



**ICGN**

International Corporate Governance Network  
*Inspiring good governance & stewardship*

## **ICGN Annual General Meeting**

**2<sup>nd</sup> September 2021, 1400 – 1700 hrs (BST)**

**Held at**

[https://us02web.zoom.us/webinar/register/WN\\_xao1XNkwQ3qDYEh7lg\\_e-g](https://us02web.zoom.us/webinar/register/WN_xao1XNkwQ3qDYEh7lg_e-g)

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**From:** George Dallas, Policy Director, ICGN

**Re:** Item 8: Revised ICGN Global Governance Principles

**Status:** ORDINARY RESOLUTION for approval by ICGN Members requiring 50% + 1 vote in favour

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### **Main Considerations**

- First published in 2001, the ICGN Global Governance Principles (GGP) serve as ICGN's primary standard for well-governed companies. The GGP stand together with the Global Stewardship Principles as ICGN's flagship member-approved policy documents.
- Many ICGN Members default to the GGP as a bellwether for their own voting policies and company engagements; and many governments use them to help inspire the evolution of national codes.
- The GGP were last revised in 2017 and are subject to periodic revision to ensure they remain relevant and generally aligned with regulatory and market-led developments relating to high standards of corporate governance globally. Consequently, the GGP were revised this year and are subject to ICGN Member approval at the forthcoming ICGN AGM.
- Following an initial Member consultation in mid-2020, the Secretariat proposed drafting changes to the GGP which was reviewed and agreed by the Board. ICGN Members were subsequently consulted again for an eight-week period between 30 November 2020 and 31<sup>st</sup> January 2021.
- Over 40 Members responded to the consultation, providing market-led opinion around high standards of corporate governance and contributing to the revisions of the GGP. A summary of key changes is provided in attachment 1. We are very grateful to all those who responded to the consultation and a list of Members is provided as attachment 2.

### **ICGN Member Action**

ICGN Members are invited to review and approve the ICGN Global Governance Principles provided as attachment 3. Drafting amendments are highlighted as underlined text.

## Attachment 1: Key Changes to the ICGN Global Governance Principles

Since the 2017 GGP were published there has been considerable societal change, including the disruptive effects of Covid-19 on public health and economic activity, ethnic and social tensions and growing concerns about climate change. The role and purpose of the corporation has faced renewed scrutiny, and stakeholder capitalism has emerged as a challenge to the model of shareholder primacy that prevails in many markets.

In this context, ICGN's position has been, and remains, to focus on the sustainable success and value creation of the company itself which involves meeting legitimate shareholder needs for returns on capital while maintaining positive relations with relevant stakeholders, including the workforce, customers, suppliers, communities, and civil society more broadly.

Against this background there are many changes to the GGP, several of which reflect the need for a greater focus on corporate purpose, improving stakeholder relations and ensuring that sustainability issues are a meaningful part of board oversight and the governance process. Both investors and companies must focus, not only on factors impacting a company's financial capital, but also on factors impacting human and natural capital management in alignment with a company's purpose and long-term strategy.

Reflecting these considerations, the key revisions to the GGP are as follows:

- **Company purpose.** The board should publicly disclose the company's purpose to guide management's approach to strategy, innovation and risk.
- **Director fiduciary duty.** Board directors have a fiduciary duty to act in good faith with due care and loyalty to promote the long-term success of the company for sustainable value creation.
- **Controlled or group companies.** Directors on boards of subsidiary companies owe allegiance to the subsidiary as a separate legal entity and not to the group holding company or other group companies.
- **Stakeholder relations.** Boards should understand stakeholder needs and support healthy and sustainable stakeholder relations linked to the board's oversight of the company's human and natural capital management.
- **Governance of sustainability.** Boards should take ownership of the governance of sustainability in the company and its integration in strategy, innovation and risk.
- **Human rights.** Boards should oversee the company's approach to managing human rights and modern slavery issues which may materialise in connection with the company's workforce and operations.
- **Workforce safety.** Boards should ensure disclosure around how a company identifies and mitigates workforce safety risks in its operations and supply chains, particularly in terms of the risk assessment process, policies and procedures.

- **Climate change:** Boards should address climate change, assessing business impacts and how it will be adapted to meet the needs of a net zero economy by reducing carbon emissions over a specified period.
- **Systemic risks.** Boards should identify, address and report on relevant systemic risks to the business, particularly those identified in the United Nations Sustainable Development Goals.
- **Board leadership.** There should be independent board leadership and a clear division of responsibilities between the role of the Chair and CEO to avoid unfettered powers of decision-making. The roles of both should be clearly described and publicly disclosed.
- **Board diversity.** Diversity should be strategically addressed, both at the board level and the workforce to ensure effective, equitable and inclusive decision-making in alignment with the company's purpose and key stakeholders.
- **Board independence.** There should be a majority of independent directors on boards of companies with both widely-held and concentrated ownership structures, and fully independent Audit and Remuneration Committees.
- **Capital allocation:** Boards should disclose a clear approach to achieving a sustainable balance of capital allocation among different company, shareholder, creditor and stakeholder interests.
- **Tax policy.** Boards should oversee a company's tax policy, not only within a legal context but within the bounds of acceptable social norms.
- **Executive remuneration:** Boards should incorporate material sustainability related metrics into executive incentive plans, determined within the context of company's values, internal reward structures and competitive drivers.
- **Materiality:** Corporate reporting could refer to 'double' materiality regarding a company's external impacts on society and the environment, as well internal impacts on the company's own financial performance; as well as referring to 'dynamic materiality' recognising that materiality evolves over time.
- **Sustainability data and frameworks.** Boards should make use of established reporting standards and frameworks to facilitate consistency and comparability of reporting and to contribute to the global consolidation of standards.
- **Shareholder meetings:** Boards should ensure that meetings are efficiently, democratically and securely facilitated to enable constructive interactivity between shareholders and the board. This underscores the board's accountability to shareholders for the company's strategy, performance, and sustainable value creation.

## Annex 2: Acknowledgements

ICGN is grateful to Kerrie Waring and George Dallas for drafting the revisions to the ICGN Global Governance Principle, based on the feedback from ICGN Members as acknowledged below:

Alliance Bernstein, USA  
AP2 Fund, Sweden  
Assogestioni, Italy  
Black Rock, USA  
Brazilian Institute of Corporate Governance, Brazil  
Bursa Malaysia, Malaysia  
CalSTERS, USA  
Carlos Eduardo Lessa Brandao, Brazil  
Canadian Coalition for Good Governance, Canada  
CESA School of Business, Columbia  
Coronation Fund Managers, South Africa  
CQS New City Equity, USA  
David Pitt Watson, UK  
DVFA, Germany  
DWS, Germany  
EcoDa, Belgium  
Eumedion, Netherlands  
Federated Hermes EOS, UK  
Governance Institute of Australia, Australia  
Hellenic Observatory of Corporate Governance, Greece  
International Finance Corporation, USA  
Kempen Asset Management, Netherlands  
Lara Vogt, Switzerland  
Leda Condoynanni, Greece  
NEI Investments, Canada  
Norges Bank Investment Management, Norway  
Old Mutual Investment Group, South Africa  
Oonagh McDonald, USA  
Pension Fund Association Japan, Japan  
Reward Value Foundation, Netherlands  
Robeco, Netherlands  
SASB, USA  
Sean Lyons, USA  
Stakeholders Empowerment Services, India  
Super State SAS Trustee Corp, Australia  
TKYD, Turkey  
UBS, USA

## Annex 3: ICGN Global Governance Principles

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## Preamble

First published in 2001, the ICGN Global Governance Principles (GGP) serve as ICGN's primary standard for well-governed companies and are developed in consultation with ICGN Members which includes investors responsible for assets under management of around \$59 trillion. Many ICGN Members default to the Principles as a bellwether for their voting policies and company engagements. The Principles also inform regulators on internationally accepted standards to help inspire the evolution of national codes.

