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Dear Prime Minister,

G20 Leaders Summit: the role of corporate governance in restoring stability

I am writing as Chairman of the International Corporate Governance Network (ICGN), a global organisation with some 450 members in 45 countries, including institutional investors responsible for assets under management of \$9.5 trillion. We are committed to the promotion of high standards in corporate governance internationally.

Ahead of the forthcoming Leaders' London Summit of G20 nations in April, we would like to convey our strong conviction that improved standards and practice of corporate governance should be fully integrated into the remedies applied to resolution of the financial crisis. We were disappointed that this dimension was lacking in the statement issued after the last summit in November 2008 and consider more emphasis is needed in the Washington Action Plan issued on 14 March.

We recognise that the crisis was exacerbated by a failure of governance both within bank boards and, in some cases, by lack of engagement of shareholders responsible for oversight. However, we believe the right approach now is not to ignore the contribution of governance but to strengthen it. Indeed, you recognised the value of this approach yourself when the Financial Stability Forum was founded after the Asia crisis of 1997.

Good governance, overseen by responsible shareholders, addresses management of risk in a way that underpins prudential supervision and regulation. It is consistent with open and transparent markets and reduces the justification for recourse to prescriptive regulation of a type that, all too often, has an underlying protectionist motive.

For the accountability chain to work shareholders must both have rights and exercise them responsibly. In jurisdictions where rights are weak, they should be strengthened. In all jurisdictions, shareholders must be encouraged to exercise them responsibly. Not all shareholders are alike. Our members believe in the long term benefits of governance and the responsibility of shareholders. They strive to make this an integral part of their approach to investment and believe other investors should aim to do the same, not just with regard to governance itself but also with regard to broader environmental and social issues where corporate behaviour may engender risks, not only to the company's own survival but also to society at large. We are concerned to make our own efforts more effective, but part of our mission

is to campaign for greater responsibility with less enlightened investors. ICGN's Statement of Shareholder Responsibilities refers and a copy is attached for convenience.

We now believe it is right for world leaders to focus on the rights and responsibilities of shareholders. As part of this process it would also help if they could strengthen the governance framework in the following specific ways:

- Strengthen the fiduciary obligation of all institutional investors to their clients – the beneficial owners of the funds under investment – in ways that will encourage them to consider the value implications of ignoring good governance. For example, they should ask their fund managers to carry out due diligence on corporate governance before they invest and explain their reasons for failing to do this.
- Ensure measures are in place to address conflicts of interest that face institutions, for example when they are managing pension money for companies in which they also own a portfolio stake.
- Focus urgent attention on the barriers to cross-border voting of shares to enable greater participation at companies' general meetings.
- Encourage measures to improve communication between boards and shareholders, which will ensure that the entire board is aware of concerns expressed by shareholders.
- Require the independent evaluation of bank boards to ensure that their governance policies are functioning appropriately. Malfunctioning boards have been a major problem.
- Ensure remuneration policies both within companies and in fund management firms create a real incentive to take a longer term view of corporate direction and sustainability.

We understand that growing public concern with the debate on remuneration which we regard as an integral component of corporate governance. In some cases remuneration arrangements both at board level and more broadly throughout banking institutions played a role in exacerbating the crisis. In addressing this, we believe that the Summit should take care to set a balance between the need to ensure that a short term approach to remuneration does not engender excessive risk, whilst at the same time avoids the danger of stifling entrepreneurialism that enables companies to generate wealth for their owners and for the benefit of the economy as a whole, including employment for the workforce.

While it may be appropriate for governments to place specific restrictions on remuneration in financial institutions taking government financed assistance, these should be moderated and limited to specific areas where obvious abuses have occurred. More generally we believe that expanded disclosure requirements related both to executive director remuneration and to the risk aspects of employee remuneration in financial institutions will help shareholders to do a better job of providing a check on the aspects of remuneration programmes that are difficult to regulate directly. Above all, it is vital to ensure that there is no reward for failure and that reward is linked to genuine performance over an appropriate timescale.

Strengthened governance cannot guarantee an absence of problems in the future. We will need a new and better focused approach to regulation, but incorporating governance, particularly through fostering

active and responsible shareholders into the overall package, should help to ensure that regulation remains proportionate while strengthening the management of risk.

Please find attached the ICGN's second statement on the global financial crisis, which expands on a number of these points and comments on the work programme you have embarked upon. If we can assist or you would like to discuss any of the above please contact Anne Simpson, ICGN's Executive Director (execdirector@icgn.org)

Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,

A handwritten signature in black ink, reading "Peter Montagnon", is written over a horizontal line. The signature is cursive and appears to be a scan of a physical document.

Peter Montagnon
Chairman, ICGN Board of Directors

cc. ICGN Board of Directors
Anne Simpson, Executive Director,