



ICGN

International Corporate Governance Network

By email: baselcommittee@bis.org

Bank for International Settlements
Basel Committee on Banking Supervision, working group on
corporate governance
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15 June 2010

RE: Consultative document on Principles for enhancing corporate governance

Dear Ms. Nouy,

I am writing on behalf of the International Corporate Governance Network (ICGN) and its Shareholder Rights Committee. The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 47 countries. Our investor members are responsible for global assets of U.S. \$9.5 trillion. The mission of the ICGN is to contribute to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: www.icgn.org.

The ICGN's Shareholder Rights Committee is writing in response to the consultative document on principles for enhancing corporate governance as published by the Basel Committee on Banking Supervision in March 2010. As investors, the members of the ICGN have a keen interest in the quality and efficiency of capital markets and, in particular, in how sound corporate governance practices can underpin corporate performance. Sound corporate governance is an essential element in the sound functioning of a bank and may adversely affect the bank's risk profile if not implemented effectively. Therefore, we welcome the Basel Committee on Banking Supervision's (the Committee's) principles for enhancing corporate governance.

The current financial crisis has highlighted that there is insufficient board oversight of senior management, inadequate risk management and unduly complex organisational structures and activities. These are also the key areas where the Committee focuses its attention in the consultative document. The ICGN believes that companies should have a strong focus on risk management and internal controls. Therefore the ICGN is currently also developing a set of corporate risk principles that could provide additional guidance to corporations. We expect to publish the ICGN corporate risk principles in October 2010, and after publication we will also share our insights with the wider financial community.

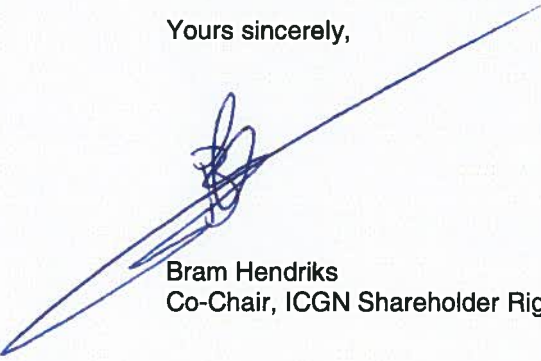
In the consultative document the Committee has a strong focus on the Board's overall responsibilities and its role for providing oversight of senior management. The Board's role covers a wide range of responsibilities. In relation to the financial crisis the question could also be raised whether the banking industry and its business models have not become overly complex in order to exercise adequate board oversight. What maybe could be addressed in the Principles is the fact that banks should simplify their business models to the extent possible in order to facilitate adequate Board supervision.

The Committee does not provide any guidance in the consultative document with regard to the position and role of shareholders. In the system of a corporation's checks and balances, shareholders have an important role to fulfil. The ICGN therefore believes that it is important for the Committee to include

guidance for financial institutions on the exercise of effective shareholder rights. What needs to be addressed, for example, are the Board's responsibilities towards Shareholders.

We appreciate the opportunity to express our views on this issue and would welcome the opportunity to engage in further discussion with the Basel Committee on Banking Supervision. Please do not hesitate to contact Carl Rosén, our Executive Director, by phone +44 207 612 7098 or email carl.rosen@icgn.org .

Yours sincerely,



Bram Hendriks
Co-Chair, ICGN Shareholder Rights Committee



Alexander Juschus
Co-Chair, ICGN Shareholder Rights Committee



ICGN

International Corporate Governance Network

ICGN Corporate Risk Oversight Principles

26 April 2010



Yale SCHOOL OF MANAGEMENT

Millstein Center for Corporate Governance and Performance

Contents

	Page
1. Preamble.....	3
2. Corporate Risk Oversight.....	5
2.1. Board and company process.....	5
2.2. Investor responsibility	8
2.3. Board and company disclosure	10
3. References.....	12
4. Annexes	13
4.1. Annex – Members of the Taskforce on Corporate Risk Oversight	13
4.2. Annex – Respondents to the Request for Consultation.....	15
4.3. Annex – Relevant Excerpts from ICGN Principles	16

1. Preamble

The International Corporate Governance Network (ICGN), founded in 1995 at the instigation of major institutional investors¹, represents investors, companies, financial intermediaries, academics and other parties interested in the development of global corporate governance practices. One of its objectives is to facilitate international dialogue on issues of concern to investors. High standards of corporate governance, including effective dialogue between companies and their shareholders, the ICGN believes, are a prerequisite for companies to compete effectively and for economies to prosper. The ICGN also believes that it is in the public interest to encourage and enable the owners of corporations to participate in their governance.