Last updated in 2017, the GGP are reviewed periodically to ensure relevance with regulatory or market-led developments relating to high standards of corporate governance. The GGP should be read alongside the ICGN's Global Stewardship Principles<sup>1</sup> (GSP) which set out best practices in relation to investor governance and stewardship obligations as set out in annex 1. Both documents form the core foundation of ICGN policy framework and embody ICGN's mission to advance the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to healthy and sustainable economies, society, and environment.

The GGP address the system by which companies are directed and controlled based on the principles of fairness, accountability, responsibility, and transparency within a framework of effective governance controls. This helps to ensure the effectiveness of board directors in promoting successful companies, thereby creating sustainable value creation for investors while having regard to other stakeholders.

The GGP apply predominantly to publicly listed companies and set out expectations around corporate governance issues that are most likely to influence investment decision-making. They are also relevant to non-listed companies which aspire to adopt high standards of corporate governance practice. The Principles are relevant to all types of board structure including one-tier and two-tier arrangements as well as subsidiary companies of groups.

We refer to both non-executive and independent non-executive directors (also known as 'outside directors') throughout the GGP. This recognises the different approaches to board composition in various markets and the role of executive officers, non-executive directors and independent non-executive directors. The latter refers to directors who are free from any external relationships which may influence the directors' judgement.

The GGP are of relevance to a company's core financial stakeholders, which can include both bond holders and equity investors. While ownership of equity has provided the traditional investor focus on governance, increasingly, holders of debt securities also recognise the importance of good corporate governance to protect their fixed income investments. The GGP focus primarily on areas where shareholder and creditor interests in governance are aligned. On occasion, shareholders and creditors may have different governance preferences and in such situations the Principles focus primarily on the shareholder perspective.

The GGP are intended to be of general application, irrespective of national legislative frameworks or listing rules. As global recommendations, they should be read with an understanding that local rules and cultural norms may lead to different approaches to governance practices. National codes reflect local standards and explanation is encouraged where there is divergence from the GGP against this framework. Members of the ICGN support the flexible application of GGP, and therefore the specific circumstances of individual companies, shareholders and the markets where they operate should be recognised.

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<sup>1</sup> See ICGN Global Stewardship Principles (2020)

The GGP and the GSP are supplemented by ICGN Guidance and Viewpoint Reports on a range of governance themes which are issued periodically to elaborate on key concepts and practices. The Principles are subject to change in recognition of continually evolving standards and practices and are reviewed at appropriate intervals. ICGN Principles and Guidelines are freely and publicly available on the ICGN website ([www.icgn.org](http://www.icgn.org)).

## ICGN Global Governance Principles

### Principle 1: Board role and responsibilities

*The board should promote the long-term best interests of the company by acting on an informed basis with good faith, care and loyalty, for the benefit of shareholders, while having regard to relevant stakeholders.*

### Principle 2: Leadership and independence

*Board leadership requires clarity and balance in board and executive roles and an integrity of independent process to protect the interests of shareholders and relevant stakeholders in promoting the long-term success of the company.*

### Principle 3: Composition and appointment

*The board should comprise a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making in alignment with the company's purpose, long-term strategy and relevant stakeholders.*

### Principle 4: Corporate culture

*The board should instil and demonstrate a culture of high standards of business ethics and integrity aligned with the company's purpose and values at board level and throughout the workforce.*

### Principle 5: Remuneration

*Remuneration should be designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company's strategy and purpose to help ensure long-term sustainable value preservation and creation. Aggregate remuneration should be appropriately balanced with the payment of dividends to shareholders and retention of capital for future investment and the level of quantum should be defensible relative to social considerations relating to inequality.*

### Principle 6: Risk oversight

*The board should proactively oversee the assessment and disclosure of the company's key risks and approve the approach to risk management regularly or with any significant business change and satisfy itself that the approach is functioning effectively.*

### Principle 7: Corporate reporting

*Boards should oversee timely and reliable company disclosures for shareholders and relevant stakeholders relating to assess the company's financial position, approach to sustainability, performance, business model, strategy, and long-term prospects.*

### Principle 8: Internal and external audit

*The board should establish rigorous, independent and effective internal and external audit procedures, to ensure the quality and integrity of corporate reporting.*

### Principle 9: Shareholder rights

*Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that a shareholder's voting rights are directly linked to its economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.*

### Principle 10: Shareholder meetings

*Boards should ensure that meetings with shareholders are efficiently, democratically and securely facilitated to enable constructive interactivity and the accountability around the company's long-term strategy, performance, and approach to sustainable value creation upon which voting decisions may be influenced.*



## ICGN Global Governance Principles & Guidance

### Principle 1: Board role and responsibilities

*The board should promote the long-term best interests of the company by acting on an informed basis, with good faith, care and loyalty, for the benefit of shareholders, while having regard to relevant stakeholders.*

#### Guidance

##### 1.1 Responsibilities

The board is accountable to shareholders and relevant stakeholders for preserving and enhancing sustainable value over the long-term in alignment with a company's purpose and long-term strategy. In fulfilling their role effectively, board members are responsible for:

- a) publicly disclosing a clear purpose to guide management's approach to strategy, innovation and risk;
- b) engaging constructively with shareholders on governance, sustainability and performance aligned with the company's purpose and strategy;
- c) understanding the perspectives of relevant stakeholders (including the workforce, customers, suppliers and civil society more broadly) and disclosing how their interests are taken into account to foster positive relations;
- d) instilling and demonstrating high standards of business ethics and an ethos of integrity throughout the company to engender a strong corporate culture and adhering to law and regulation;
- e) accountability for the governance of sustainability ensuring the integration of human capital (particularly the workforce) and natural capital management in strategy, innovation and risk;
- f) overseeing the company's risk assessment and management (including relevant systemic risks such as climate change, ecological degradation, social inequality and digital transformation) that affect sustainable value creation and preservation and reviewing policies annually, or with any significant business change;
- g) identifying and managing conflicts of interest, such as those which may arise from the influence of significant shareholders and/or executive managers, to ensure unbiased board decision-making;
- h) overseeing the company's approach to capital allocation (particularly major capital expenditures, acquisitions and divestments) to demonstrate financial discipline around shareholder returns relative to cost of capital and long-term value creation.
- i) overseeing the integrity of the company's disclosure and reporting systems, compliance with internationally accepted accounting standards, effectiveness of internal controls and internal audit, and the quality and independence of the external audit process;
- j) ensuring a formal, fair and transparent process for the nomination and election of directors to the board aligned with the company's policy on diversity, equity and inclusion, succession planning and long-term strategy while maintaining appropriate internal

procedures for the appointment of the board chair, lead independent director (LID) and committee members;

- k) appointing and, if necessary, removing the chief executive officer (CEO), developing and regularly reviewing a CEO succession plan (as well as for senior executives) and ensuring CEO remuneration is measured against performance criteria aligned with the long-term interests of the company; and
- l) conducting an objective evaluation of the board chair, board as a whole, committees and individual directors on an annual basis, including an external review at least once every three years.

