Dear Sir or Madam,

Subject: CRISA 2.0 consultation

ICGN is pleased to respond to your consultation paper on revisions to the Code for Responsible Investing in South Africa (CRISA). ICGN congratulates CRISA on this latest draft, which stands out as both innovative and thoughtful. We have followed the development of both the King Code for corporate governance and the CRISA Code for stewardship, and are impressed with the progressive thought leadership these documents contribute to the corporate governance and institutional investment communities globally.

ICGN

By way of background, the International Corporate Governance Network (ICGN) is led by investors responsible for assets under management in excess of US$54 trillion. ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries, including a large membership of US based investors, ERISA-covered funds, companies, advisors and stakeholders.

ICGN’s mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide. ICGN offers an important investor perspective on corporate governance policies and guidance, to help inform public policy development and the encouragement of good practices by capital market participants. Our policy positions are guided by the ICGN Global Governance Principles (GGP)¹ and the ICGN Global Stewardship Principles (GSP)², both of which have been developed in consultation with ICGN members and as part of a wider peer review. ICGN also has contributed commentary to support the corporate governance debate in South Africa.³ More information on ICGN may be reviewed on our website: www.icgn.org.

We respond to the specific consultation questions below. Our answers are presented in italics.

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Consultation Question 1
Objectives of the revised Code

The main objective of the revision is to position CRISA front and centre as a custodian of governance for South African investment community, thus re-affirming the Code and its principles as a key component of the governance framework for South Africa.

The Code has as its further objectives the following:

- To build a common awareness of stewardship and responsible investment throughout the investment value chain and across all asset classes as universally relevant (shifting away from perceptions of limited applicability to listed equity).
- To support the evolution of the investment environment towards sustainable finance and empower those within the investment value chain to take bold action towards the positive outcomes of diligent stewardship and responsible investment.
- To cultivate integrated thinking among governing bodies of investment organisations, influencers and decision-makers, through building understanding of the triple context of society, economy and environment within which businesses operate as well as their reliance on and impacts on the six capitals.
- To promote disclosure about policies, practices and outcomes of stewardship and responsible investment.
- To encourage collaborative action and building of capacity towards the mainstreaming of sustainable finance that contributes to a more equitable and inclusive economy.

a) Do the objectives adequately frame what the CRISA Code should aim to achieve?

We suggest linking of the objective stated in lines 85-87 to “ESG factors are clearly linked to long-term company performance and should be considered not only in the context of engagement and voting, but also in investment decisions relating to valuation and the buying or selling of financial assets.” This is linked to ICGN Global Stewardship Principles.

We suggest linking line 94 “encourage collaborative action” specifically to stewardship.

We suggest adding reference to materiality to strengthen the connection between sustainable finance and business impacts, including reference to double materiality i.e., the impact of the business on its environment, surrounding community and society as a whole as well as reference to dynamic materiality i.e., the recognition that a factor not considered material at the time may become material e.g., velocity of air circulation in businesses during the pandemic.

We suggest adding reference to the objective of fostering resiliency for the businesses, investment organizations, civil society and governments; and of minimizing adverse impacts by encouraging best practices, transparency, accountability, diversity, equity and inclusion.

b) Are there any objectives that should be removed or added?

We suggest insertion of the objective that “Protecting voting rights against dual class shares and other forms of differential ownership which have the practical effect of marginalising stewardship and the accountability of companies to minority shareholders by diluting their voting rights” This is linked to ICGN Global Stewardship Principles.
Consultation Question 2
Application of the revised Code

a) Do you agree with the flexible and universal approach to application and adoption?

Yes, given the different players across the investment value chain and their capacity to implement the practices suggested by the Code, flexibility of application is welcome and therefore the Code is not limited to large institutional investors.

b) Should the Code contain targeted recommendations for different investment categories or types of investment organisations, or should these be dealt with in separate guidance?

In our view, nuances relevant to certain asset classes or organisations can be dealt with in separate guidance.

c) Is the approach to application on a proportionate basis sufficiently clear?