For companies and investors alike, risk taking is an inseparable element of strategy and a crucial driver in achieving objectives, including optimizing value over time. Risk is part of every decision a company makes. Strategy and risk are not new concepts, although it is recognised that risk is a subject of increasing attention and regulatory and legislative movements in many jurisdictions. The board's and investor's ability to gauge if a company is managing risk appropriately has broader relevance beyond the board and shareowners alone. It bears on the company's impact on all stakeholders including employees and the communities in which an enterprise does business, and in certain instances, national or international markets.

Financial stability and non-financial factors are both important determinants of corporate strategy. Risk and risk oversight must therefore be understood broadly. In this document risk is defined² as the effect of uncertainties on corporate objectives, recognising that the effect can be either positive or negative. Boards and investors need to consider material risks of which the effects are manageable within the organisation's sphere of influence including but not limited to market risks, operational risks, environmental risks, legal and compliance, and reputational risks. Risk oversight is defined as the board's supervision of the risk management framework³ and risk management process⁴. Risk management is distinct from risk oversight, as it is a responsibility of a company's management team.

Boards and shareowners have a joint responsibility to engage in substantive and effective communication on corporate risk oversight. Communication models and methods for this should not be any different than for other corporate governance matters. However, the topic of corporate risk oversight is a subject on which boards and investors should specifically engage. Active, informed, constructive and periodic communication between board members and shareowners is crucial for a mutual understanding of corporate strategy, risk and risk oversight. Such dialogue should be founded upon an appropriate and comparable level of respect, trust, seniority, skill and professionalism between investors and companies.

¹ The term "institutional investor" has the same meaning as set forth in section 2.1 of the *ICGN Statement of Principles on Institutional Shareholder Responsibilities (2007)*, a professional investor who acts on behalf of beneficiaries.

² This definition, as other definitions in this document, is in line with the definition as stated in the ISO Guide 73. Risk oversight is not a defined term in ISO Guide 73.

³ Risk management framework is defined in line with the ISO Guide 73 as set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring (3.8.2.1), reviewing and continually improving risk management (2.1) throughout the organization. References between brackets refer to the ISO Guide 73.

⁴ Risk management process is defined in line with the ISO Guide 73 as systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analyzing, evaluating, treating, monitoring (3.8.2.1) and reviewing risk (1.1). References between brackets refer to the ISO Guide 73.

The objective of these principles is to help investors assess how well a portfolio company's board—either unitary or supervisory—is effectively overseeing risk management. The principles are intended to be used by institutional investors who own stakes in corporations in all jurisdictions. Users need to exercise their judgement when applying the principles to specific jurisdictions, companies and circumstances. Further the targeted audience for this guidance is broader than just company boards and investors; it includes auditors, risk advisory and rating firms as well as provincial, national and international supervisory bodies.

The principles do not in any way seek to eliminate or minimize risk taking. In a healthy dynamic market profits are largely sourced from risk taking. Companies and investors alike are aware of this and act accordingly. However, a sound risk management program should demonstrably identify and reduce the frequency of destructive surprises or potentially large loss events.

These principles are divided into three sections. Section 2.1 sets guidance for the internal board and company process on corporate risk oversight; Section 2.2 follows with principles on disclosure of this process. Section 2.3 presents guidance on investor responsibility in the context of corporate risk oversight.

The document provides principles and suggested practices, as opposed to prescriptive rules to be followed. Should any of the following principles conflict with or confound local laws or regulations, the principles should only be applied in such a manner as to not violate such laws or regulations.

These ICGN Corporate Risk Oversight Principles are not written in isolation. These principles are part of a larger framework of ICGN statements and principles. Attention is drawn to the ICGN Global Corporate Governance Principles (2009), especially to the full Section 4 on Risk Management, Section 2.2 on Effective board behaviour and Section 2.3 dealing with Responsibilities of the board. Further, the ICGN Statement on Institutional Shareholder Responsibilities (2007) is of importance in this context, especially Section 3.2 on the appropriate level of resources, experience and skills required of portfolio managers and others in similar agency positions.

