

23 April 2020

Dear Corporate Leader

Governance Priorities During the Covid-19 Pandemic

The International Corporate Governance Network (ICGN), led by investors responsible for assets of \$54 trillion, has long advocated that board directors and investors have a shared interest - and thus a shared responsibility - in promoting the success of companies to preserve and enhance long-term value, contributing to strong economies and healthy societies.

In the face of the Covid-19 pandemic this shared responsibility has never been so important, and it is in this spirit that we write to you as a Corporate Leader to share our perspective on governance priorities for companies and investors alike. Since the ICGN Global Governance Principles were first published in 2001, the fundamental pillars of effective board leadership, reliable corporate disclosure, investor stewardship and stakeholder accountability have governed our dialogue with companies.

In recent years, the challenges presented by climate change have tilted discussions towards environmental risks as well as corporate governance. Covid-19 presents a new era of engagement, one which reinforces the significance of this dialogue and elevates the importance of social factors as a key determinant to a company's long-term financial health and sustainability.

We therefore respectfully submit to you the **ICGN Statement of Shared Governance Responsibilities** which broadly emphasize the need for companies to:

- Prioritize employee safety and welfare while meeting short-term liquidity requirements to preserve financial health and solvency
- Pursue a long-term view on social responsibility, fairness and sustainable value creation and publicly define a social purpose as we all adjust to a new reality
- Take a holistic and equitable approach to capital allocation decisions, considering the workforce, stakeholders and providers of capital
- Communicate comprehensively with all stakeholders to instill confidence and trust in a company's approach to build resilience into strategy and operations

The Covid-19 pandemic presents the most significant public health and economic crisis of our time and calls for new forms of cooperation on a global scale. It has ignited an acute recognition of social failures and deep gender, racial and income inequality. As business leaders and institutional investors in positions of influence, we hope that this letter provides an agenda of common interest as we navigate this unprecedented challenge together and embrace a new era of governance dialogue ahead.

We invite you to respond to this letter and the attached statement. To receive ICGN global investor viewpoints, guidance or webinars contact Garvin Payne (Garvin.payne@icgn.org). For more information on our policy positions, email ICGN's Policy Director, George Dallas (George.Dallas@icgn.org). We look forward to continued dialogue with you and contacts for ICGN Board Directors and Policy Committee Chairs based around the world are provided in the Annex.

Yours sincerely,



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ICGN Statement of Shared Governance Responsibilities

Governance Priorities for Companies

1. **Social responsibility** – companies should treat the workforce equitably to ensure the health and well-being of all staff, both permanent employees and contractors. Where possible, redundancies should be avoided particularly in countries where social security provisions are weak or non-existent. Paid sick leave should be offered along with medical benefits for furloughed workers. We recommend sensitivity towards female workers, more of whom work part-time and in low income positions compared to male counterparts and who are often considered first for redundancy. In many cases, people serving in these positions have been on the front-line in the battle against Covid-19.
2. **Executive remuneration** – executive pay policy should reflect the experience of the overall workforce, particularly in relation to staff redundancies, furlough programmes, pay level reductions or bonus awards. Even for managers performing capably during this crisis, the priority to preserve a company's long-term financial health must take precedence over bonus considerations. Remuneration policies should seek an equitable treatment of ordinary staff with that of senior executive management and financial sacrifice appropriately shared.
3. **Dividends** – for companies severely affected by the pandemic, dividend payments may require substantial reduction or complete suspension. This is particularly acute where company revenue is reduced, and financial stability is threatened thereby impacting employees, suppliers and other stakeholders. While a prudent approach to dividends is expected, the importance of dividend payments to support the livelihoods of ordinary pensioners and long-term savers should not be underestimated. If companies can pay dividends without compromising long-term financial stability they should continue to do so.
4. **Capital raising** – some companies will need to raise additional capital over the coming months to sustain operations. The U.K.'s Pre-emption Group recently issued a notice encouraging investors to support equity issues that could be 20% dilutive, up from the current recommended limit of 10%. ICGN supports regulatory efforts to enable a more efficient approach to capital raising, notwithstanding that the preference is for any new capital raisings to be offered to existing shareholders in the first order to minimize dilution to shareholdings.
5. **Annual General Meetings & director elections** – many companies are holding AGMs virtually in lieu of physical meetings during the Covid-19 pandemic. We encourage companies to engage with investors to ensure questions can be properly addressed given that this is likely to be more challenging in a virtual environment. Investors will seek assurance on the competence of board directors in steering through this crisis. This will require familiarity with the company's operations and long-term strategy and may call for modest extensions to director tenure to help provide stability during this difficult time.
6. **Corporate reporting** – regulators around the world are extending the timeframe for companies to prepare their annual report and accounts and to respond to auditor queries around resilience and going concern assumptions. Investors - and auditors – are focusing more attention on cash flow statements, risk scenario planning and capital allocation approaches. Demonstrating resilience as a complement to sustainable value creation is a new priority and companies are encouraged to publicly disclose how they are dealing with the Covid-19 pandemic, preferably in the annual report.