## **1.2 Director's duties**

Directors have a legal duty to act on an informed basis, with good faith, care and loyalty to promote the long-term best interests of the company to preserve and enhance sustainable value creation.<sup>2</sup> Implicit in this concept is the need to generate economic risk-adjusted returns on capital for shareholders, while having regard to relevant stakeholder, wider societal and environmental interests.

## **1.3 Director's duties in company groups and subsidiaries**

In the case of business groups, boards of the parent company should recognise the independence of any subsidiary company's board composition, governance structure, audit and reporting processes. While taking account of the interest of the parent company or business group as a material stakeholder, directors serving on boards of subsidiary companies, owe their legal duties to the subsidiary as a separate legal entity.

## **1.4 Dialogue**

The board, particularly the chair, lead (or senior) independent director and committee chairs, should constructively engage with shareholders and relevant stakeholders (particularly the workforce) for meaningful dialogue. This infers two-way communication between companies and shareholders/ stakeholders and not a unilateral presentation from just one party. Such dialogue should encompass all matters of material relevance to a company's governance, strategy, innovation, risk management and performance as well as environmental and social policies and practices.

## **1.5 Commitment**

The board should meet regularly to discharge its duties and directors should commit adequate time to board meeting preparation and attendance. There should be a formal induction for all new board directors to ensure they have a comprehensive understanding of the company's purpose, business model and strategy as soon as possible after their appointment. Board members should be confident and effective in holding management to account and in contributing to board discussions and decisions. Directors should periodically refresh their skills and knowledge (particularly with regard to sustainability- related issues) through professional development activities to competently discharge their responsibilities.

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<sup>2</sup> See ICGN Guidance on Investor Fiduciary Duties, 2018

## 1.6 Directorships

The number, and nature, of board appointments an individual director holds should be carefully considered and reviewed on a regular basis and the degree to which each individual director has the capacity to undertake multiple directorships should be clearly disclosed. This consideration should reflect the nature of existing board commitments, as well as any commitments relating to foundations or charities. Normally, an individual director should not hold more than three directorships of any sort, and this should be substantially less for executive directors, as well as for the board chair and committee chairs.

## 1.7 Committees

The board should establish independent committees to deliberate on issues such as audit, executive and non-executive director remuneration and director nomination. Where the board chooses not to establish such committees, the board should disclose this and the procedures it employs to discharge its responsibilities effectively in an independent manner. For many companies, committees may also be relevant for risk oversight, sustainability, and technology. The duties and membership of such committees should be fully disclosed.

## 1.8 Advice

The board should have adequate resources to fulfil its responsibilities efficiently and effectively under relevant law and regulation. The board should have access to advice from a company secretary (or general counsel) and/or independent advice as appropriate at the company's expense. Board directors should also have access to a company's executive management, senior management or employees as appropriate. They should also engage with other relevant stakeholders when appropriate including suppliers or customers to build awareness of any emerging issues.

## **Principle 2: Leadership and independence**

***Board leadership requires clarity and balance in board and executive roles and an integrity of independent process to protect the interests of shareholders and relevant stakeholders in promoting the long-term success of the company.***

### **Guidance**

#### **2.1 Independent leadership**

There should be a clear division of responsibilities between the role of the chair of the board and the CEO to avoid unfettered powers of decision-making in any one individual. This is particularly relevant in controlled companies when either the chair or CEO are significant shareholders. The Board should be chaired by an independent director who should be independent on the date of appointment. Should the role of the chair and CEO be combined, the board should explain the reasons why this is in the best interests of the company in the annual report and keep the structure under review. The responsibilities of the chair, CEO, lead independent director and committee chairs should be clearly described and publicly disclosed.

#### **2.2 Independence levels**

The board should comprise a majority of independent non-executive directors as a general standard. This should be regarded as a best practice not only for companies with widely-held share ownership, but also for companies with concentrated share ownership and subsidiary companies. At a minimum, controlled companies should seek to link board independence levels to the economic stake held by minority shareholders.

#### **2.3 Role of the Chair**

The chair should lead the board and ensure its effectiveness while inspiring a shared commitment among directors to the company's purpose and long-term strategy. This includes encouraging a culture of openness to allow a range of views to be expressed and adequate time for discussion of all agenda items. The chair should set the meeting agenda, ensuring that board members have sufficient and timely information to constructively challenge and debate managerial proposals.

#### **2.4 Lead independent director**

The Board should appoint a Lead Independent Director (LID) even when the chair is independent. The LID provides shareholders, relevant stakeholders and directors with a valuable channel of communication to discuss matters that may involve a conflict of interest for the board chair which may include significant shareholders if there is a connection between them. The LID should not have directorship tenure in the company that raises questions as to the LID's independence as set out in Guidance 2.6.h. In a two-tier board the LID role could be assumed by a vice chair.

#### **2.5 CEO succession to Chair**

The practice of a company's retiring CEO remaining on the board as a director should be discouraged, regardless of any cooling off period, or in the event this practice does take place, the retiring CEO should not serve on board committees that require independent representation. If, exceptionally, the board decides that a retiring CEO should succeed to become chair, the board should consult with shareholders in advance setting out a convincing rationale and provide detailed explanation in the annual report. Unless there are extraordinary circumstances, there should be a break in service between the roles (e.g., a period of two years).

## 2.6 Independence criteria

The board should identify in the annual report the names of the directors considered by the board to be independent and who are able to exercise independent judgement free from any external influence. The conditions which might impair a director's independence include, whether a director:

- a) is or has been employed in an executive capacity by the company or a subsidiary and there has not been an appropriate period between ceasing such employment and serving on the board;
- b) is or has within an appropriate period been a significant shareholder, partner, director or senior employee of a provider of material professional or contractual services to the company or any of its subsidiaries;
- c) receives or has received additional remuneration from the company apart from a director's fee, participates in the company's share option plan or a performance-related pay scheme, or is a member of the company's pension scheme;
- d) has or had close family ties with any of the company's advisers, directors or senior management;
- e) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- f) is a significant shareholder of the company, or an officer of, or otherwise associated with, a significant shareholder of the company;
- g) is or has been a nominee director as a representative of and appointed by minority shareholders or the state;
- h) has been a director of the company for such a period that his or her independence may have become compromised. There is no fixed date that automatically triggers lack of independence; the norm can differ in varying jurisdictions between 8-12 years after which a non-executive director may no longer be deemed independent. Companies should be guided by local norms, and directors with longer tenure should not be classified as independent in terms of committee appointments or other board functions requiring independence.

