in accordance with generally accepted international accounting standards, and disclosing such policies in the notes to the company's accounts;

c) agreeing the minimum scope of the audit as prescribed by applicable law and any further assurance that the company needs. Shareholders (who satisfy a reasonable threshold of shareholding) should have the opportunity to discuss the results of the completed audit should they wish to;

d) assuring itself of the quality of the audit carried out by the external auditors and assessing the effectiveness and independence of the auditor each year. This includes overseeing the appointment, reappointment and, if necessary, the removal of the external auditor and the remuneration of the auditor. There should be transparency in advance when the audit is to be tendered so that shareholders can engage with the company in relation to the process should they so wish;

e) ensuring that contracts with the auditors do not contain specific limits to the auditor's liability to the company for consequential damages or require the company to use alternative dispute resolution;

f) assuring that a robust system of internal financial controls is in place to provide for reliable financial and operational information;

g) engaging, when appropriate, new audit firms to improve market competition and broaden the pool of credible audit service providers;

h) having appropriate dialogue with the external auditor without management present and overseeing the interaction between management and the external auditor, including reviewing the management letter provided by the external auditors and overseeing management's response; and

i) reporting on its work and conclusions in the annual report.

Principle 8: Shareholder rights

Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that a shareholder's voting rights are directly linked to the shareholder's economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

Guidance

8.1 Share classes

Ordinary or common shares should feature one vote for each share. Divergence from a 'one-share, one-vote' standard, which gives certain shareholders power or control disproportionate to their economic interests, should be avoided. In the event of the existence of such classes, they should be disclosed and explained and sunset mechanisms should be put into place. Dual class share structures should be discouraged, and, where they are in place, kept under review and should be accompanied by commensurate extra protections for minority shareholders, particularly in the event of a takeover bid. The board should disclose sufficient information about the material attributes of all of the company's classes and series of shares on a timely basis.

8.2 Major decisions

The board should ensure that shareholders have the right to vote on major decisions which may change the nature of the company in which they have invested. Such rights should be clearly described in the company's governing documents and include shareholder approval to authorise:

a) appointment or removal of a director, with or without cause, by a majority of votes cast;

b) amendments to governing documents of the company such as articles or by-laws;

c) company share repurchases (buy-backs);

d) issuance of additional shares, noting the board should be mindful of dilution of existing shareholders and provide full explanations where pre-emption rights are not offered;

e) shareholder rights plans ('poison pills') or other structures that act as anti-takeover mechanisms. Only non-conflicted shareholders should be entitled to vote on such plans and the vote should be binding. Plans should be time limited and put periodically to shareholders for re-approval;

f) proposals to change the voting rights of different series and classes of shares; and

g) material and extraordinary transactions such as mergers and acquisitions.

8.3 Conflicts of interest

The board should ensure that policies and procedures on conflicts of interest are established, understood and implemented by directors, management, employees and other relevant parties. If a director has an interest in a matter under consideration by the board, then the director should promptly declare such an interest and be precluded from voting on the subject or exerting influence. The use of relationship agreements with controlling shareholders is encouraged to ensure that real or potential conflicts of interest are avoided or mitigated.

8.4 Related party transactions

The board should disclose the process for approving, reviewing and monitoring related party transactions (RPTs) and any inherent conflicts of interest which, for significant transactions, includes establishing a committee of independent directors. This can be a separate committee or an existing committee comprised of independent directors, for example the audit committee. The committee should review significant RPTs to determine whether they are in the best interests of the company and, if so, to determine what terms are fair and reasonable. The conclusion of committee deliberations on significant RPTs should be disclosed in the company's annual report to shareholders.

8.5 Shareholder approval of RPTs

Shareholders should have the right to approve significant RPTs above an appropriate materiality threshold, and this should be based on the approval of a majority of disinterested shareholders. The board should submit the transaction for shareholder approval in the notice of the meeting and disclose (both before concluding the transaction and in the company's annual report):

a) the identity of the ultimate beneficiaries including, any controlling owner and any party affiliated with the controlling owner with any direct / indirect ownership interest in the company;

b) other businesses in which the controlling shareholder has a significant interest; and

c) shareholder agreements (e.g. commitments to related party payments such as licence fees, service agreements and loans).

8.6 Shareholder questions

The board should allow a reasonable opportunity for shareholders at a general meeting to ask questions about or make comments on the management of the company, and to ask the external auditor questions related to the audit.

