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CC: George Dallas, Policy Director, george.dallas@icgn.org
Marlice Johnson, marlice.johnson@icgn.org

Re: ICGN Global Stewardship Code Consultation

Dear Kerrie and George,

As per our conversations, we hereby submit to you AMEC's response to the ICGN Global Stewardship Code Consultation. We thank you for your consideration in accepting this contribution after the original cutoff date, as it allowed us to fine tune our comments and to submit it to our Board of Directors, that approved this letter on this date.

Before attempting to answer the 5 questions proposed by the Invitation to Comment, we would like to make a more general consideration.

We held a lot of debates on the nature and structure of Section 2. While it is named 'Implementing and Monitoring the ICGN Code', we understand that its contents are more general, and range from the conceptual to the detailing of some of the guidance points. Given that, it runs the risk of becoming both frustrating for readers/applicants and the distraction from the main contents of the Code – which we understand are comprised in Section 1.

Therefore, the opinion of AMEC members is that the Code should be just Section 1. Section 2 might perhaps be partially incorporated in the Preamble, and partly used in a companion publication that assists those interested in handling the Code.

Alternatively, Section 2 must be restructured to deliver precisely what its title suggests: a guidance to implement and monitor the application of the Code.

At the same time, some members expressed concern with the statements that the ICGN “does not intend to monitor statements of compliance to the Code”. While we understand that this may be a wise decision at this point, we urge the ICGN to reconsider the statement. It seems strong enough to be detrimental to the importance that the Code may obtain and – we never know – the ICGN may decide differently in the future, opting for some sort of monitoring. We see no sense in closing that door at this time (current language would make a change in that decision unlikely or awkward). We therefore suggest that it reflects the fact that “at this point, the ICGN does not intend to monitor...”.

That being said, we will frame our remaining comments around the proposed questions of the consultation:

1. *Do you agree or disagree with the stated purposes of the ICGN Global Stewardship Code ? Are there other applications you might envisage ?*

AMEC members fully agree and endorse the three stated purposes of the ICGN Code. However, we suggest that the ICGN consider adding a purpose related to the expected impact of the Code to listed entities, as they organize their relations with their shareholders. The Code can be a powerful ally to make the shareholder-company dialogue more productive. In our opinion, the Companies Section in Part 2 should be expanded into a full purpose.

2. *Do you believe the draft ICGN Code is appropriately positioned to complement stewardship codes that are in place in other jurisdictions or to serve as a guide for the development of stewardship codes ?*

We believe that ICGN should give further thought to the cultural differences among the many jurisdictions that may look at the ICGN Code both as an inspiration for local documents but also for direct implementation.

One example is the first Guidance Point for Principle 1, that reads “*investors should be overseen by boards or other governance structures that act independently and without*

bias to advance beneficiary or client interests. This may involve the need to ring-fence investment activities for clients from commercial pressures”.

Our membership is in agreement with the ring-fence concept. However, reference to independent boards may be too inspired in jurisdictions where investment funds take up a corporate format. In Brazil, for example, funds are *condominiums*, and therefore lack structures such as a board of directors.

In terms of principles, the Brazilian structure assumes that while listed companies are part of the investment universe (or *frontier*, as per part of the literature), funds are merely vehicles that hold these final assets. Investors therefore may ignore them if they wish – something they cannot do in relation to listed equities, for example. Besides, funds in Brazil have very liquid redemption terms (sometimes as liquid as same-day redemptions), which allows investors to exit funds that are not acting properly. True, that could also apply to listed equities. But these must be held by someone at the end of the day, justifying a robust independent oversight structure. Redeemed open-ended fund shares, in contrast, disappear. Boards may make sense for funds with longer redemption periods, but these are still a minority among us.

In terms of the Code’s position in relation to local projects, we believe that this should be further reflected in the main text. While we see a reference to that respect on page 14, it seems a bit disconnected from the rest of the construct. Maybe more thought should be given on the synergies between the global and local codes – possibly as a path to a monitoring mechanism for the Code (see our comments to Question 1).

3. Do you agree with the seven principles of the Code ? Is there a principle that should be excluded, or another principle that should be included ?

AMEC members agree with the principles. However, we suggest that the order of principles 1.4 and 1.5 be inverted. In our understanding, engagement comes before voting. In other words, voting is one aspect of engagement, and the Code should reflect that.

4. Are there aspects of the guidance points that you do not agree with or are there further guidance points to consider ?

In addition to the points already mentioned in other questions, we believe that in Principle 5, language must be adapted to the reality that in some jurisdictions (including ours) investors are mandated by law to vote in ‘the company’s interest’ – not on the interest of its own clients. The distinction sits on a grey area, which is not easy to formalize. Engagement and voting needs to take that legal mandate into consideration. Still, we understand that guiding towards stewardship practices that are in the interest of clients and not of the institutional investor itself is clearly appropriate.

Besides, while desirable, we understand that it is not possible for every single investor to engage with every single company in their portfolio. Language of this principle should be made more flexible to reflect that reality.

5. Are there aspects of the roles of asset owners, asset managers and companies that you do not agree with or are there further guidance points to consider ?

AMEC members expressed concern of the perhaps overly prescriptive language used in the code in relation to environmental and sustainability factors. While most members are deep believers of the institutional duties to take these issues into consideration, the majority also considered that (1) many asset managers have short-term mandates and may therefore not share that view (while they represent a sizeable chunk of the market); and (2) a mandated focus on ESG runs the risk of alienating investors that are too far from that reality.

Given that, we suggest that ICGN shifts the approach in relation to ESG factors (notably in Principle 1.6) to one of disclosure.

Finally, see the answer to Question 1 on the role of companies.

Best regards,

MAURO RODRIGUES DA CUNHA
President