## 2.7 Independent meetings

The chair should regularly hold meetings with the non-executive directors without executive directors present. In addition, the non-executive directors (led by the LID) should meet at least annually, without the chair present, to appraise the chair's performance or as appropriate.

### **Principle 3: Composition and appointment**

***The Board should comprise a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making in alignment with the company's purpose, long-term strategy and relevant stakeholders.***

#### **Guidance**

##### **3.1 Diversity, equity, and inclusion<sup>3</sup>**

Boards, and the workforce, should comprise a genuinely diverse group of individuals to ensure effective, equitable and inclusive decision-making in alignment with the company's purpose and taking into consideration the interests of relevant stakeholders. This includes individuals from different genders, age, ethnicities, nationalities, social and economic origins, professional skills and personal attributes. Boards should disclose and report against the company's policy on diversity, equity and inclusion to the extent permitted by law which should include measurable goals and period for achievement. The report should include an explanation of how the policy aligns with the company strategy and succession planning for the board and workforce.

##### **3.2 Gender diversity**

Boards should strive towards achieving appropriate gender diversity with, preferably, at least one-third of board positions held by women. This approach should be promoted throughout the company to encourage women to be appointed to senior leadership positions. Boards should disclose clear gender diversity goals and regularly report progress towards achievement over a defined timeframe.

##### **3.3 Evaluation**

Board evaluation should be conducted annually to review composition in alignment with the company's long-term strategy, succession planning and policy on diversity, equity and inclusion. The board should undertake a rigorous review of its performance (as a collective body), the company secretary (where such a position exists), the board's committees and individual directors prior to being proposed for election. The board should periodically (preferably every three years) engage an independent outside consultant to undertake an external evaluation. The Lead Independent Director and Nomination Committee should be responsible for performance evaluation of the chair. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and/or actions taken as a consequence.

##### **3.4 Tenure**

Independent non-executive directors should serve for an appropriate length of time to ensure they contribute an impartial perspective to board discussion and decision-making. Term limits, where they exist, and the identity of directors who have exceeded such limits (and thus no longer deemed independent) should be disclosed. Director tenure should be reviewed by the Nomination Committee annually and director re-election contingent on a satisfactory evaluation of his or her contribution to the board.

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<sup>3</sup> See ICGN Guidance on Board Diversity, 2016

### 3.5 Appointments

There should be a formal approach to the appointment of board directors based on relevant and objective selection criteria, led by the Nomination Committee, to ensure appropriate board independence and refreshment aligned with the company's purpose, long-term strategy, succession planning and policy on diversity, equity and inclusion.

### 3.6 Nomination Committee

The board should establish a Nomination Committee comprised of a majority of independent directors. The Board Chair should not chair the committee when dealing with his or her own succession. The terms of reference for the committee should be publicly disclosed and include:

- a) evaluating the composition of the board taking into account the policy on diversity, equity and inclusion and the balance of professional skills, knowledge, independence and experience on the board;
- b) proactively leading the development and annual review of succession planning for the board and CEO;
- c) leading the process for board appointments and putting forward recommendations to shareholders on directors to be elected and re-elected;
- d) maintaining board independence by annually reviewing director tenure and any real or potential conflicts of interest ;
- e) appointing any independent external advisors for board recruitment or evaluation and publicly disclosing their terms of engagement, identity and consulting fees; and
- f) reporting on the committee work in the annual report and engaging with shareholders either directly or via the board.

### 3.7 Director election process

Directors should be elected to the board preferably on an annual basis, or stand for election once every three years, and be accountable to shareholders by approval of a majority of shares voted in favour on each resolution. Boards should disclose the process for director election / re-election along with information about board candidates which includes:

- a) board member identities and rationale for appointment;
- b) core competencies, qualifications, and professional background;
- c) recent and current board and management mandates at other companies, as well as significant roles on non-profit/ charitable organisations;
- d) factors affecting independence, including relationship/s with controlling shareholders;
- e) length of tenure;
- f) board and committee meeting attendance; and
- g) any shareholdings in the company.

### 3.8 Shareholder nominated directors

The board should ensure that shareholders are able to nominate candidates for board appointment, subject to an appropriate threshold of share ownership. Such candidacies should be proposed to the Nomination Committee and, subject to an appropriate threshold, be nominated directly on the company's proxy.

## **Principle 4: Corporate culture**

*The board should instil and demonstrate a culture of high standards of business ethics and integrity aligned with the company's purpose and values at board level and throughout the workforce.*

### **Guidance**

#### **4.1 Anti-corruption<sup>4</sup>**

The board should ensure that management has implemented appropriately stringent policies and procedures to mitigate the risk of bribery and corruption or other malfeasance. Such policies and procedures should be communicated to shareholders and relevant stakeholders.

#### **4.2 Whistleblowing**

The board should ensure that the company has in place an independent, confidential mechanism whereby a worker, supplier, shareholder or relevant stakeholder can (without fear of retribution) raise issues of particular concern with regard to potential or suspected breaches of a company's code of ethics or local law.

#### **4.3 Political lobbying<sup>5</sup>**

The board should have a policy on political engagement, covering lobbying and donations to political causes or candidates to the extent permitted by law, and ensure that the benefits and risks of the approach taken are understood, monitored, transparent and regularly reviewed. Boards should address instances where there are significant inconsistencies between a company's publicly stated policy positions and potentially conflicting views of trade associations of which the company may be a member.

#### **4.4 Employee share dealing**

The board should develop clear rules regarding any trading by directors and employees in the company's own securities. Individuals should not benefit directly or indirectly from knowledge which is not generally available to the market.

#### **4.5 Behaviour and conduct**

The board should foster a corporate culture which ensures that management, the workforce, and the board itself, act with integrity and understand their responsibility for appropriate behaviour and ethical conduct facilitated through codes and training. Due diligence and monitoring programmes should facilitate understanding of codes of conduct and help ensure effective adoption and application.

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<sup>4</sup> See ICGN Guidance on Anti-corruption, 2020

<sup>5</sup> See ICGN Guidance on Political Lobbying and Donations, 2017



#### **4.6 Stakeholder relations**

The board should ensure that the corporate culture supports positive stakeholder relations and engagement (particularly with the workforce), supported by relevant metrics to identify strengths and weaknesses. Boards should ensure there is a process for the identification of relevant stakeholders, establish a stakeholder engagement policy and an external communication mechanism for stakeholders, including a process for review of stakeholder grievances.

#### **4.7 Human rights**

The board should ensure that it is sufficiently informed of how human rights and modern slavery issues may present material business and reputational risks or might compromise a company's own values and standards of behaviour. The Board should establish appropriate due diligence processes, strategy, disclosure, engagement, accountability, and other measures to deal with human rights issues which may materialise in connection with the company's workforce and operations.

#### **4.8 Workforce safety**

The board should ensure transparent reporting and disclosure of how a company identifies, prevents and mitigates workforce safety risks in its operations and supply chains, particularly in terms of the risk assessment process, policies and procedures.