8.7 Shareholder resolutions

The board should ensure that shareholders have the right to place items on the agenda of general meetings, and to propose resolutions subject to reasonable limitations. Shareholders should be enabled to work together to make such a proposal.

8.8 Shareholder meetings

The board should ensure that shareholders, of a specified portion of its outstanding shares or a specified number of shareholders, have the right to call a meeting of shareholders for the purpose of transacting the legitimate business of the company.

8.9 Thresholds

Any threshold associated with shareholder resolutions, shareholder proposals or other such participation, should ensure the matter under consideration is likely to be of importance to all shareholders. The threshold should take into consideration the degree of ownership concentration in order to ensure minority shareholders are not prevented from putting items on the agenda.

8.10 Equality and redress

The board should ensure that shareholders of the same series or class are treated equally and afforded protection against misuse or misappropriation of the capital they provide due to conduct by the company's board, its management or controlling shareholder, including market manipulation, false or misleading information, material omissions and insider trading. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Proper remedies and procedural rules should be put in place to make the protection effective and affordable. Where national legal remedies are not afforded, the board is encouraged to ensure that sufficient shareholder protections are provided in the company's bylaws.

8.11 General meetings

Shareholder meetings should be clearly communicated in a timely way and allow for all shareholder votes to be received by proxy and counted and confirmed.

8.12 Shareholder identification

The board should ensure that the company maintains a record of the registered owners of its shares or those holding voting rights over its shares. Registered shareholders, or their agents, should provide the company (where anonymity rules do not preclude this) with the identity of beneficial owners or holders of voting rights when requested in a timely manner. Shareholders should be able to review this record of registered owners of shares or those holding voting rights over shares. It is ultimately the shareholders' responsibility to identify themselves by ensuring they appear on the shareholder register directly in their own name and in any call for vote confirmation.

8.13 Notice

The board should ensure that the general meeting agenda is posted on the company's website at least one month prior to the meeting taking place. The agenda should be clear and properly itemised and include the date and location of the meeting as well as information regarding the issues to be decided at the meeting.

8.14 Vote deadline

The board should clearly publicise a date by which shareholders should cast their voting instructions. The practice of share blocking or requirements for lengthy share holdings should be discontinued.

8.15 Voting procedures

The board should promote efficient, low-cost, timely and accessible voting procedures that allow shareholders to participate and vote in general meetings either in person or in absentia, preferably by electronic means, and should not impose unnecessary hurdles such as share-blocking. Impediments such as requiring voting by a show of hands at the general meeting should be discontinued.

8.16 Vote disclosure

The board should ensure that equal effect is given to votes whether cast in person or in absentia, and all votes should be properly counted and recorded via ballot. The outcome of the vote, the vote instruction (reported separately for, against or abstain) and voting levels for each resolution should be published promptly after the meeting on the company website. If a board-endorsed resolution has been opposed by a significant proportion of votes (e.g. 25% or more), the company should explain subsequently what actions were taken to understand and respond to the concerns that led shareholders to vote against the board's recommendation.

8.17 Vote confirmation

Companies should confirm to shareholders (where the beneficial owner appears on the share register) whether or not their votes have been validly recorded and formally counted. This normally can only be provided where the institutional investors hold shares in their own names rather than through pooled or omnibus accounts which commingle the securities of multiple investors.

Annex: ICGN Global Stewardship Principles

The ICGN Global Stewardship Principles (GSP) set out 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. A cornerstone of ICGN's policy programme relates to investor responsibilities and making effective stewardship a reality and the GSP draw from ICGN's policy work in this area over the last twenty years.

The ICGN GSP are drafted with a view towards application in either developed or developing countries. 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 GSP also provide a useful benchmark for investors when periodically reviewing and refreshing their in-house stewardship policies.
- Enhancing dialogue between companies and investors by complementing Corporate Governance Codes applied in a 'comply or explain' context. In the event that a company wishes to explain any deviation from a code provision, shareholders should consider the quality of the explanation and engage with the company accordingly. 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.
- Providing a point of reference for regulators and standard setters seeking to establish or review 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. The ICGN GSP 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 GSP 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 following page highlights the seven Principles.

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.

Principles 2: Developing and implementing stewardship policies

Investors should commit to developing and implementing stewardship policies which outlines 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 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.

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