

PRI RESPONSE

ICGN GLOBAL STEWARDSHIP PRINCIPLES

May 2024

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To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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United Nations
Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to The International Corporate Governance Network (ICGN) call for feedback on Global Stewardship Principles.

ABOUT THIS CONSULTATION

The International Corporate Governance Network [Global Stewardship Principles](#) were last updated in 2020 and are subject to periodic review. The structure of the ICGN Global Stewardship Principles is substantially changed and the new draft is based around the following chapters: 1. Stewardship commitment 2. Robust governance 3. Company monitoring and engagement 4. Voting and other ownership rights 5. Public policy advocacy.

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KEY RECOMMENDATIONS

The PRI welcomes the revised ICGN Global Stewardship Principles (the Principles) which recognise stewardship as a fundamental aspect of an investor’s fiduciary duty. We welcome in particular:

- the explicit inclusion of the issue of stewardship resources in stewardship commitments
- the encouragement of public policy advocacy to mitigate market-wide issues or systemic risks.

We value the ICGN’s efforts to take stewardship principles to the next level, contributing to the advancement and effectiveness of stewardship globally.

The PRI’s key recommendations are:

- Improve the clarity around the key elements of stewardship commitments, particularly the consideration of market-wide or systemic risks.
- Provide more guidance for investors that exercise investor rights by taking actions not already mentioned in the Principles, such as filing shareholder resolutions/statements.
- Explicitly mention ‘dedicated staff’ for stewardship resources. In addition, it may be useful to acknowledge that stewardship activities may be resourced internally or outsourced.

DETAILED RESPONSE

SECTION 1: RESPONSE TO QUESTIONS

QUESTION 1: DO YOU AGREE WITH ICGN’S DEFINITION OF ‘STEWARDSHIP COMMITMENT’ AS DESCRIBED IN PARAGRAPH 2 OF THE PREAMBLE?

The PRI welcomes the definition of “stewardship commitment” which clarifies stewardship is a fundamental aspect of an investor’s fiduciary duty. Given the influence of institutional investors in the capital market, it is important to ensure that investors’ stewardship activities align with investors’ legal duties. Investors should ensure that stewardship is not treated, as it often is, as an investment activity suitable only for some purposes or for specific asset classes. Rather, the appropriate use of stewardship by investors should be regarded as part and parcel of discharging their duties.¹

The PRI would like to recommend the ICGN enhance the clarity around the key elements of stewardship commitments, particularly the consideration of market-wide or systemic risks.

The second sentence of paragraph 2 of the preamble states that ‘[m]ore broadly, effective stewardship helps to mitigate market-wide or systemic risks, safeguarding capital market efficiency, integrity, and resilience across diversified investment portfolios.’ It might create an impression that

¹ <https://www.unpri.org/policy-toolkit/how-policy-makers-can-implement-reforms-for-a-sustainable-financial-system-stewardship/11190.article>

elements of effective stewardship, such as the consideration of systemic risks, are beyond investors' stewardship commitments.

[A Legal Framework for Impact](#), authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, UNEP FI and the Generation Foundation, finds that in the 11 jurisdictions analysed institutional investors, tasked with securing long-term financial returns, are likely to have a responsibility to consider whether system-level risks (including sustainability risks that cause system-level risks to the economy and financial system) are relevant to their ability to meet their legal obligations and objectives and, if so, how they can mitigate these threats.² Reduced system-level risks – which can be referred to as “better beta” – could improve financial outcomes over the long term.³ Therefore, investors are likely to have duties to consider taking actions (including stewardship) to address system-level risks where doing so can contribute to achieving their investment objectives.

The [joint guidance](#) by the PRI, the CFA Institute and the Global Sustainable Investment Alliance (GSIA) shows that there is a substantial level of recognition from the industry that wider system consideration is a key element of stewardship. The guidance defines stewardship as ‘[t]he use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.’⁴ This definition further clarifies that investor stewardship should not only aim at improving corporate value but also the overall value of the wider environmental, social and economic system that the increase of corporate value relies on. The concept of overall value for clients and beneficiaries is multifaceted. It includes the market value of the entire portfolio (as opposed to individual holdings or individual mandates); the long-term value-creation capabilities of firms and economies; and the common environmental, natural, intellectual, social, and institutional assets that underpin all economies. Using influence to promote short-term performance or the performance of individual companies, industries, or markets, without regard to overall value, does not constitute stewardship.⁵

QUESTION 2: DO THE REVISED PRINCIPLES SUFFICIENTLY RECOGNISE THE NUANCES AND DIFFERENCES BETWEEN ASSET CLASSES?

There is an opportunity to further recognise the nuances and differences across asset classes. The section on voting and other ownership rights could include more guidance for investors to consider engagement opportunities with all relevant stakeholders which may be asset class specific and exercise rights such as serving on or nominating directors to a company's board, filing shareholder resolutions or statements, or using litigation.

² Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), *A Legal Framework for Impact: Sustainability impact in investor decision-making* (p.154-p.192)

³ Hawley, J., Lukomnik, J. (2019), *Modernising modern portfolio theory*.

⁴ <https://www.unpri.org/investment-tools/definitions-for-responsible-investment-approaches/11874.article#Stewardship>

⁵ <https://www.unpri.org/investment-tools/definitions-for-responsible-investment-approaches/11874.article#Stewardship>

We are aware that the ICGN is in the process of developing positions on stewardship in private equity and would recommend the ICGN expand the principles so that they are more applicable to investors in privately held corporations in the future. The PRI recently published a guide for general partners to do stewardship in private equity which could be a helpful resource to feed into ICGN's work.

QUESTION 4: OTHER COMMENTS

We support the explicit inclusion of stewardship resourcing in paragraph 1.4. We suggest that “dedicated staff” be explicitly mentioned and the ICGN consider acknowledging that stewardship activities may be resourced internally or outsourced. We suggest the ICGN revise 1.4 para as below.

1.4. Resources: Whether stewardship activities are carried out internally or outsourced in part or whole, investors should have appropriate infrastructure, capacity (including dedicated staff, where relevant), and capabilities to conduct effective stewardship, supported by professional training. Such resources should be strengthened with reliable prioritisation processes, data, research, and analysis to inform investment and stewardship decision-making. Stewardship resources should also include resources dedicated to overseeing, monitoring and evaluating outsourced stewardship activities.

The PRI commissioned the Thinking Ahead Institute to publish a report to provide insight into the current level of stewardship resources within our industry, and to promote a structured measurement approach that could support better, more deliberate stewardship resourcing practices. This report, entitled "Putting resources where stewardship ambitions are" was published in May 2024, proposes the following call to action for the industry:

- Build the data on stewardship resourcing. This is to provide industry-wide data that can support more informed organisation-specific actions on stewardship.
- Advocate for stronger disclosures on stewardship resourcing. This represents an important step in building greater transparency in a field of growing importance.
- Advance the body of research into effective stewardship practice. To date, the stewardship part of investing has had limited focus; there should be much greater attention given to its significance in achieving industry goals.

SECTION 2: PRI RESOURCES

PRI policy report: [How policy makers can implement reform for a sustainable financial system: stewardship](#)

PRI practical guide: [Stewardship in private equity: A guide for general partners](#)

PRI practical guide: [ESG engagement for fixed income investors](#)

PRI practical guide: [ESG engagement for sovereign debt investors](#)

PRI commissioned report: [Putting resources where stewardship ambitions are](#)

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of ICGN further to improve the standards of stewardship and corporate governance at the global level.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org

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