#### **4.9 Tax policy**

The board should understand the company's tax policy and ensure that the company is not only acting legally, but within the bounds of acceptable social norms. Tax policies themselves should be sufficiently prudent to stand up to external scrutiny on a sustainable basis.

## **Principle 5: Remuneration**

***Remuneration should be designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company's strategy and purpose to help ensure long-term sustainable value preservation and creation. Aggregate remuneration should be appropriately balanced with the payment of dividends to shareholders and retention of capital for future investment and the level of quantum should be defensible relative to social considerations relating to income inequality.***

### **Guidance**

#### **5.1 Level<sup>6</sup>**

The board is responsible for ensuring that executive remuneration is reasonable and equitable in both structure and quantum, and is determined within the context of company's values, internal reward structures and competitive drivers while being sensitive to the expectations of shareholders, stakeholders and societal norms. Societal norms reflect concerns about income inequality and call for executive remuneration levels to take into consideration the level of pay of the average company worker and relative to the average median income of the company's place of domicile.

#### **5.2 Structure**

Executive remuneration should be structured in a simple manner that is aligned with the company's purpose and long-term strategy. Salary levels should be balanced appropriately with the level of benefits such as bonuses, deferred stock options or long-term incentive plans (LTIPS). The use of restricted stock with long-term vesting and holding periods brings the benefit of simplicity compared with metric-based performance awards (such as LTIPs); but caution should be exercised to ensure the tenet of payment-for-performance is upheld and holding periods should extend beyond the active period of tenure of the executive in support of the long-term orientation of company leadership. Remuneration Committees are encouraged to consider whether restricted stock could be introduced alongside, or as an alternative to LTIPs, as long as their use is consistent with the company's capital allocation model, and provided that award size is reduced materially to take account of the greater certainty of vesting due to absence of performance hurdles. The awarding of pension benefits should be consistent across the company so that the CEO and executive pension contributions are aligned across the workforce.

#### **5.3 Performance measures**

Performance measures (such as long-term incentive plans) should integrate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company, shareholders and relevant stakeholders. Metrics should be rigorous and measured over timescales, and with methodologies, which help ensure that performance pay is directly correlated with sustained value creation and preservation. In addition to financial performance metrics, quantifiable indicators that are material to the company's sustainable value creation and preservation, such as human capital and natural capital should be considered. Metrics guiding performance grants should be based on audited financial data, and, where possible, assured sustainability indicators.

#### **5.4 Malus and clawback**

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<sup>6</sup> See ICGN Guidance on Executive Remuneration, 2016

Companies should include provisions in their incentive plans that enable the company to withhold the payment of any sum ('malus'), or recover sums paid ('clawback'), in the event of serious misconduct or a material misstatement in the company's financial statements.

## 5.5 Disclosure

The board should disclose clear and understandable remuneration policies and reports which are aligned with the company's purpose and long-term strategic objectives. Such disclosure should facilitate comparability and accountability and include reference to how awards were deemed appropriate in the context of the company's underlying performance and long-term strategic objectives and whether remuneration consultants were involved in the process. Disclosure should refer to executives, non-executive directors and the CEO and reported on an individual basis, whilst also taking account of the company's overall approach to human resource strategy. This extends to non-cash items such as director and officer insurance, pension provisions, fringe benefits and terms of severance packages if any.

## 5.5 Share ownership

The board should disclose the company policy concerning ownership of shares by the CEO, non-executive directors and executives. This should include the company policy as to how share ownership requirements are to be achieved and for how long they are to be retained. While CEO and executive share ownership is encouraged, the use of derivatives or other structures that enable the hedging of an individual's exposure to the company's shares should be prohibited.

## 5.6 Remuneration policy

Shareholders should have an opportunity, where a jurisdiction allows, to a binding vote on remuneration policies at least every four years or where significant change to remuneration structure is proposed.

## 5.7 Annual remuneration report

The Remuneration Committee should use careful judgement on the awarding of annual remuneration for the CEO and executives and disclose how judgements were determined in the Annual Remuneration Report. Any significant changes to executive remuneration structures should be explained to shareholders, accompanied with a compelling rationale. Shareholders should have an advisory vote on the annual remuneration report. In the absence of local legal requirements for a binding vote or equivalent, and in cases where a significant minority of shareholders (e.g., 20%) vote against a report, a binding vote should be triggered the following year.

## 5.8 Workforce incentives

The board should ensure that remuneration structures for workforce reinforce, and do not undermine, sustained value creation. Performance-based remuneration should incorporate risk, including other intangible factors related to value creation and the measurement of risk-adjusted returns, to help ensure that no inappropriate or unintended risks are being incentivised. While a major component of most employee incentive remuneration is likely to be cash-based, these programmes should be designed and implemented in a manner consistent with the company's long-term performance drivers. Adherence to codes of conduct and compliance protocols should serve as preconditions to incentive awards.

## 5.9 Non-executive director remuneration<sup>7</sup>

The board, or shareholders as required by law in some jurisdictions, should determine levels of pay for non-executive directors and the non-executive chair and ensure that it is structured in a way which ensures independence, objectivity and alignment with the long-term interests of the company and all its shareholders. Remuneration paid to non-executive directors should be publicly disclosed. Performance-based pay or share options should not be granted to non-executive directors and non-executive chairs.

## 5.10 Remuneration Committee

The board should establish a Remuneration Committee comprised wholly of independent non-executive directors. The terms of reference of the Remuneration Committee should be publicly disclosed and include:

- a) determining and recommending to the board the company's remuneration philosophy and policy which should take into account pay and employment conditions within the context of the company as a whole and its human capital management strategy;
- b) designing, implementing, monitoring and evaluating short-term and long-term share-based incentives and other benefits schemes including pension arrangements;
- c) ensuring that conflicts of interest among committee members and between the committee and its advisors are identified and avoided;
- d) appointing any independent remuneration consultant including their selection and terms of engagement. This includes scrutiny of the rationale for consultancy proposals (particularly if levels appear industry benchmarked). The consultant's identity and fees should also be publicly disclosed;
- e) considering sustainable capital allocation in developing remuneration structures through the use of metrics which take account of shareholder and relevant stakeholder interests; and
- f) maintaining appropriate communication with shareholders on the subject of remuneration either directly or via the board.

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<sup>7</sup> See ICGN Guidance on Non-executive Director Remuneration, 2016

## **Principle 6: Risk oversight**

*The board should proactively oversee the assessment and disclosure of the company's key risks and approve the company's approach to internal controls and risk management and mitigation on a regular basis or with any significant business change and satisfy itself that the approach is functioning effectively.<sup>8</sup>*

### **Guidance**

#### **6.1 Proactive assessment**

Strategy and risk are inseparable and should permeate all board discussions. The board should annually assess the company's key risks, the potential probability and impacts of such risks, and any mitigating actions and procedures. The board should ensure that the company has robust and effective risk management and internal control systems which should address all key risks.

