ICGN
International Corporate Governance Network

BPPC Keynote Address 2024

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By Jen Sisson

Good afternoon everyone, thank you very much for the invitation to speak to you all this afternoon.

As you may know, ICGN is a membership body, led by investors from all over the world, with about $77trillion of AUM.

Our members are asset owners, like pension schemes and sovereign wealth funds, asset managers and also various service providers and corporates who are involved in the governance and stewardship ecosystem. Many proxy advisors, including members of the BPPG are also ICGN members.

Our purpose is to promote the highest standards of corporate governance and investor stewardship worldwide. Our members want to see the importance of Governance be a stronger part of the discourse.

We are believers that the G is absolutely key – it's fundamental to investment practices and to long-term corporate success.

So we focus our work in four key core corporate governance areas:

1. Strong and effective boards and board practices
2. Reliable financial and sustainability reporting and assurance
3. Protecting shareholder rights
4. And last but definitely not least – Best Practices in Investor Stewardship

Proxy research and advice is a critical component of the corporate governance and stewardship ecosystem and touches each of those 4 key areas of focus.

It's also a great example of how hard regulation is not always the answer. In your roles, as service providers to clients, a good accountability-based system, reliant on checks and balances, can work well. In my view, the monitored self-regulatory model embodied by the BPPC is working well, and it is encouraging that governments around the world have largely supported it. It is complimented by stewardship codes that allow for service provider signatories and enable you all to clearly demonstrate how you help your clients execute their stewardship responsibilities. And they also ensure that your clients monitor you and make sure that your services are meeting their needs.

As we await future regulatory changes and proposals, we should keep that success in mind, and be clear in our views to encourage the continuation of this model.

As Konstantinos notes in the foreword to your 4th annual monitoring report "It is important to recognize both the value of the services BPPG Signatories provide to their clients, the providers of investment capital, and the respective roles and responsibilities of financial market participants in the process."

It is a frustrating truth though, that many parties continue to either misunderstand, or wilfully misrepresent, the role of proxy advice and research providers.

This isn't just a threat to your self-regulatory model, this has been a key part of the pushback that has driven some of the changes made recently, that lower governance and listing standards.

There is a narrative suggesting overreach by proxy research providers or a lack of active stewardship decision making by investors, that we all know isn't reflective of reality. Management teams and board directors too often cite votes being "because XYZ advisor told them to vote against", rather than sitting with the more challenging truth that their investors didn't support their proposals.

This is not helping anyone.

We have to change this narrative. And we all need to work together to do this.

We need to get back to basics and remember why corporate governance is important in the first place. Good governance is the foundation of business success. Investors and company management are all on the same team here – we all want the same things – long term sustainably successful companies that will drive good long term sustainable returns for investors.

Investors don't want to have to vote against management, votes against are no-one's goal. Everyone's goal is making sure that investee companies have good governance, to support long term value creation.

No one believes there is only one way to do good governance, but the fundamentals tend to hold. So, we need to have a thoughtful, balanced and active approach to stewardship, and we need to consider issues carefully, in the context of companies, markets and changing best practices. High quality, well resourced, thoughtful proxy voting research is a key tool to enable your investor clients to make those decisions.

This kind of active, thoughtful stewardship in the long-term best interests of clients and beneficiaries is an important part of investor's fiduciary duties. Part of that stewardship is about holding company boards to account, to ensure they live up to their plans and create value in the long-term.

In order for investors to be able to do that most effectively, they need strong shareholder rights.

But we also all know, shareholder rights are under threat, and that has the potential to undermine the whole system as we know it. We shouldn't take this lightly, this is a huge problem, and one that we need to work together to address.

Here in the UK, as well as across Europe, we are seeing countries seek to stem the flow of listings to the US by loosening listing and governance rules, reducing voting rights and allowing for the introduction of dual class share structures. It's not clear that this will increase the number of listings, but it does introduce a lot of unnecessary risk into the system.

The US environment is very heavily regulated and highly litigious, much more so that in the UK or Europe, so logically this can't be the simple reason for choice of listing venue.

Also, we see that the vast majority of companies listing in the US market so far this year did so under either a simple, single class share structure, or with a sunset period of 7 years or less, so that doesn't seem to be it either.

ICGN will be working hard to advocate for the protection of shareholder rights: while we have been disappointed with outcomes in the UK, we were very pleased to see positive moves from the Italian government in response to recent advocacy. You may also have seen that we recently wrote to the President of the European Commission, to make some key recommendations for the EU.

- To remove obstacles to voting
- To harmonise AGM practices
- To harmonise standards on shareholder proposals
- To introduce safeguards against multi class shares
- To ensure investors can rely on high quality corporate sustainability disclosures
- And finally, to remove perceived obstacles to collaborative engagement

This will form the basis of our advocacy work in the EU over the coming months and years. I look forward to working together with many of you on this.

Of course, there can be well governed companies in all kinds of markets, but the role of shareholders as active stewards to hold boards accountable for that governance will only grow as these lower standards create higher risks.

And in turn, the importance of high quality, detailed and thoughtful voting research will also grow.

I hope that we can also continue to work together to clarify the roles and responsibilities of those across the investment chain, be clear about why good governance is important and work collaboratively to drive higher standards of governance in our investee companies around the world.

Thank you all for listening today, I hope the rest of your event goes well and that I will see you all at an ICGN event very soon.