Governance Priorities for Investors

1. **Long-term perspective** - investors should take a long-term systemic perspective on corporate governance matters, guided by fiduciary duties. Many ICGN Members are institutional investors who serve clients and beneficiaries with pension plans and other forms of long-term savings. While the near-term reductions in investment returns are painful, investors should be prepared to accept reductions in market valuations and dividend payments to protect financial stability through the crisis period and focus on the longer-term sustainability of individual companies, financial markets and the economy.
2. **Climate change** - while we appreciate that Covid-19 presents an immediate risk and should be prioritized, shareholders should continue to engage boards on how companies are embedding the effects of climate change in their business models and risk management systems to ensure they are properly identified, monitored and managed. These risks are foreseeable and measurable as we experience the effect of higher temperatures on our warming planet in real time. Covid-19 and climate change present a collision of systemic crises which should be managed simultaneously to reinvigorate and decarbonize the global economy. Action taken now to mitigate the negative effects of both systemic threats will materially reduce the magnitude of the impact experienced by future generations.
3. **Capital allocation** – investors should expect that capital allocation decisions are made in a long-term strategic context, reflecting the company’s own financial position, operating performance and business model. This will require having regard for stakeholder interests and the needs of providers of capital, while protecting the company’s financial health and solvency. Investors understand that companies may want to take precautions by strengthening their balance sheets to provide a buffer against further turbulence. They will also closely assess financial risks and expect to engage with companies on a sustainable approach to capital allocation issues.
4. **Short selling** – it is in the interest of all investors to support the effective functioning of capital markets. Short selling and high frequency trading can undermine market confidence. We encourage investors who wish to benefit from increased market volatility to do so responsibly to help ensure financial market stability. ICGN supports the decision of the European Securities and Markets Authority to require investors to notify their national competent authorities if their net short position reaches or exceeds 0.1% of the issued share capital of the company concerned, down from a previous requirement of 0.2%
5. **Comprehensive monitoring** – investors should show flexibility and support to companies but monitor for material departures from corporate governance standards. Companies should be assessed according to their individual circumstances, financial performance and long-term potential. Companies which are facing distress due to the current crisis should be prioritized, particularly where there is a risk of loss of value or an opportunity to add significant long-term value through shareholder engagement.
6. **Sustainability** - investors should promote the long-term performance and sustainable success of companies and integrate material environmental social and governance factors in investment decision-making and stewardship activities. While company engagements should focus on priority issues during the crisis (e.g., capital allocation), investors should continue to prioritize sustainability and material stakeholder issues which affect company’s long-term prospects and create systemic risks.