#### **6.2 Comprehensive approach**

The board should adopt a comprehensive approach to the oversight of risk which should be enterprise-wide and include threats to the company's business model, cyber-security, supply chain resilience, performance, solvency, liquidity and reputation. Risk oversight should extend beyond financial capital to include human capital and natural capital and in particular, systemic risks identified in the United Nations Sustainable Development Goals, where these are relevant to the company's business model and strategy. Fundamental to this is the board's agreement on its risk appetite, and the board should seek to publicly communicate this in basic terms.

#### **6.3 Risk culture**

The board should lead by example and foster an effective risk culture that encourages openness and constructive challenge of judgements and assumptions. This entails recognising the nature of the wide spectrum of risks a company may face classified by frequency, severity (e.g., low, medium, high) and a recognition of the human element in risk. The company's culture regarding risk and the process by which issues are escalated and de-escalated within the company should be evaluated periodically.

#### **6.4 Dynamic process**

The board should ensure that risk is appropriately reflected in the company's strategy and capital allocation. Risk should be managed in a rational, appropriately independent, dynamic and forward-looking way. This process of managing risks should be continual and include consideration of a range of plausible impacts.

#### **6.5 Risk committee**

While ultimate responsibility for a company's risk management approach rests with the full board, having a risk committee can be an effective mechanism to bring the transparency, focus and independent judgement needed to oversee the company's approach to risk management and internal controls. A risk committee, and the board more generally, should be informed through the company's enterprise-wide internal control and risk management system.

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<sup>8</sup> See ICGN Guidance on Corporate Risk Oversight, 2015

## **Principle 7: Corporate reporting**

***Boards should oversee timely and reliable company disclosures for shareholders and relevant stakeholders to assess the company's financial position, approach to sustainability, performance, business model, strategy, and long-term prospects.***

### **Guidance**

#### **7.1 Responsibility**

The board is responsible for presenting a balanced and understandable assessment of the company's position and long-term prospects in the annual report and accounts for existing and potential shareholders and relevant stakeholders (particularly creditors who also provide capital and bear the residual risk of the company). This extends to sustainability-related factors that impact company performance and long-term value creation, such as human capital and natural capital.

#### **7.2 Materiality**

The board should approve and disclose material information or other price sensitive information on a timely basis in the annual report or other public record as required by regulation for shareholders and relevant stakeholders to assess the company's position, performance, business model, strategy, and long-term prospects.

#### **7.3 Financial reports**

The board should affirm that the company's annual report and accounts present a true and fair view of the company's position and long-term prospects. Taking account of statutory and regulatory obligations in each jurisdiction, the information provided in the annual report and accounts should:

- a) be relevant to investment decisions, enabling shareholders to evaluate risks, past and present performance, and future prospects and to inform stakeholders of matters of relevance;
- b) enable shareholders to fulfil their stewardship responsibilities to preserve and enhance the value on their beneficiaries' assets in investee companies by assessing a company's position, performance and long-term prospects;
- c) be a faithful representation of the events it purports to represent;
- d) generally be neutral and report activity in a fair and unbiased way. In cases of uncertainty the principle of conservatism should ensure that assets and income are not overstated, and liabilities and expenses are not understated. There should be substance over form. Any off-balance sheet items should be appropriately disclosed;
- e) be verifiable so that when a systematic approach and methodology is used the same conclusion is reached;
- f) be presented in a way that enables comparisons to be drawn of both the entity's performance over time and against other entities and/or industries; and

- g) recognise the 'matching principle' that expenses are matched with revenues.
- h) as financial accounting standards evolve to include consideration of climate issues within financial statements the board should encourage the company to make use of these standards in their financial reporting and related audits.

#### **7.4 Sustainability reports**

The Board should provide sustainability reporting to reflect the complexities inherent in a contemporary business by blending financial, human and natural capital considerations in the context of a company's current and future strategic direction. Sustainability reporting should support and enhance the information in the financial statements and help investors to form an assessment of the company's position, performance and long-term prospects.

Such disclosures should:

- a) be linked to the company's purpose, business model, strategy and associated risks and opportunities;
- b) put historical performance into context, and portrays the risks, opportunities and prospects for the company in the future;
- c) be accessible and appropriately integrated with financial information;
- d) explain key performance indicators to measure progress towards achieving sustainability related targets;
- e) from external standard setters to allow for comparisons between companies or apply evidence-based estimates where external metrics do not exist; and
- f) be strengthened where possible by audit or independent assurance that is carried out annually having regard to established disclosure standards.

#### **7.5 Climate related disclosure**

The board should assess the impact of climate change on the company business model and how it will be adapted to meet the needs of a net zero economy as part of a long-term strategy. This includes setting and disclosing targets to reduce carbon emissions and a period for achievement. Where climate change risks, whether physical or transitional, are identified as material and relevant, reporting should include discussion of the diligence process, strategy, metrics, targets and initiatives used to manage the risks. Disclosure around these actions would help investors understand the resilience of companies facing climate change risks and to assess progress towards achieving net zero targets.

#### **7.6 Human capital disclosure.**

Boards should oversee a company's approach to human capital management (HCM) as part of longer-term strategy for value creation. This relates to talent management, succession planning, workforce retention and training in alignment with the company's Diversity, Equity and Inclusion Policy and complying with legal requirements, e.g., workforce health and safety and human rights. Companies should disclose their HCM policies which should clarify objectives, measurable goals

and key performance indicators on an annual basis. This extends to the impact of the workforce on company value in relation to costs, productivity, quality and revenue.

### **7.7 Materiality and sustainability**

Disclosures should focus on materially relevant factors, with many environmental and social factors being sector specific, linked to the company's management of its natural and human capital. Where possible, sustainability related reporting should also seek to address "double materiality", for reporting on the company's external impacts on society and the environment, as well as internal impacts on the company's own financial performance. Moreover, boards should build an awareness of "dynamic materiality", recognising that materiality evolves over time alongside factors including emerging technology, product innovation and regulatory developments.

### **7.8 Sustainability standards**

The board should encourage the company to utilise established sustainability related accounting and reporting standards and frameworks to facilitate consistency and comparability of reporting and to contribute to the global consolidation of sustainability related standards. The methodology and use of objective metrics underlying the company's disclosure should be rigorously explained.

### **7.9 Capital allocation**

The board should disclose a clear policy on the company's approach to capital allocation as a foundation for long-term value creation. The policy should clarify how a sustainable balance of capital allocation is achieved among different and potential trade-offs between company, shareholder, creditor and stakeholder interests, while maintaining a sufficient level of capitalization and liquidity to cushion against foreseeable risks. Such a framework should address:

- a) Governance and decision-making processes - respective role of the board (particularly the independent scrutiny of independent directors) and management in developing capital allocation framework and taking major capital related decisions;
- b) Disclosure on the company's cost of capital and how it relates to the company's long-term value creation and preservation, including the company's use of cash, debt and equity;
- c) Approach to taking major capital related decisions (e.g. mergers and acquisitions, research and development and capital spending plans) including philosophy, governance, decision-making, key internal metrics;
- d) Appropriate degree of financial leverage required to support the company's long-term strategy, balancing the goals of shareholders for returns on capital with the goals of creditors for maintain a prudent level of credit risk;
- e) A dividend policy, including rationale behind pay-out ratios/levels and changes in circumstances that may result in reducing or not paying a dividend; approach to special dividends; use of scrip dividends (if any);
- f) Use of share buybacks as a capital management tool, including triggers for a share buyback programme, including disclosure on how share buybacks could impact performance metrics under CEO/ executive incentive schemes; and
- g) Rationale behind any strategic shareholding in another listed company and cross-shareholdings or loans to third parties and their impact on the returns on capital.



