ICGN Statement to the Press

G20 2017 Leaders Summit: What are the key issues for institutional investors?

ICGN congratulates the German government for using its Presidency of the G20 to develop a broad and full agenda for the G20 Leaders Summit, taking place this year on 7-8 July in Hamburg. The G20 Leaders Summit brings together heads of state and government from the world's major economies at a point in time in which the world is facing many complicated economic, political and social challenges.

The Summit agenda reflects G20's traditional emphasis on financial and economic matters, but will expand to address a broader range of topics relating to geopolitical stability, counter-terrorism, cyber risk, refugee flows, tax policy, anticorruption and the spread of communicable diseases. These are all worthy issues for consideration, and have will have impact on the ability of institutional investors to provide sustainable returns to their clients and beneficiaries.

Against this important agenda there are a range of issues for G20 consideration that will have a direct impact on the rights of institutional investors and potentially impede their important role as fiduciaries in holding corporate boards to account. ICGN has published Viewpoint reports earlier in 2107, reflecting the changing political landscapes in both the US and in Europe post Brexit[1]. From the many themes raised in these Viewpoint reports ICGN would like to highlight three specific themes that have direct relevance for the G20 Summit. These include:

Climate Change. It is critical for investors - and society at large - for the G20 to maintain its focus on climate change, notwithstanding the US government's discouraging announcement that it will not honour its earlier commitments to the Paris Climate Accord of 2015. We are encouraged by the resolve of other leading governments, including many American states, to continue to make progress towards climate change commitments, and we urge both companies and investors also to maintain similar resolve. From a governance perspective, climate-awareness on boards of directors will continue to be an important theme, as will the need for the investor community to better understand climate related risks and to reflect them in their investment and engagement activities[2].

Financial System Stability. ICGN believes it is critical for investors to maintain a focus on systemic risk. The world is still suffering from the effects of the financial crisis that began over 10 years ago, and it is remains imperative for both companies and investors to preserve the stability and integrity of financial markets as a whole. ICGN is again concerned about a legislative initiative in the United States, The Financial Choice Act, which is a crude and retrograde piece of legislation that risks heightening financial system risks at a point in time when regulators, investors and companies need to ensure systemic stability. We also believe the Financial Choice Act will diminish the positive effects of investor stewardship by marginalising shareholder rights. We are concerned in particular about the potential increases in banking sector risk in the US through relaxed capital standards and market scrutiny that would come through the Financial Choice Act. ICGN encourages the G20 and the global financial community not to be distracted by this dubious shift in US policy - and to maintain the global leadership that will support healthy and sustainable capital markets[3].

Protectionism. ICGN is supportive of the G20 stance opposing protectionism and supporting fair terms of competition. We believe protectionism is ultimately bad economics and leads to reduced and imbalanced economic growth. US public policy towards trade indicates a current direction towards protectionism which we believe would work against the interests of investors, companies and economies generally — not only in the US, but around the world. But here the US is not alone, and ICGN is concerned not only about potential distortions of free trade; there is a range of legislative initiatives of a populist nature in other important markets that serve to effectively contribute to protectionism through inequitable regulations affecting shareholder rights and the accountability of companies and their boards. For example, current consideration by the Dutch Ministry of Economic Affairs around new takeover legislation which introduces a one year "legal timeout" to mitigate hostile acquisitions may have positive intentions but will produce negative consequences, not only for investors but also for companies by removing the discipline of market forces. Another example is the Florange Act in France that hardwires multiple voting rights into French companies and disenfranchises minority shareholders of their share ownership rights. We also observe similar protectionist shareholding structures being considered in some Asian markets, notably Singapore and Hong Kong at present. ICGN recently met with regulatory authorities in the Netherlands with the Ministry of Economic Affairs and in Singapore with the Stock Exchange to discourage such initiative from developing further and we believe that the G20 focus on protectionism should present challenges to legislative developments of this nature.

The Executive Director of ICGN, Kerrie Waring, said *"The most recent G20/ OECD Principles of Corporate Governance specifically emphasise the importance of investors being able to make informed use of their ownership rights as a key attribute to an effective and credible corporate governance system. Regulatory authorities would be wise to heed this and help - not hinder - institutional investors acting as fiduciaries to help ensure the long term success of companies and overall capital market sustainability. There is a sense of regulatory schizophrenia on a global scale – on the one hand certain mechanisms undermine investor influence over corporate governance, while on the other hand, markets are promoting stewardship codes to encourage more company engagement by investors - we can't have it both ways."*

It is clear that the G20 meetings will not resolve all these questions. There remains an ongoing dialogue on these and other systemic issues that will be subject of focus for both the G20 and ICGN. ICGN is hopeful that progress will be made at the Leaders Summit, but these remain critical issues that will affect and engage ICGN members and the institutional investment community in the years to come.

ENDS.

EDITOR'S NOTES

Established in 1995, the International Corporate Governance Network (ICGN) is an investor-led organisation of governance professionals with members including institutional investors based in 47 countries and collectively responsible for assets under management in excess of US$26 trillion. ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. ICGN is a global authority on high standards of corporate governance and investor stewardship as demonstrated in the ICGN Global Governance Principles and ICGN Global Stewardship Principles. www.icgn.org.
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End Notes

(1) See: ICGN Viewpoints: “Governance questions posed by the changing U.S. political landscape”: https://www.icgn.org/governance-questions-posed-changing-us-political-landscape and “Brexit: what are the governance implications for the EU and the UK?”: https://www.icgn.org/brexit-what-are-governance-implications-eu-and-uk

(2) For further background on the link between climate change and corporate governance, see the ICGN Viewpoint on Climate Change, November 2015: https://www.icgn.org/climate-change

(3) See ICGN letter to US Congress on the Financial Choice Act: https://www.icgn.org/sites/default/files/8.%20ICGN%20Letter%20to%20Representatives%20Ryan%20and%20Pelosi%20on%20US%20Financial%20CHOICE%20Act_0.pdf