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Assunto: AMEC Stewardship code - World Bank comments

Dear Mauro,

As discussed in our call, please find below our comments (Alexander Berg and myself) to the AMEC draft stewardship code.

- Overall, this is an excellent initiative and we look forward to its implementation. We especially welcome the introduction section, which clearly spells out the differences between “activists” and “active investors”, and crystalizes the stewardship role of institutional investors. In one paragraph, the introduction section also mentions that ‘AMEC intends to start a process to change the management and ownership culture of securities with time’. It sounds like an overarching objective of significant importance, it could be worth it to mention other initiatives (led or not by AMEC) that are happening to change that culture, if present. It could help reinforce and give more context, and better support AMEC code efforts in this space.
- Just out of curiosity – does AMEC have data to show the evolution of ownership concentration in Brazil in favor of institutional investors? It could be very telling. We have gathered data for the UK and the US and saw that in the US from 1950 to 2009 institutional ownership has grown from 6.1% to 50.6% of total outstanding equity. And the concentration is higher (73%) in the top 1,000 US corporations. In the UK, direct individual ownership has decreased from 53% in 1963 to 11.4% in 2012. OECD believed in 2010 that nearly half of the outstanding equity in the world was in the hands of institutional players. All this just to reiterate the importance of AMEC effort and the need to begin to steer that ‘culture’ of ownership in a different direction given the renovated lay of the ownership land.
- While we understand that AMEC will produce an implementation manual, we think that the guidance sections in the code itself could still be further elaborated to be more specific, without detracting from the goal of being “principles-based”. The principle-by-principle comments will attempt to highlight that where needed.
- Principle 1
This Principle suggests that institutional investors develop a “stewardship program”. We are not sure we have seen this language in other country cases. It might be more ‘tangible and concrete’ if this principle would explicitly recommend that investors draft a policy on responsible investment and stewardship and then spell out what the main sections of that policy should cover. Then the implementation guide can focus on what a good policy looks like. In addition, we are not sure if it’s a translation problem but four paragraphs in the guidance section are not truly connected to each other and it is not clear what the guidance in Principle 1 is trying to convey.
- Principle 2
This Principle suggests mechanisms to manage conflict of interest of institutional investors, in line with OECD Principle IIIC.. Also in this case, conflict mechanisms could be substituted with conflict policy and the guidance section could not only identify, as

it does, between which interest groups conflicts can emerge, but then give more granularity on what sections a conflict policy should contain.

- Principle 3
Fine
- Principle 4
While the principle highlights the monitoring role of Institutional Investors over their investments, the guidance discusses more the engagement of investors with companies. It does not clearly emerge that engagement is linked to monitoring, and that generates a bit of confusion to the reader as this is a principle about monitoring or engaging.
- Principle 5
In the World Bank's CG ROSC (2012) for Brazil, we noted that "ANBIMA's self-regulatory code requires member funds to have and disclose their voting policy. As of the end of 2011, 526 funds have complied with the Code and post their voting policies on the website of ANBIMA." If this code is still in place, this would seem to be very close to Principle 5 in the AMEC draft code. Is there a risk of having competing stewardship codes in the market, and duplicating efforts?
- Principle 6
Principle 6 focuses on "collective engagement". Can institutional investors engage individually under the code, or would all engagement be collective? It is not clear if collective effort excludes individual effort.
- Principle 7
Fine with the same caveat though on the ANBIMA code potential conflict.

We look forward to remaining engaged with you and AMEC, please keep us posted as things evolve with the code.

We hope you find these comments useful.

Best Regards,

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