### 7.10 Solvency

The board should confirm in the annual report that it has carried out a robust assessment of the company's financial position and identify any material risks, including to its solvency, liquidity and short-term continuity that would threaten its continued viability. The board should state whether the company will be able to meet its liabilities as they fall due and continue in operation for the foreseeable future, explaining any supporting assumptions and risks or uncertainties relevant to that and how they are being managed. Disclosure on such risks should include a description of:

- a) risk in the context of the company's strategy;
- b) risk to returns expected by shareholders with a focus on key consequences;
- c) risk oversight approach and processes;
- d) how lessons learnt have been applied to improve future outcomes; and
- e) the principal risks to the company's business model and the achievement of its strategic objectives, including risks that could threaten its viability.

**Principle 8: Internal and external audit**

**The board should establish rigorous, independent and effective internal and external audit procedures, to ensure the quality and integrity of corporate reporting.**

**Guidance****8.1 Internal audit**

The board should oversee the establishment and maintenance of an effective system of internal control to properly manage risk which should be measured against internationally accepted standards of internal audit and tested annually for its adequacy. Companies should have a dedicated internal audit function with clearly defined oversight and reporting structures. Where such a function has not been established, full reasons for this should be disclosed in the annual report, as well as an explanation of how adequate assurance of the effectiveness of the system of internal controls has been obtained.

**8.2 External audit**

The board should establish formal procedures to ensure an effective and independent external audit of the company's financial statements to provide assurance to shareholders and relevant stakeholders around a company's financial position, performance and prospects. The external auditor's direct reporting relationship and accountability should be to the independent audit committee.

**8.3 Audit Committee**

The board should establish an audit committee comprised entirely of independent non-executive directors. At least one member of the audit committee should have recent and relevant financial expertise and all audit committee members should be financially literate, including a basic understanding of accounting. Audit committees should also have a clear understanding of how sustainability factors can impact the company's financial statements. The terms of reference for the committee should be publicly disclosed and include:

- a) monitoring the integrity of the accounts, financial statements and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;
- b) maintaining oversight of key accounting policies and accounting judgements in accordance with generally accepted international accounting standards, and disclosing such policies in the notes to the company's accounts;
- c) reviewing the effectiveness of the company's risk management approach and system of internal controls, and the internal audit function;
- d) agreeing the minimum scope of the audit as prescribed by applicable law and any further assurance that the company needs;
- e) annually assessing the quality and effectiveness of the audit (including the use of audit quality indicators) and ensuring independence of the external auditor including in relation to the provision of non-audit services and related fees;

- f) recommending the appointment, reappointment and, if necessary, the removal of the external auditor and audit fees. Non-audit fees should normally be less than the audit fee and, if not, there should be a clear explanation as to why it was necessary for the auditor to provide these services and how the independence and objectivity of the audit was assured.
- g) approving the terms of reference for the audit engagement and ensuring that contracts do not contain specific limits to external auditor liability to the company for consequential damages or require the company to use alternative dispute resolution;
- h) engaging with the external auditor without management present to discuss any risks or other concerns that were significant to the audit process, including any significant questions or disputes regarding accounting practices or internal controls.
- i) overseeing the interaction between management and the external auditor, including reviewing the management letter provided by the external auditors and overseeing management's response; and
- j) reporting on the committee work in the annual report and engaging with shareholders either directly or via the board.

#### **8.4 Audit Committee report**

The board should explain the work of the Audit Committee in the annual report and engage with shareholders either directly or via the board on any significant issues arising from the audit relating to the financial statements and how they were addressed; and more generally report to shareholders on the effectiveness of the audit process including audit tender, auditor tenure, independence, fees, and the provision of any non-audit services.

#### **8.5 External auditor report**

The board should publish a report from the external auditor in the annual report which should provide an independent and objective opinion whether the accounts give a true and fair view of the company's financial position and prospects.

#### **8.6 Shareholder approval**

The board should recommend the appointment, reappointment and remuneration of the external auditor to shareholders for annual approval.

#### **8.7 Auditor resignation**

If the auditor resigns then the reasons for the resignation should be publicly disclosed by the resigning auditor.

#### **8.8 Audit rotation**

The engagement partner should be named in the audit report and audit rotation should be promoted at appropriate intervals both at the audit partner and firm level. The company should publish its policy on audit firm rotation and engage, when appropriate, new audit firms to broaden market competition. The audit committee should be directly involved with, and accountable for, the procurement process for new external auditors.

## **Principle 9: Shareholder rights**

***Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that a shareholder's voting rights is directly linked to its economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.***

### **Guidance**

#### **9.1 Share classes**

Ordinary or common shares should feature one vote for each share. Divergence from a 'one-share, one-vote' standard which gives certain shareholders power or control disproportionate to their economic interests should be avoided or in the event of the existence of such classes, they should be disclosed and explained and sunset mechanisms should be put into place. Dual class share structures should be discouraged, and where they are in place kept under review and should be accompanied by commensurate extra protections for minority shareholders, particularly in the event of a takeover bid. The board should disclose sufficient information about the material attributes of all of the company's classes and series of shares on a timely basis.

#### **9.2 Major decisions**

The board should ensure that shareholders have the right to vote on major decisions which may change the nature of the company in which they have invested. Such rights should be clearly described in the company's governing documents and include:

- a) appoint or remove a director, with or without cause, by a majority of votes cast;
- b) amendments to governing documents of the company such as articles or by-laws;
- c) company share repurchases (buy-backs);
- d) authorisation of additional shares. The board should be mindful of dilution of existing shareholders and provide full explanations to justify why it is in the best interests of the company when pre-emption rights are not offered;
- e) shareholder rights plans ('poison pills') or other structures that act as anti-takeover mechanisms. Only non-conflicted shareholders should be entitled to vote on such plans and the vote should be binding. Plans should be time limited and put periodically to shareholders for re-approval;
- f) proposals to change the voting rights of different series and classes of shares; and
- g) material and extraordinary transactions such as mergers and acquisitions.

#### **9.3 Conflicts of interest**

The board should ensure that policies and procedures on conflicts of interest are established, understood and implemented by directors, management, workers and other relevant parties, including members of related business groups. If a director has an interest in a matter under consideration by the board, then the director should promptly declare such an interest and be precluded from voting on the subject or exerting influence. The use of relationship agreements with controlling shareholders are encouraged to ensure that real or potential conflicts of interest are avoided or mitigated and should confirm that transactions involving conflicted parties will be based on customary market terms.