2. Corporate Risk Oversight

2.1. Board and company process

The corporate board has a responsibility to take steps to assure that it has a proactive and dynamic approach that results in effective oversight of risk management.

2.1.1. Risk and strategy

Strategy, risk tolerance and risk are inseparable and should be connected in all discussions in the board or supervisory board. Capital allocation and capital structure should be visibly aligned with strategy and risk tolerance. The board should hold management accountable for developing a strategy that correlates with the risk tolerance of the organisation.

Boards are responsible for approving corporate strategy and risk tolerance. These should be connected to an appropriate risk management methodology based on an established risk management process. The board should hold management accountable for designing and implementing a risk management system.

2.1.2. Risk oversight process

Boards are responsible for overseeing the way in which the risk management process recognises, prioritises and effectively responds to risk. Boards should maintain an active and alert attitude to emerging and unforeseen risk. They should be attentive not just in the context of negative events, but also by taking into account the changing landscape of opportunities and threats and stakeholder opinions that could alter the effectiveness of a company's strategy as previously established.

Responsibility for risk oversight rests with the full board, even if a risk committee or other specialised committees are established. Delegation of responsibility to specialised committees is an important tool in strengthening the board's capacity in overseeing risk. If, the board allocates responsibility for risk oversight to one or more committees, it should describe terms of reference for these bodies in its corporate governance principles and committee charters. The board should determine how the work of its committees is to be coordinated and how it is integrated in board's discussions on strategy.

Boards should directly influence the risk profile of an enterprise. This involves making key decisions such as setting boundaries outside which the management is not permitted to operate; defining succession plans for top management; defining a selection process for new members of the board and of top management; and defining incentive schemes for top management.

2.1.3. Enterprise-wide view of risk

A common definition of risk must be understood by all stakeholders within an organisation. The critical aspect of the definition is that the board, management and employees understand the meaning of risk as it relates to their individual responsibilities.

Boards should ensure that management has aggregated material risks across the organisation to arrive at an enterprise-wide view of risk which contemplates the potential effects of simultaneous interaction among the risks. Such an aggregated

view should be evaluated at least annually for alignment with the organisation's strategic plan and objectives.

2.1.4. Board culture

Board dynamics are fundamental to the decision making process for supervising strategy and risk management. Non-executive board members have an important role in monitoring board dynamics. Boards should lead by example and foster an effective and demanding risk culture in the boardroom and the broader company.

A company's culture and organisational structures should encourage openness, dynamic dialogue on risk and strategy and constructive challenge of judgment and assumptions. Periodic assessments should be undertaken to evaluate the company's culture, with particular regard to risk and the process by which issues are escalated and de-escalated within the company.

2.1.5. Non-executive board members

Non executive board members, through a specialised committee, and/or the outside chair or lead or senior independent director should collaborate with executive directors and management to determine which information the non executive board members receive on risk matters and how frequently.

Non executive board members should have rights and capacity to obtain information from other sources and advisors, including those outside the company. Clarity in decision making structures and a disciplined approach to risk attitude should not preclude boards from actively gathering additional information from any member of executive management.

2.1.6. Board competency

In order for the board to be equipped to carry out its responsibility for risk oversight, it must have a sufficient knowledge and understanding of the company and its industry.

Boards should assure themselves through periodic self-assessments that the board composition and director skill sets are appropriate for effectively overseeing the process and content of material risk. Gaps in necessary collective competencies or knowledge can be addressed by educational programmes and through the selection process for new board members. Whatever body is charged with selecting director candidates, they should ensure that nominees have the appropriate level of capability and related experience commensurate with the strategic and risk complexity of the enterprise.

2.1.7. Access to information

Flexibility and timely information are important features as they allow appropriate authorities to incorporate insightful information in making decisions. Information protocols within a company should allow for and anticipate the continually changing landscape in which companies operate. The board must recognise that a failure to act on information it has can be just as damaging as not having the information at all.

Boards should obtain assurance from management that the risk information provided to the board is complete and reliable with regard to identified risks and that the management has undertaken all reasonable endeavours to identify all material risks. Boards should periodically pose the question as to whether or not current

management has the capacity to effectively identify, explain and execute strategy and risk processes. Boards should ensure that such responsibilities and skills are among job performance benchmarks for senior executives both as part of succession planning, ongoing supervision of management and executive remuneration policies.

2.1.8. Chief risk officer

The board should determine if it is appropriate for the company to create a management position responsible solely for managing risk (for example, a chief risk officer). If the board determines that such a position is not necessary, it should identify a person who is to assume responsibilities for risk management, commensurate with the role of chief risk officer. This person should be able to report directly and independently of management to appropriate non executive members of the board. The position of a chief risk officer or equivalent is truly empowered by the requirement that only independent directors can alter the terms of employment. The risk management framework, allocated staff and resources should be appropriate and sufficient to properly conduct the risk management process.

2.1.9. Dialogue with shareowners

Boards should make available to shareowners one or more communication channel(s) for periodic dialogue on governance matters, including the board's role in risk oversight. Boards should clearly explain such procedures to investors, including guidance related to compliance with fair disclosure and other relevant market rules. Boards should regularly invite shareholders to express views and concerns regarding strategy and risk oversight.

2.2. Investor responsibility

The investor should take effective steps to assess a board's oversight of risk with respect to the company's strategy.

2.2.1. Investor capacity

In carrying out ownership responsibilities, it is incumbent upon shareowners to have capacity to inform themselves of and monitor on an ongoing basis the quality of strategy and risk oversight by boards of investee companies. They may do so by relying on company disclosures, in-house research or external sources.

2.2.2. Investor self-assessment

Institutional investors should undertake on a periodic basis an assessment of their own resources, skill base and outsourcing options to ensure that they meet agreed levels of responsibility for monitoring boards on risk oversight. The assessment could include, for example, a review of whether and how internal remuneration, job descriptions and staff performance reviews may be tied in part to such analyses. Investors should provide beneficiaries with a periodic statement explaining their strategy and capacity for analysing and monitoring current or prospective portfolio companies for strategy, risk oversight, and risk management.

2.2.3. Information on risk

Questions that investors should be able to answer about investee companies include:

- What are the material risks that the company faces?
- How much risk is the company taking in order to achieve strategic objectives?
- Does the management maintain an adequate risk management system?
- Does the board possess the competencies, structures and processes to maintain risk oversight?

In case investors cannot derive these answers from disclosed company information, investors have a responsibility to engage the company to provide additional information or to take corrective action.

Investors should consider posing questions on risk to boards and managements. Among those that may be asked, depending on circumstances, are the following:

Material risks

- In which areas of the firm is risk policy most challenged?
- How does the company define its material strategic risks?
- What keeps board members or executives awake at night?

Culture

- What measures does the board take to instil from the top through the company a culture of risk monitoring and accountability?

- What steps does the board take to ensure that management at relevant levels of the company understands that the board maintains robust oversight of risk management?
- What is the risk culture in the company? How does it compare to the desired risk culture in the company? How is the design of risk oversight and risk management supporting the desired risk culture?
- Does the board maintain, monitor and refresh an ethics policy for itself and employees and, if so, how is such policy embedded throughout the organisation?

Structures

- How does the board allocate risk oversight responsibilities between its committees?
- How does the board ensure communication between its committees with respect to risk?
- Can the company clearly define the relationship between the risk, audit, and compensation committees? How does the board avoid committees working independently of each other?
- To what extent does the Board retain independent counsel and expertise in executive compensation and CEO succession & selection to ensure effective organizational and leadership risk management?
- In financial services firms, who is responsible for setting overall trading and or credit limits? How are individually assigned limits or group limits associated with similar type of risk set, monitored and controlled?

Process

- How many risk issues were communicated to the management and the board within the last year and what was their response to these issues?
- When was the last time the company's risk tolerance policy was breached?
- Who are the company's most highly remunerated employees and why? Are their incentives based on risk adjusted performance and if so how?
- How often is the company's whistle blowing policy used?
- How much board or management time is spent on contingency planning? (resilience planning rather than identification of risks)
- What were the main recommendations from the last board evaluation and what has been done to address them?

Results

- Can an executive describe the role of risk oversight in his or her daily job in association to the company's business and strategy?
- What evidence demonstrates that the board on an ongoing basis is committed to improving risk oversight?
- When was the last time the company's risk function stopped something from happening?
- What is management doing to improve risk management? What were the latest improvements and which improvements are currently being worked upon?

