



ICGN

International Corporate Governance Network

July 2016

To: Associação de Investidores no Mercado de Capitais (AMEC)

RE: ICGN response to the AMEC Stewardship Code consultation 2016

Dear Madam or Sir,

The International Corporate Governance Network (ICGN) is an investor-led organisation of governance professionals with members including institutional investors responsible for assets under management in excess of US\$ 26 trillion.¹ Our mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. As such we, as an organization of members with significant investments in Brazilian companies, welcome the opportunity to share our comments in respect to further improving the corporate governance of listed companies and responsible investment practices in Brazil. Our comments draw from ICGN's Global Governance Principles² and from our more recently developed Global Stewardship Principles.

ICGN would first like to express its appreciation to AMEC for taking the initiative to develop a stewardship code for Brazil. Making investor stewardship a reality is one of ICGN's fundamental policy priorities, and we are therefore pleased to see stewardship on the agenda in an important market like Brazil. As noted above ICGN has developed its own Global Stewardship Principles, recently approved at ICGN's AGM in San Francisco this past month, which underscores ICGN's commitment to supporting the development of stewardship codes in markets around the world. Indeed we hope and believe that our Global Stewardship Principles can play a positive role in influencing and supporting the development of the AMEC Code in Brazil—and we would encourage you to make reference to the ICGN Global Stewardship Principles as you have done for the UK's Stewardship Code.

With regard to our comments to the AMEC Stewardship Code, we would like to emphasise the following points, which draw from the public consultation notice:

- **AMEC Code Principles.** We are fundamentally in agreement with the seven principles that comprise the AMEC Code. These are broad in scope and consistent with the seven ICGN Global Stewardship Principles. In terms of specific comments:

¹ For more information about ICGN, please visit <https://www.icgn.org>

² See ICGN Global Governance Principles: http://icgn.flpbks.com/icgn_global_governance_principles/#p=1

- We support the inclusion of addressing **investor conflicts of interest** as a guiding principle in Principle 2. Finally, we would highlight that ICGN's own Governance Stewardship Principles begin with internal investor governance as the first step towards building an effective stewardship capability. The ICGN Principles certainly identify conflicts of interest as one of the key investor governance considerations; but the ICGN Principles extend into other aspects of investor governance which include time horizons, independent oversight, ethics, capacity and remuneration. AMEC may wish to bring these considerations into either this or subsequent drafts of its code.

- We think it is positive to see **ESG integration** as one of AMEC's core principles in Principle 3. This is not a feature of all stewardship codes globally, but we believe it is a progressive feature of this Code. As investors have fiduciary responsibility for their clients, who are pensioners and long-term savers, consideration of ESG factors in the investment process should focus on how ESG factors might influence sustainable value creation.

- Finally, we support emphasis on **investor engagement with companies** in Principle 7. This is a critical component of stewardship, particularly noting your observation that engagement is not a well-established practice in Brazil. At the same time we would observe that engagement can not only be collective, but in cases it can be 1:1 engagement with companies and individual investors as well.

- **Model for adherence to the Code and supervision structure.** We are supportive of AMEC's proposal to begin with publishing the Code—but without requiring monitoring by AMEC or sanctions for non compliance at the outset. Over time, as the Code becomes more accepted in the Brazilian market, some form of formal monitoring – either by AMEC or by another body—may be a good thing to do. But we are supportive of AMEC's judgement that it is first important to introduce these ideas to the market and to see how they are implemented or accepted – without an initial monitoring requirement.

- **Definition and translation of stewardship.** Stewardship is an English language term, and may translate well into some languages and less well into others. The most basic definition of stewardship is the responsible management of something entrusted in one's care. If this concept cannot be translated efficiently into Portuguese to allow for its application in an investment context, we do believe the AMEC Code should focus on the

substance of the issue, and not simply on trying to translate an English word into Portuguese.

- **Exercise of voting rights.** We agree with the section in the Code that calls for non-exercise of voting rights to be disclosed and explained by the investor. Exercise of voting rights is rightly deemed to be one of the core stewardship principles of the Code, and non-adherence should be flagged.
- **Transparency with regard to stewardship responsibilities.** We support the Principle 7 calling for disclosure of stewardship activities. We would note that in most markets with stewardship codes there is a question of making basic public disclosures on stewardship adherence. These are typically complemented with more granular and customized reports on stewardship activities for individual clients, which are not a matter of the public domain. Possible disclosure channels include the investor's annual report or a dedicated section of the investor's website, which focuses on stewardship policies and their implementation.

In due course you may also wish to elaborate on guidance for the distinct roles of asset owners and asset managers in the stewardship "ecosystem", as ICGN has done in its Global Stewardship Principles.

Thank you for the opportunity to provide comments on the AMEC Stewardship Code. Should you wish to discuss our comments further, please contact George Dallas, ICGN's Policy Director, by email at george.dallas@icgn.org.

Yours faithfully,

Erik Breen

Chairman, ICGN Board

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