## 9.4 Related party transactions

The board should develop, adopt and disclose a related party transactions (RPT) Policy and have a robust process for approving, reviewing and monitoring RPTs and any inherent conflicts of interest which, for significant transactions. This includes establishing a committee of independent directors, either as a separate committee, or an existing committee comprised of independent directors, for example the audit committee. The committee should review significant related party transactions to determine whether they are in the best interests of the company and, if so, to determine what terms are fair and reasonable. The conclusion of committee deliberations on significant related party transactions should be disclosed in the company's annual report to shareholders.

## 9.5 Shareholder approval of RPTs

Shareholders should have the right to approve significant RPTs above an appropriate materiality threshold, and this should be based on the approval of a majority of disinterested shareholders. The board should submit the transaction for shareholder approval in the notice of the meeting and disclose (both before concluding the transaction and in the company's annual report):

- a) the identity of the ultimate beneficiaries including, any controlling owner or business group and any party affiliated with the controlling owner with any direct / indirect ownership interest in the company;
- b) other businesses in which the controlling shareholder has a significant interest; and
- c) shareholder agreements (e.g. commitments to related party payments such as licence fees, service agreements and loans).

## 9.6 Shareholder registration

The board should ensure that the company maintains a record of the registered owners of its shares or those holding voting rights over its shares. Registered shareholders, or their agents, should provide the company (where anonymity rules do not preclude this) with the identity of beneficial owners or holders of voting rights when requested in a timely manner. Shareholders should be able to review this record of registered owners of shares or those holding voting rights over shares.

## 9.7 Equality and redress

The board should ensure that shareholders of the same series or class are treated equally and afforded protection against misuse or misappropriation of the capital they provide due to conduct by the company's board, its management or controlling shareholder, including market manipulation, false or misleading information, material omissions and insider trading. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Proper remedies and procedural rules should be put in place to make the protection effective and affordable. Where national legal remedies are not afforded the board is encouraged to ensure that sufficient shareholder protections are provided in the company's bylaws.

**Principle 10: Shareholder meetings**

**Boards should ensure that meetings with shareholders are efficiently, democratically and securely facilitated to enable constructive interactivity and the accountability around the company's long-term strategy, performance, and approach to sustainable value creation upon which voting decisions may be influenced.**

**Guidance****10.1 Shareholder-called meetings**

The board should ensure that shareholders, of a specified portion of its outstanding shares or a specified number of shareholders, have the right to call a meeting of shareholders for the purpose of transacting the legitimate business of the company.

**10.2 Annual General Meetings (AGM) format**

AGMs and shareholder-called meetings should allow for the physical presence of participants, including provision for voting electronically by proxy, and ensure live interaction is possible with the board and management. Hybrid formats (allowing both physical and virtual participation) which provide a meaningful opportunity for shareholders to participate in the meeting and interact with board and management should be encouraged. When virtual-only meetings are held, the board should explain why this format is necessary; and audio-only meetings should be discouraged. The technology chosen for virtual meetings must be reliable and allow democratic access for all participants to facilitate open dialogue, allowing shareholders to voice concerns and provide feedback without undue censorship.

**10.3 Shareholder identification**

Companies should establish secure and efficient procedures to enable verification of shareholder identification and level of shareholding and ensure that all participants can in a hybrid or virtual-only meeting are able to communicate adequately with each other (where the technology allows) and vote on matters submitted to the meeting.

**10.4 Meeting Notice**

The board should ensure that the meeting agenda is posted on the company's website at least one month prior to the meeting taking place. The agenda should be clear and properly itemised and include the date, format and location of the meeting as well as information regarding the issues to be decided at the meeting. The meeting announcement should be clearly communicated in a timely way to allow for all votes executed by proxy to be counted and confirmed. Companies should ensure that relevant information, including the annual report and financial statements, are made available to investors in a timely fashion to allow them to prepare for the meeting.

**10.5 Meeting procedures**

Companies should publish Meeting Procedures (either in person, by proxy or by virtual electronic means) alongside the publication of the AGM Notice. This should include information on the meeting format, registration, access, participant identification, shareholding verification, voting options and the approach to asking/ answering questions. All matters on the ballot should be voted by poll and voting by a 'show of hands' should not be permitted.

## 10.6 Shareholder questions

Companies should allow shareholders the opportunity to submit questions in advance of the shareholder meeting date and during the meeting proceedings. Companies should ensure that transparent, unmoderated and interactive questioning by shareholders to the board and management is facilitated and that answers are provided to ensure accountability is upheld. The questions and answers should be recorded and made available to all shareholders of the company.

## 10.7 Shareholder proposals

Companies should ensure that shareholders have the right to place proposals on the agenda of AGMs, subject to reasonable limitations. All shareholder proposals should be voted upon and contingency provisions should be made to ensure that proponents are able to present their proposal should they have difficulties in attending an AGM, particularly in a hybrid or virtual AGM.

## 10.8 Thresholds

Any threshold associated with shareholder proposals or other such participation, should balance the need to ensure the matter under consideration is likely to be of importance to all shareholders. The threshold should take into consideration the degree of ownership concentration to ensure minority shareholders are not prevented from putting items on the agenda.

## 10.9 Vote execution

The board should clearly publicise a date by which shareholders should cast their voting instructions. The practice of share blocking or requirements for lengthy shareholdings should be discontinued. Companies should ensure accuracy of tracking and reconciling any advance votes received pre-AGM with any live votes cast during the AGM itself.

## 10.10 Vote disclosure

The board should ensure that equal effect is given to votes whether cast in person or in absentia and all votes should be properly counted and recorded via ballot. The outcome of the vote, the vote instruction (reported separately for, against or abstain) and voting levels for each resolution should be published promptly after the meeting on the company website. If a board-endorsed resolution has been opposed by a significant proportion of votes (e.g., 20% or more), the company should explain subsequently what actions were taken to understand and respond to the concerns that led shareholders to vote against the board's recommendation. At the following AGM, the board should report how the views from shareholders were considered to address the concern and any actions taken.

## 10.11 Vote confirmation

Companies should confirm to shareholders (where the beneficial owner appears on the share register) whether their votes have been validly recorded and formally counted. This normally can only be provided where the institutional investors hold shares in their own names rather than through pooled or omnibus accounts which co-mingle the securities of multiple investors. Companies should also be able to clarify the reasons why they may reject any votes that have been submitted.

## **Annex: ICGN Global Stewardship Principles**

### **Principle 1 Internal governance: the foundation of effective stewardship**

Investors should keep under review their own governance practices to ensure consistency with national requirements, taking into account the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries and clients.

### **Principle 2 Developing and implementing stewardship policies**

Investors should develop and implement stewardship policies which outline the scope of their responsible investment practices.

### **Principle 3 Monitoring and assessing investee companies**

Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

### **Principle 4 Engaging companies and investor collaboration**

Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to enhance engagement outcomes.

### **Principle 5 Exercising and protecting voting rights**

Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence, and judgement across their entire portfolio in the interests of beneficiaries or clients.

### **Principle 6 Promoting long-term value creation and integration of environmental, social and governance (ESG) factors**

Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in investment decision-making and stewardship activities.

### **Principle 7 Meaningful transparency, disclosure, and reporting**

Investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties.