



# ICGN

International Corporate Governance Network  
*Inspiring good governance & stewardship*

**Pakistan Institute of Corporate Governance Conference**  
**ESG for Pakistan: Road to Readiness**  
**Keynote Remarks from Kerie Waring, CEO, ICGN**  
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## **1. Introduction**

Hello everyone. I am delighted to join you today.

For those of you who are not familiar with ICGN, we were established nearly 30 years ago, as a global network, by some of the world's largest investors. Our purpose is to advance the highest standards of corporate governance, helping to ensure successful companies, contributing to sustainable economies and social prosperity.

Our members are based in over 40 countries, led by investors responsible for assets of around \$77 trillion. Public listed companies, market intermediaries and governance associations are also ICGN members, including the Pakistan Institute of Corporate Governance.

Our work program is based around ICGN's Global Governance Principles, first published in 2001, and used by investors in their voting policies and company engagements. Regulators also use our principles when developing national standards. In this regard, we recognise the good work of the Securities and Exchange Commission of Pakistan and the establishment of the Code of Corporate Governance for listed companies in 2019.

Today, I have been invited to talk to you about what investors value most in terms of corporate governance and sustainability. Perhaps before this, we could just reflect on what we mean by 'corporate governance.'

Sir Adrian Cadbury, one of the world's governance pioneers, once explained to me that the word 'governance' is derived from the Latin word 'gubernare', which means 'to steer'. He likened the role of a Board to that of a Captain on a ship, setting her course and steering her direction.

Sir Adrian defined corporate governance as *"the system by which companies are directed and controlled"*. This 'system' relies on core **governance foundations**, essential for successful companies, instilling investor confidence, and contributing to well-functioning capital markets.

## **2. Board responsibilities**

There are ten governance foundations starting with the ‘**responsibility**’ of the board to provide strategic guidance, risk oversight, and effective monitoring of management’s plans and performance in promoting the long-term success of the company.

Questions that investor might consider include:

- **Is there a clear division of responsibilities between the Chair and CEO** to avoid unfettered powers of decision-making - particularly important if the Chair or CEO is a significant shareholder? ICGN also discourages a company’s retiring CEO remaining on the board as a director or becoming Chair. If this is the case, the board should consult with shareholders setting out a convincing rationale and plan for future succession.
- **Is there a majority of Independent Directors** with relevant knowledge, skills, and experience to ensure constructive challenge and objective guidance on the company’s strategic direction.
- **How effective are Independent Directors in scrutinising the performance** of the CEO against strategic objectives? Is there an annual review of the succession plan for the CEO and board as a whole?
- **How diverse is the board and the workforce to ensure effective decision-making?** Is there a Diversity Policy specifying measurable, time-bound targets, aligned with a company’s purpose, values, and long-term strategy.
- **How does the board manage conflicts of interest**, particularly those resulting from significant shareholders, and ensure that independent judgement is not compromised?
- **Is there a statement of corporate values**, describing cohesive beliefs shared by the board and workforce, to instil a corporate culture with high standards of moral and ethical behaviour? Does the board itself lead by example acting with honesty and integrity?
- **How effective are board committees** in overseeing audit, risk, governance, and sustainability? Do committee chairs meet regularly to coordinate agendas?
- **Is there is formal and transparent approach to the appointment of board directors** based on merit with objective selection criteria. Are there any over-boarded directors? What about long tenure? How are individual directors - and the board as a whole – evaluated to ensure board performance and effective decision-making.

### **3. Board accountability**

A second governance foundation is the ‘**accountability**’ of the board to shareholders in creating long-term value, taking account of stakeholder interests including the workforce, creditors, customers, and suppliers.

Accountability is held through reporting, engagement, and the Annual General Meeting.

ICGN’s expectation is that the board, led by the Chair, will engage constructively with shareholders on matters including governance, sustainability, and corporate performance.