2.3. Board and company disclosure

The board should concisely disclose information sufficient for investors to make judgments on the quality of the board's oversight of the risk management process.

2.3.1. Disclosure frequency

Disclosure should be made at least annually, in conjunction with an organisation's regular financial reporting process.

2.3.2. Disclosure format

Boards should provide investors with a statement that includes information on risk oversight procedures and board perspectives on risk in the approved strategy. This should be in a text identified as distinct from any reports or disclosures issued by management concerning specific risks faced by the company.

2.3.3. Disclosure structure

Boards should explain to investors those aspects of the corporate governance structure that the board relies upon to oversee the strategy and material risks of the company, including whether a board-level committee specialised on risk exists and the nature of its responsibilities and the feedback loop into the board's strategy discussions.

2.3.4. Disclosure of policy

In disclosures, a board should describe the enterprise's approach to risk within the context of current corporate strategy, the process used to set parameters of the company's risk tolerance, the frequency with which these parameters are reviewed, and whether any limits on risk-taking are imposed on management.

Boards should disclose any changes in material risks, including changes that result from modifications of strategy as well as changes in the company's environment.

Boards should disclose how they monitor robustness of contingency and resilience planning for risk threats and opportunities.

Boards should clearly articulate how they ensure that variable pay practices for executives align with the company's strategy and risk management and the current state of the company.

2.3.5. Disclosure of process

Boards should explain to investors how members collectively have reviewed, challenged and approved management's information on company risk and risk management in light of the company's strategy.

Boards should disclose risk oversight challenges that may have emerged over the reporting period, including action taken or planned to address them. The board should describe how it dealt in respect of procedure with any failures of risk oversight. The board should explain how on an ongoing basis it seeks to improve risk oversight

Boards should disclose how they ensure that broader economic risks and systemic industry risk that can affect probabilities of meeting the company strategy are taken

into account. This explanation should include consideration of multiple events occurring simultaneously.

2.3.6. Disclosure of board competency

Boards should provide sufficient information on their own members so that shareowners can effectively evaluate members' integrity and qualifications. For instance, boards may disclose member competencies, continuing education programmes, industry and risk management knowledge and experience, and adherence to board ethics standards. Boards are encouraged to communicate openly about any current identified gaps and their course of action to address these.

2.3.7. Additional disclosure considerations

The board's periodic risk oversight statement to investors, in addition, should include information on at least the following:

- how and how often strategy, level of risk tolerances, and risk oversight are assessed by the board in connection to each other;
- how and how often the suitability of the capital structure, the capital allocation process, the risk management framework and the risk management process are assessed with respect to strategy and risk tolerance;
- how and how often the structure of information flow and levels of decision making regarding actively taken risks are assessed with regard to effective risk oversight;
- how and how often stakeholders are considered in the risk management process;
- how the board addresses its responsibility for risk oversight in its annual evaluation process.

3. References

TASKFORCE TERMS OF REFERENCE

The Taskforce on Corporate Risk Oversight (TCRO) is a joint project of the International Corporate Governance Network (via its standing Shareholder Responsibilities Committee) and the Millstein Center for Corporate Governance and Performance at the Yale School of Management. Co-chairs are Erik Breen of Robeco and Stephen Davis of the Millstein Center. Staff support is from Phil Soulanille, Deloitte⁵ Visiting Fellow at the Center. The Center also had support from Karol Klimczak, 2009 Kozminski-Sendzimir Postdoctoral Researcher In-Residence at the Center.

The Taskforce's mission is to develop guidance that would help investors assess whether a portfolio company's unitary board or supervisory board is effectively overseeing risk management.

The Taskforce is composed of individuals in and outside the ICGN and from multiple jurisdictions and perspectives. The Taskforce is also operating with the assistance of an international Sounding Board Group (SBG) consisting of experts and investor, corporate and other officials with exposure to the field of risk. Members are listed in Annex 4.1 below.

BACKGROUND MATERIALS

The Taskforce and Sounding Board Group were provided with background materials for their work on corporate risk oversight. Should any ICGN members wish to obtain a copy of such materials, please contact Phil Soulanille at psoulanille@deloitte.com.

