Dear Ms. Fox,

Re: The “Improving Engagement Between ASX-Listed Entities and their Institutional Investors” - Background Paper and Guidelines

The International Corporate Governance Network (ICGN) is an investor-led organisation of governance professionals with members including institutional investors responsible for assets under management in excess of US18 trillion. Our members are based in over 50 countries and, in addition to investors, represent all parties interested in the field of corporate governance including company directors and secretaries, professional advisors and academia.

Our mission is to inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide. This is achieved through influencing public policy on corporate governance issues by engaging with regulators and responding to public consultations, connecting peers around the world through international events, and informing members on emerging issues through guidance and education programmes. As such we welcome the opportunity to comment on the “Improving Engagement Between ASX-Listed Entities and their Institutional Investors” Background Paper and Guidelines (the Guidelines), as issued by the Governance Institute of Australia Ltd (“Institute”) and Sandy Easterbrook. For more information about ICGN, please visit www.icgn.org.

The ICGN’s position on standards of corporate governance, applicable to both companies and investors, is set out in our Global Governance Principles, which are accessible on our website. In addition, the ICGN Statement of Principles of Institutional Investor Responsibilities clarifies the responsibilities of investors both in relation to their internal governance and their external role as investors in companies and other assets.

As sponsors of this project, both the Institute and Mr. Easterbrook are well known in the Australian and international investor and issuer communities as strong and independent voices in relation to standards of good practice in corporate governance. ICGN notes the depth of
expert knowledge and guidance that was received during the drafting of the Guidelines by an
impressive list of credentialed directors, CEOs, investor representative bodies and governance
professionals. This deliberative process is similar to the one which ICGN instituted as it
developed the Global Governance Principles. We support the interest in public feedback as you
prepare a final set of Guidelines for best practice engagement between ASX-listed entities and
their long-term institutional investors. A set of Guidelines that reflects the country’s key issues
and characteristics should play a crucial role in ensuring that a dialogue between these entities
is given the status and level of attention it deserves.

Overall, the report highlights seventeen Guidelines which should provide a market-informed and
consensus-based approach to improving engagement. As noted in the Introduction, such an
approach “is better than a regulatory approach for both parties, and consequently, better for the
overall Australian economy.” (Background Paper, p.9) ICGN favours an engagement-based
approach in which institutional investors may engage with companies and build a relationship in
support of a longer-term perspective of their investment. All stakeholders and the economy as a
whole will benefit from this approach to engagement. A longer term perspective creates better
operating conditions for companies and improves their competitiveness.

By way of substantive comments on individual guidelines, one observation we would make is
that Guidelines 1.1 and 1.3 seem to adopt the premises that institutional investors always cast
their votes. ICGN supports the informed use of voting rights wherever possible but also
recognises the market practice that, institutional investors sometimes decide not to vote. For
that reason ICGN proposes in its Global Governance Principles that, where an institutional
investor chooses not to vote in specific circumstances, or in particular markets, or where
holdings are below a certain scale threshold, this should be disclosed to clients or beneficiaries
in a clear policy. Inclusion of such a provision within the Guidelines may be worthy of
consideration.

With regard to Guideline 16 on ESG Issues, the ICGN appreciates the distinction drawn in the
Guideline between governance issues that should be a board responsibility and the
environmental and social issues that are primarily management’s domain. There are situations
when operational risks and/or environmental and social policies or practices can impact the
long-term interests of the company. If management does not address these risks, it is
incumbent upon the board to address the risks which could harm the long-term interests of the
company. It is prudent therefore for the board and management to discuss how the entity will
address environmental and social issues. Ultimately, investors will hold the board accountable
for any material failure in relation to environmental, social or governance practices. For
reference on how environmental and social risks may be included in a board’s risk oversight, we
refer to the ICGN Corporate Risk Oversight Guidelines which is available on our website.

ICGN applauds the extensive effort that the Institute, Mr. Easterbrook and the noted principals
have undertaken to develop the Guidelines for adoption and use in Australia. The addition of
another set of Guidelines for engagement should be well received by the global investment
community. In particular, the practical "How to do it" approach used in the Guidelines is a new
and fresh way to deal with all aspects of engagement for companies and institutional investors. This can benefit companies, investors and the financial markets generally.

Thank you for the opportunity to provide comments on the interim report. Should you wish to discuss our comments further, please contact Kerrie Waring, ICGN’s Managing Director, by email at Kerrie.waring@icgn.org or by telephone on +44 (0) 207 612 7079.

Yours Sincerely,

Erik Breen
Chair, ICGN Board

Cc: ICGN Board Members
ICGN Shareholder Responsibilities Committee Members