Annex 1: ICGN Investor Members

AP1 Första AP-fonden, Sweden
AP3 Tredje AP fonden, Sweden
BMGI, USA
BT Pension Scheme Trustees Ltd, UK
Caisse des Dépôts et Consignations, France
California State Teachers' Retirement System, USA
Church Commissioners & Pension Board, UK
Connor, Clark & Lunn Financial Group, Canada
Etica SGR, Italy
Future Fund, Australia
Government Pension Investment Fund, Japan
Korea Investment Corporation, Korea
Maine PERS, USA
New Zealand Super Fund, New Zealand
Ontario Municipal Employees Retirement System, Canada
OP Trust, Canada
Pension Fund Association, Japan
RPMI Railpen Investments, UK
State Board of Administration of Florida, USA
UAW Retiree Medical Benefits Trust, USA
Universities Superannuation Scheme, UK
Velliv, Pension & Livsforsikring A/S, Denmark
Aberdeen Standard Investments, UK
Addenda Capital Inc, USA
AllianceBernstein L.P., USA
Amber Capital, UK
Amundi Asset Management, France
Arabesque Asset Management Ltd, UK
Aviva Investors, UK
BlackRock, USA
BMOG Asset Management, Canada
Boston Common Asset Management, USA
British Columbia Investment Management, Canada
Cartica Capital, USA
CCLA Investment Management, UK
CM-CIC, France
Coronation Fund Managers, South Africa
Dimensional Fund Advisors, USA
Eastspring Investments, Hong Kong
Elliott Management Corporation, USA
Evenlode Investments, UK
Fidelity Investments, USA
Franklin Templeton Investments, USA
Genesis Investment Management, UK
Hermes Investment Management, UK
Joh. Berenberg, Gossler & Co. KG, Germany
Kempen Capital Management, Netherlands
Legal & General Investment Management, UK
M&G Investment Management, UK
Martin Currie Investment Management, UK
Merian Global Investors (UK) Limited, UK
Momentum Asset Management, South Africa
NEI Investments, Canada
Nikko Asset Management, Japan
Nissay Asset Management, Japan
Nomura Asset Management Co. Ltd, Japan
Norges Bank Investment Management, Norway
Nuveen, USA
OFI Asset Management, Finland
Parnassus Investments, USA
PhiTrust, France
QMA, USA
RBC Global Asset Management, Canada
Robeco, Netherlands
Sarasin & Partners LLP, UK
Sompo Japan Nipponkoa Asset Management, Japan
Sumitomo Mitsui Trust Asset Management, Japan
Swiss Life Asset Managers, Switzerland
Taikang Asset Management Company Ltd, Hong Kong
Triodos Investment Management, Netherlands
Vanguard Group Incorporated, USA
Wellington Management Company, LLP, USA
William Blair, USA
AP2 Andra AP-fonden, Sweden
AP4 Fjärde AP-fonden, Sweden
British Airways Pension Investment Management Ltd, UK
Caisse de Dépôt et Placement du Quebec, Canada
California Public Employees' Retirement System, USA
Canada Pension Plan Investment Board, Canada
Colorado Public Employees' Retirement Association, USA
Dai-ichi Life Insurance Company, Japan
Fonds de Reserve Pour les Retraites, France
Government Employees Pension Fund, South Africa
HESTA Super Fund, Australia
Los Angeles County Employees Retirement Association, USA
National Pension Service Korea, Korea
Office of the New York City Comptroller, USA
Ontario Teachers' Pension Plan, Canada
Pensioenfonds Vervoer, Netherlands
Royal London Group, UK
SAS Trustee Corporation, Australia
Shin Kong Life Insurance, Hong Kong
UniSuper, Australia
University of Toronto Asset Management, Canada
Washington State Investment Board, USA
Achmea Investment Management B.V., Netherlands
Alberta Investment Management Corporation, Canada
Allianz Global Investors, Germany
AMP Capital, Australia
APG Asset Management, Netherlands
Asset Management One Co, Ltd, Japan
Baillie Gifford & Co, UK
Blue Harbour Group, USA
BNP Paribas Asset Management, France
Brandes Investment Partners, USA
Capital International, Inc., USA
Cbus, Australia
Charles Schwab Investment Management, USA
Comgest, France
CQS New City Equity, USA
DWS, Germany
Edmond de Rothschild Asset Management, UK
Eurizon Asset Management, Italy
Fidelity International, USA
Generali Investments Europe, Italy
GO Investment Partners LLP, UK
HSBC Global Asset Management, UK
JP Morgan Asset Management, USA
Lazard Asset Management, USA
LocalTapiola Asset Management Ltd, Finland
Manulife Asset Management, Canada
Matthews International Capital Management, USA
MN, Netherlands
MP Investment Management, Denmark
Newton Investment Management, UK
Ninety One, South Africa, UK
NN Investment Partners International Holdings BV, Netherlands
Nordea Funds Ltd, Sweden
Northill Capital, USA
Oasis Management Company Ltd, Hong Kong
Old Mutual plc, South Africa
PGGM Investments, Netherlands
PSP Investments, Canada
RAM Active Investments, South Africa
Resona Asset Management Co. Ltd, Japan
Sands Capital, USA
Schroder Investment Management, UK
Strategic Capital Inc., USA
Swedbank Robur Fonder AB, Sweden
Symphony Financial Partners Pte. Ltd, Singapore
Thomson Horstmann and Bryant Inc, USA
UBS Asset Management, USA
Walter Scott & Partners Limited, UK
Wespath Investment Management, USA

Annex 2: ICGN Key Contacts

ICGN Management

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