In our view, the example given explains the concept adequately.

Consultation Question 3
Foundational Framework

a) Is the process from applying principles and adopting practice recommendations to realise the benefits of the outcomes sufficiently clear?

The link between apply and explain and reportable outcomes is well illustrated in lines 143 to 150.

b) Do you agree with the outcomes and how they are outlined?

Yes, the narrative in each outcome neatly weaves together financial and societal outcomes as key objectives.

c) If not, please provide suggestions on alternative outcomes.

No additional suggestions

d) Do you agree with the approach to define practice recommendations across implementation and reporting elements?

In our view, implementation of best practices works in tandem with meeting reporting requirements, either by way of legislation or client mandate.

Consultation Question 4

Principle 1: Integrating sustainable finance

Do you have any comments on Principle 1 and the practice recommendations for implementation and reporting?

This principle would benefit from a further broadening of scope - there is no reference to the organisation’s governance framework to enable implementation or a description of how this will cascade across the
organisation. Without a system of oversight and accountability, implementation is a nice, but potentially superficial, idea-- subject to the whims of the day.

In integrating sustainable finance, the Code could more clearly distinguish between the ‘shall do’s’ i.e., what the organization must do and the ‘should do’s’ i.e., what the organization is recommended to do.

For a robust process and implementation of sustainable finance to occur the board must have oversight, a board-approved policy relating to stewardship/responsible investment, and key board committees should have oversight of certain aspects of sustainable finance.

For example, the audit committee reviews whether the organization follows its responsible investment policy; the risk committee will examine whether the organization appropriately considers ESG risk; the governance committee will examine diversity, inclusion and equity performance, etc.

Beyond the board there should be an internal accountability framework - a responsible investment committee or investment committee, plus roles and responsibilities for implementation assigned to staff and/or dedicated resources.

Executive compensation and/or compensation for those tasked with implementation should be tied to sustainable finance implementation and performance metrics, as set out by the appropriate department.

Transparency of reporting to clients and the board is critical and its key elements should include a responsible investment/stewardship policy framework, proxy voting guidelines, exclusions policy, engagement guidelines, diversity equity and inclusion policy, and a strategy/policy to align ESG integration across the organization to ‘walk the talk.’

(some of this is in Principle 2 - voting and engagement only.)

Consultation Question 5
Principle 2: Diligent stewardship

Do you have any comments on Principle 2 and the practice recommendations for implementation and reporting?

Consider the relevance of distinguishing between ESG engagements and “other” engagements (lines 220-221) in terms of 1) the principle of integration of ESG stewardship across all company interactions 2) the value to the reader of what the outcome of the ratio will indicate.

Consultation Question 6
Principle 3: Capacity building and collaboration

Do you have any comments on Principle 3 and the practice recommendations for implementation and reporting?

We suggest linking lines 230-240 specifically to enhanced stewardship practice which leads to the positive outcomes references earlier in the Code.
Consultation Question 7
Principle 4: Governance

Do you have any comments on Principle 4 and the practice recommendations for implementation and reporting?

This section ties back nicely to the best practices suggested by the internal governance section of ICGN Global Stewardship Principles.

Consultation Question 8
Principle 5: Transparency

Do you have any comments on Principle 5 and the practice recommendations for implementation and reporting?

This section ties back nicely to the best practices suggested by Principle 7 of ICGN Global Stewardship Principles.

Consultation Question 9
Glossary

a) Do you agree with the definitions provided? If not, please provide alternative suggestions in line with globally accepted definitions.

Yes, we agree with the definitions and suggest additions below.

b) Are there any additional terms that should be included in the glossary? Please provide suggestions for definitions in line with globally accepted definitions.

- Line 97: “Issuer” definition should be included in the Glossary
- Line 146: (under ‘Inclusion’) Define / Add “Just Transition” in Glossary

We hope these comments are useful in your deliberations. If you would like to follow up with us with questions or comments, please contact our Policy Director George Dallas: george.dallas@icgn.org.

Yours sincerely,

Kerrie Waring
Chief Executive Officer

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