We also expect that investors acknowledge their responsibility to engage with companies to mitigate risks and enhance opportunities in creating long-term value on behalf of their beneficiaries.

Many investors prioritise engagement based on their size of shareholding, fund type or geography – or this could be vote-driven in response to a contentious management proposal; circumstantial in response to a corporate crisis; or thematic.

Whatever the rationale, it is important that – for both companies and investors – engagement is strategic, constructive, and ongoing, focused on issues of direct relevance to the company.

The Annual General Meeting is the ultimate forum for the board’s accountability to shareholders and should be managed efficiently, democratically, and securely to properly facilitate shareholder participation.

### **4. Aligning incentives**

The next foundation is about ‘**incentives**’ designed to align the interests of executive management (and the board itself) equitably and effectively with shareholders and the company’s long-term strategic objectives, including sustainability related key performance indicators.

CEO pay should be reasonable within the context of a company’s reward structures, values and competitive drivers. Policies and reports should be clear, understandable, and comprehensive – describing the rationale for awards, at individual levels, and in the context of the company’s underlying performance.

Importantly, Remuneration Committees should ensure there are NO rewards for under-performance. The UK FRC has just introduced new provisions to the Corporate Governance Code around the need for contracts to include malus and clawback provisions to enable the company to with-hold sums or recoup losses for poor performance.

For Independent Directors, pay should be commensurate with the time commitment and responsibilities required for the role – and not include share options or other performance related elements.

## **5. Shareholder rights**

The **‘rights’** of shareholders to information and ability to influence the company – for example electing board directors – is a key governance foundation.

However, I fear that this is in regression in many markets. For example:

- In the UK we are questioning the FCA’s proposals to remove shareholder votes prior to significant and related party transactions.
- In Japan, we are encouraging the FSA to review rules regarding joint holdings to enhance investor collaboration.
- In Italy, we are fighting an obscure proposal to disallow shareholders from directly participating in virtual AGMs.

More generally, many markets now allow for virtual-only AGM’s post Covid. This significantly limits the ability of shareholders to directly interact with boards, ask unmoderated questions, and make statements from the floor. ICGN’s preference is for a hybrid approach, allowing for both in-person and virtual participation by shareholders.

- In the US, some state legislatures have passed laws that ban or limit the consideration of ESG in decision-making and investment strategies.

## **6. Equitable treatment**

This leads me to another governance foundation which is **‘fairness’** in the treatment of minority shareholders to protect against the misuse of their capital from a company’s management, board or controlling shareholders.

ICGN is concerned about the increasing number of companies using dual class shares structures, inhibiting minority investor influence, and giving certain shareholders control disproportionate to their economic interests.

One-share-one vote is the optimal approach to share structure. If dual class shares are used, we expect Boards to disclose a clear rationale, along with a description of any safeguards against any misuse of minority investee capital.

Safeguards include:

- An annual review of a company’s ownership structure by the Board.
- A majority of Independent Directors.
- Sunset clauses specifying when dual class shares will lapse.
- Limitations on the weighted voting rights ratio (no more than 5:1).

## **7. Investor stewardship**

Shareholders are committed to **stewardship** and the responsible allocation, management, and oversight of capital on behalf of beneficiaries, thereby preserving and enhancing long-term value.

Today there are over 20 stewardship codes around the world with the most recent ones being published in Malaysia, Spain, South Africa, Switzerland, and NZ.

We are in the process of updating ICGN's own Global Stewardship Principles with a particular focus on:

- Governance structures and processes.
- Capacity and capabilities, supported by reliable research and analysis.
- Voting transparency, including rationale for decisions, particularly when votes are cast against a company resolution - or if inconsistent with voting policies.

## **8. Transparency**

Of course, shareholders can only be effective in their role and allocate capital to companies responsibly if they have **transparency**. Timely and accurate disclosure of a company's financial position, performance, and prospects, including governance and sustainability, is a hugely important governance foundation.

