



**ICGN**

International Corporate Governance Network

Committee Secretary  
Standing Committee on Economics  
PO Box 6021  
Parliament House  
Canberra ACT 2600

13<sup>th</sup> September 2021

Via email: [economics.reps@aph.gov.au](mailto:economics.reps@aph.gov.au)

**Re: Inquiry into the implications of common ownership and capital concentration in Australia**

To the Committee Secretary,

We are pleased to respond to the Australian Parliament's *Inquiry into the implications of common ownership and capital concentration in Australia*.

Led by investors responsible for assets under management in excess of US\$59 trillion, the International Corporate Governance Network (ICGN) is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 50 countries and includes companies, advisors and other 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's membership base includes several prominent Australian asset owners and asset managers, and our investor members globally hold significant investment positions, both debt and equity, in Australian companies.

Our message here is brief and is supported in further detail by ICGN's 2018 Viewpoint report on common ownership.<sup>1</sup>

We have followed the academic debate on the potential economic impact of common ownership, particularly regarding arguments that common ownership has the potential to motivate anti-competitive practices by companies in the same sector owned by its "common" investors. Taking a global perspective, ICGN believes that for any market this challenge to common ownership is ill-founded, and lacking in both an understanding of institutional investment practice and clear evidence

The academic theories behind common ownership, even if theoretically possible, are practically untenable and unrealistic within the real world of institutional investment practices. We have yet to come across any evidence since the publication of our 2018 Viewpoint which gives any cause to review this report's conclusions.

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<sup>1</sup> International Corporate Governance Network Viewpoint, *Common ownership: do institutional investors really promote anti-competitive behaviour?*, October 2018: <https://www.icgn.org/common-ownership-do-institutional-investors-really-promote-anti-competitive-behaviour>

In sum, what might work in theory does not necessarily play out in practice. Common ownership is an example of this, especially when taking into account the practices – and the limitations – of institutional investors with regard to their exercise of shareholder rights. Institutional investors are increasingly focusing on sustainable value creation over a long-term horizon to provide stable returns for their beneficiaries. Distorting industry competition to achieve these goals is not part of this formula, and would run counter to the growing focus on broader social and environmental factors as investment and stewardship considerations.

Particularly for institutional investors with long-term investment horizons on behalf of pensioners and long-term savers as ultimate beneficiaries, a building awareness of systemic risk recognises that healthy companies benefit from healthy markets, societies and the environment. From this it follows that investors of this nature do not have a rational incentive to cheat or to distort competition against consumers or broader social interests. These investors are governed by the intrinsic responsibility of fiduciary duty to their beneficiaries, which is captured in the ICGN Guidance on Investor Fiduciary Duties.<sup>2</sup>

Moreover, institutional practicalities and investment practices suggest the sheer magnitude of the challenge to distort competition, even if there were some incentive to do so.

As we noted in our 2018 Viewpoint on common ownership<sup>3</sup>:

*First, there is the question of economic influence. Even the largest of the index funds will have very small absolute ownership stakes in individual companies, typically less than 5%, and more often far less. While stakes of this size can have influence in some questions relating to proxy voting or other governance matters, it is difficult to imagine how a single institutional investor with small absolute holdings would have the motive, let alone the influence or resources, to promote uncompetitive practices across an entire industrial sector. Moreover, within the context of the Global Industry Classification Standards (GICS) there are 11 sectors, 24 industry groups, 68 industries and 157 sub-industries. Do opponents of common ownership suppose that institutional investors have the inclination and capacity to articulate and advocate anti-competitive strategies across this spectrum?*

Remedies currently on the table to offset the potential ills of common ownership would challenge fundamental shareholder rights that are fundamental to good stewardship. Investors generally regard such proposals as solutions to a problem

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<sup>2</sup> ICGN Guidance on Investor Fiduciary Duties (2018): [http://icgn.flpbks.com/icgn-fiduciary\\_duties/](http://icgn.flpbks.com/icgn-fiduciary_duties/)

<sup>3</sup> International Corporate Governance Network Viewpoint, *Common ownership: do institutional investors really promote anti-competitive behaviour?*, October 2018: <https://www.icgn.org/common-ownership-do-institutional-investors-really-promote-anti-competitive-behaviour>

that does not exist, with potentially negative and far-reaching implications that amount to stifling the minority shareholder voice.

ICGN will continue to monitor and contribute to this debate, particularly when the basic rights and protections of investors are put under threat.

We hope these comments are helpful with regard to your deliberations on these matters. Please contact ICGN Policy Director George Dallas if you would like to discuss this in further detail: [george.dallas@icgn.org](mailto:george.dallas@icgn.org)

Yours sincerely,



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