⁵ As used in this document, "Deloitte" means Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

4. Annexes

4.1. Annex – Members of the Taskforce on Corporate Risk Oversight

C = Committee Member

SBG = Sounding Board Group

Group	Region	First Name	Last Name	Title	Organisation
C	EU	Roger	Barker	Head of Corporate Governance	Institute of Directors
C	US	Mark	Beasley	Deloitte Professor of Enterprise Risk Management and director of the ERM Initiative at North Carolina State University	North Carolina State University
C	EU	Erik	Breen	Head of Responsible Investing	Robeco
C	EU	Jean-Nicolas	Caprasse	European Governance Head	RiskMetrics Group
C	US	Kathleen	Carney	Senior Legal Counsel	Relational Investors LLC
C	US	Stephen	Davis	Executive Director & Lecturer	Millstein Center for Corporate Governance & Performance
C	Middle East	Khalid	Deeb	Director General	Abu Dhabi Center for Corporate Governance
C	US	Margaret	Foran	VP, Chief Governance Officer and Secretary	Prudential Financial, Inc.
C	US	John	Jarrett	Research Director	GovernanceMetrics International
C	US	Keith	Johnson	Head of Institutional Investor Legal Services	Reinhart Boerner Van Deuren s.c.
C	US	Laurel	Leitner	Senior Analyst	Council of Institutional Investors
C	US	Jon	Lukomnik	Program Director	IRRC Institute
C	US	Ira	Millstein	Senior Dean of Corporate Governance	Millstein Center for Corporate Governance & Performance
C	EU	Simon	Osborne	Joint Head of ICSA Board Evaluation	Institute of Chartered Secretaries and Administrators
C	EU	Cees	Visser	Partner	Ernst & Young Advisory - Risk Services

C	EU	Dr Casper George	de Vries	Chair of Monetary Economics	Erasmus Universiteit Rotterdam
C	US	Steve	Wagner	Retired Deloitte Partner	Deloitte & Touche LLP
SBG	CH	Andre	Baladi	Co-Founder	ARICI-CARICI, ICGN, Stichting Converium Securities Compensation Foundation, UNCTAD-ISAR
SBG	US	Robyn	Bew	Principal	Tapestry Networks, Inc.
SBG	EU	Hans-Martin	Buhlmann	CEO	VIP (Vereinigung Institutionelle Privatanleger) eV
SBG	EU	Francesco	Chiappetta	General Counsel	Pirelli Group
SBG	US	Andrew	Clearfield	President	Investment Initiatives
SBG	US	Roberto	Danel		Congrol de Gestion de Negocios
SBG	AUS	Todd	Davies	Founder	Todd Davies & Associattes
SBG	AUS	Philip	Higginson	Managing Director	PRO:NED
SBG	EU	David	Jackson	Special Counsel and Company Secretary	BP, Plc
SBG	EU	Dimitrios	Koufopoulos	Senior Lecturer in International Management and Strategy	BRUNEL UNIVERSITY
SBG	AUS	Charles	Macek	Chairman of the Board	Sustainable Investment Research Institute
SBG	US	Robert	Mark	CEO	Black Diamond Risk
SBG	EU	Daniel	Summerfield		Universities Superannuation Scheme (USS) Ltd
SBG	US	Mark	Van Clieaf	Managing Director	MVC Associates International

4.2. Annex – Respondents to the Request for Consultation

The ICGN would also like to thank members and others who responded to the ICGN consultation which helped in the development of these guidelines:

Rients Abma, Eumedion
Robyn Bew, Tapestry Networks
Timothy Boatman, Korpo TP
Ann Byrne, Australian Council of Super Investors
Susan Enefer, BC Investment Management Corporation
Maureen Errity, Deloitte LLP
Judith Fox, Chartered Secretaries Australia Ltd
Pako Kedisitse, Fincommerz Consult (Pty) Limited
Paul Lee, Hermes Equity Ownership Service
Sean Lyons, Risk-Intelligence-Security-Control R.I.S.C. International (Ireland)
Beckwith B. Miller, Ethics Metrics LLC
Michael Schrage, research fellow at the MIT Center for Digital Business
Linda Scott, Governance for Owners
Arjumand Ahmed Shah, Pakistan Institute of Corporate Governance
Alan Willis, Alan Willis & Associates
Bob Walker, Northwest & Ethical Investments L.P

4.3. Annex – Relevant Excerpts from ICGN Principles

From ICGN Global Corporate Governance Principles: Revised (2009)

