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By email ONLY: marta.rilling@oecd.org

Dated: 16th May 2013

Dear Marta,

Draft High-Level Principles of Long-Term Investment Financing by Institutional Investors

The International Corporate Governance Network (the ICGN), welcomes the opportunity to comment on the Organisation for Economic Co-operation and Development's (the OECD), important work on helping policy-makers to facilitate institutional investors, in taking a long-term view of their investment approach, in a way that reflects the investment horizon appropriate for their beneficiaries. This is an area of significance to the ICGN and to the world economy and we hope that the OECD's work will help spark more long-term investment over time.

We note that the OECD is establishing a Joint Task Force and the ICGN would be delighted to be represented on this Task Force, if that would be appropriate and helpful. You will be aware of our extensive work in this area, among which is our Statement of Principles for Institutional Investor Responsibilities – a document which is awaiting final approval at our forthcoming AGM but which we are attaching for your interest. You will note that this document considers both, the internal governance of institutional investors and their external responsibilities. We wonder whether this second area might be considered more actively in the OECD's paper: we firmly believe that, institutional investors playing a more active role in this respect, will encourage a longer-term approach among the companies in which they invest and so, help to promote long-term economic performance.

We strongly support the focus and approach established by the OECD and, generally believe that the language and proposals are appropriate. We focus our comments on those areas of the OECD's draft principles which deal with issues with which we are particularly familiar. These are intended as being incremental to the positions the OECD has already set out, and are not being sought in order to undermine or alter them.

Principle 1

We suggest that there would be value in adding a consideration of the issue of scale to Principle 1.4. We believe that larger scale institutional investors are more likely to be able to put into effect genuinely longer term investment horizons, as they can have more flexible portfolios overall and, have additional internal capacity to oversee direct or indirect investments of this nature.

Principle 2

We would suggest adding to Principle 2.2 a sentence to the following effect: "Governments should take account of the fact that providing incentives against individuals moving or removing savings will facilitate the ability of institutional investors to make long-term investments."

Principle 3

We would suggest that the approach of the investment institutions can be tied more clearly to the long-term interests of their beneficiaries and, would recommend adding the following phrase to the end of the existing Principle 3.1: "…taking fully into account the interests of its beneficiaries, over the time-horizon relevant to them." We consider that encouraging long-term institutional investors to consider matters of inter-generational fairness between their individual beneficiaries is a helpful way of extending the time-horizons that they actively consider.

Principle 3.2 is another area where the issue of scale might be addressed. We would strongly suggest adding the following sentence to this recommendation: "Where an institutional investor lacks sufficient scale to have these appropriate skills, it may need to consider if consolidation or active collaboration are in the beneficiaries' interests."

We are concerned by the repeated mention of "long-term assets" in Principles 3.3, 3.4, 3.5 and 3.6. While we understand the OECD's focus on long-term investment, we fear that the effect of the focus in these particular guidelines solely on long-term assets, is to suggest that there are greater governance standards required around investing for the long term than are needed for short-term activities. This seems a wholly unfortunate implication, which might have the unhelpful impact of discouraging long-term investment, rather than encouraging it. We would suggest that these references to long-term assets are unnecessary as the, (in our view important and vital), governance standards set out apply across whatever investments are made, whether short or long-term.

In Principle 3.4, we would recommend that conflicts are not only "identified and addressed", but are "understood, minimised and managed". Indeed, we would commend the full language of the Statement of Principles for Institutional Investor Responsibilities in this respect: "Institutional investors should understand, minimise and manage the conflicts of interest that they face and behave ethically, ensuring that they maintain focus on advancing beneficiary or client interests and disclosing any conflicts transparently to them." This is an important area and we welcome the OECD's attention to it.

We believe that the issue of fund manager pay is of genuine importance and that getting pay structures right will help drive longer-term behaviours. We would therefore, suggest adding the following phrase to the end of Principle 3.7: "…and rewards paid in ways which encourage long-term thinking."

Principle 4

Given the importance of ensuring that long-term institutional investors feel empowered to look through short-term volatilities, we would suggest adding the following sentence to the end of Principle 4.2: "Long-term investors should be able to look through short-term volatilities in the valuations of assets that are not intended to be traded in the short term."

Principle 8

We recognise that financial education and consumer protection have real value, but we believe that appropriate governance standards are a strong and more rapidly deployed method to protect the interests of individual investors. We would therefore, suggest adding to the end of Principle 8.1 the following sentence: "These frameworks will work most effectively if combined with robust governance and accountability mechanisms, acting to protect individual investor interests."

We also suggest adding the following sentence to the end of Principle 8.3, or perhaps as a new guidance Principle 8.4: "Reports to beneficiaries should include measurements of success which take account of beneficiaries' time-horizons and address how well investment activities are serving the goals of impartially delivering future human financial security and well-being for the intended beneficiary groups."

We look forward to your response and should you wish to discuss any of the above points in more detail, please do not hesitate to contact Kerrie Waring, ICGN's Acting Head of Secretariat, by phone at +44 207 612 7079 or by email at kerrie.waring@icgn.org.

Yours sincerely,

Paul Lee

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