ICGN therefore supports the mission of the ISSB to develop a global baseline of sustainability disclosures for companies to provide complete, standardised, decision useful information about sustainability related risks and opportunities.

Now that the ISSB has published its first standards, endorsed by IOSCO, we would like to encourage:

- Mandatory reporting, required by regulators, aligned with ISSB standards, particularly on climate transition plans, to enable investors to assess their portfolio's carbon footprint.
- Reporting by private as well as public companies – proportionate to size.
- Simultaneous publication of financial statements and sustainability reporting – with assumptions clearly linked and explained.
- Laymen friendly drafting, preferably in English, as foreign investors can't rely on unofficial translations to make important investment and voting decisions.

## **9. Assurance**

Reliability of this disclosure based on internationally recognised auditing and **assurance** standards is also an imperative governance foundation.

Investors rely on auditors to ensure that the financial statements provide a fair representation of a company's economic health, and that sustainability related assumptions and judgements are sound.

We therefore welcome Europe's mandatory approach for 'limited' assurance of sustainability reporting, in addition to financial statements, and progressing this to reasonable assurance over time.

We note that the US SEC also requires this in the draft climate rule which we are still awaiting. We encourage Asian markets to follow suit, noting that Singapore and Japan already recommend this.

We also welcome the creation of international standards by the IAASB and IESBA, to ensure the quality of assurance engagement.

## **10. Dialogue**

This brings me to **dialogue** – a governance foundation reliant on trust between the board and shareholders in discussing a company's approach to governance, resilience, and performance against strategic objectives.

Disclosure is not an end in itself – it's the start of a conversation between companies and investors in their mutual responsibility to promote the success of the company, thus creating long-term value upon which we all rely.

Regulators in many markets are calling upon companies and investors to enter into dialogue more strategically and in a more impactful way. This can be facilitated through a 'comply or explain' system where companies can disclose their governance practices or explain an alternative approach. And investors will carefully consider these explanations taking account of the individual circumstances of the company when making voting decisions.

## **11. Sustainability**

To conclude, the newly revised G20-OECD Corporate Governance Principles include a new chapter on '**sustainability** and resilience' stating that *"the corporate governance framework should provide incentives for companies and their investors to make decisions and manage their risks in a way that contributes to the sustainability and resilience of the corporation."*

It recognises modern day perceptions on the role of the company – not only to create financial value but also to positively contribute to the broader economy, society, and environment.

And the workings of the board have evolved in this respect:

- Corporate sustainability reporting has emerged, alongside assurance.
- Many companies now have sustainability committees.
- CSOs are becoming the norm alongside the CFO.
- Sustainability competencies are prioritised, particularly on Audit Committee.

- Incentives are aligning with sustainability related KPIs.
- Engagement is, not only with shareholders, but also stakeholders.

Importantly boards are now expected to disclose how they identify and oversee sustainability related risks and opportunities. This extends to threats to the company's business model, cyber-security, supply chain resilience, performance, solvency, liquidity, and reputation. It also includes relevant systemic risks such as climate change, social inequality, and digital transformation.

In terms of climate change, ICGN has recently published a Viewpoint on the importance of accounting for climate risks. We want to see companies publish:

- credible climate commitments, aligned with strategy.
- measurable targets, based on realistic assumptions.
- achievable net zero transition plans.
- clear emissions narrative, translated into real numbers linked to financial statements.

Investors also want companies to provide better scenario analysis disclosure. We are not expecting hard numbers but want more information around how the board is thinking about different climate scenarios and the impact that this would have on the business.

## **12. Conclusion**

Let me conclude by saying that the achievement of high standards of corporate governance is a journey – not a destination. All companies – and countries - are evolving at different stages taking account of national rules, regulations, and share ownership models.

To emphasise again, company boards and investors share a common obligation - to preserve and enhance long-term corporate value contributing to economic growth, social prosperity, and a healthy environment now and into the future. S

Thank you and I welcome any questions.

**ENDS.**