2.2 Effective board behaviour

Boards need to generate effective debate and discussion around current operations, potential risks and proposed developments. Effective debate and discussion requires:

- (a) that the board has independent leadership;
- (b) that the chair works to create and maintain a culture of openness and constructive challenge which allows a diversity of views to be expressed;
- (c) that there is a sufficient mix of relevant skills, competence, and diversity of perspectives within the board to generate appropriate challenge and discussion;
- (d) that the independent element of the board is sufficiently objective in relation to the executives and dominant shareholders to provide robust challenge without undermining the spirit of collective endeavour on the board;
- (e) that the non-executive element of the board have enough knowledge of the business and sources of information about its operations to understand the company sufficiently to contribute effectively to its development;
- (f) that the board is provided with enough information about the performance of the company and matters to be discussed at the board, and enough time to consider it properly; and
- (g) that the board is conscious of its accountability to shareholders for its actions.

2.3 Responsibilities of the board

The board's duties and responsibilities and key functions, for which they are accountable, include:

- (a) Reviewing, approving and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
- (b) Overseeing the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place; in particular, financial and operational control, and compliance with the law and relevant standards.
- (c) Ensuring a formal and transparent board nomination and election process.
- (d) Selecting, remunerating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
- (e) Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
- (f) Overseeing a formal risk management process, including holding an overall risk assessment at least annually.
- (g) Monitoring and managing potential conflicts of interest of management, board members, shareholders, external advisors and other service providers, including misuse of corporate assets and related party transactions.
- (h) Monitoring the effectiveness of the company's governance practices and making changes as needed to align the company's governance system with current best practices.
- (i) Carrying out an objective process of self-evaluation, consistently seeking to enhance board behaviour and effectiveness.
- (j) Overseeing the process of disclosure and communications, and being available for dialogue with shareholders.

Carrying out these roles requires a positive working relationship with executive management but also the ability to call management independently to account. This means that the board will need at times to meet without management present.

4.0 Risk management

4.1 Effective and appropriate risk management

Companies need to take risks, for without risks there will be no returns. However, boards need to understand and ensure that proper risk management is put in place for all material and relevant risks that the company faces.

4.2 Dynamic management process

The board has the responsibility to ensure that the company has implemented an effective and dynamic ongoing process to identify risks, measure their potential outcomes, and proactively manage those risks to the extent appropriate. The board should also determine the company's risk-bearing capacity and the tolerance limits for key risks, to avoid the company exceeding an appropriate risk tolerance. This process needs to be a dynamic one to respond to risks as they develop and as the company's business and marketplace develops. If necessary the board should seek independent external support to supplement internal resources.

4.3 Board oversight

Companies should maintain a documented risk management plan. At least annually, the board should approve the risk management plan which it is then the responsibility of management to implement.

4.4 Comprehensive approach

Risk identification should adopt a broad approach and not be limited to financial reporting; this will require consideration of relevant financial, operational and reputational risks.

4.5 Disclosure

Companies should disclose sufficient information about their risk management procedures to reassure their shareholders that they are appropriately robust. Disclosures should include the handful of particularly key risks which the company faces.

From ICGN Statement of Principles on Institutional Shareholder Responsibilities (2007)

2.0 Definitions

- 2.1 In this statement the terms 'institution' and 'institutional investor or shareholder' are used to refer to professional investors who act on behalf of beneficiaries, such as individual savers or pension fund members. Institutional shareholders may be the collective investment vehicles, which pool the savings of many or the asset managers to whom they allocate the funds.

Examples of the former include: pension funds, insurance companies, and mutual funds. The investment arrangements for these institutional shareholders will vary according to type, and local law or regulation.

- 3.2 Four main elements apply to the internal governance of those involved in the investment chain if this fundamental principle is to be met:

iv **Expertise**

Decision makers along all parts of the investment chain should be appropriately resourced and meet relevant standards of experience and skill in matters subject to deliberation. Governing bodies should have the right to outside advice, independent

from any received by the sponsoring body. Portfolio managers and others in a similar agency position should deploy sufficient, qualified resources to meet clients' expectations. Delegation of key processes such as engagement with companies, voting decisions and execution does not absolve agents involved in the investment process from their fiduciary responsibility to beneficiaries. They should be able to justify to beneficiaries specific actions taken on their behalf whether by themselves or by those to whom specific services are outsourced.