

Eurosif Response to the EU Green Paper on Corporate Governance in Listed Companies

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Answers to consultation questions:

(A) General questions

(1) Should EU corporate governance measures take into account the size of listed companies? How? Should a differentiated and proportionate regime for small and medium-sized listed companies be established? If so, are there any appropriate definitions or thresholds? If so, please suggest ways of adapting them for SMEs where appropriate when answering the questions below.

Yes. Eurosif believes that EU corporate governance measures should be tailored to take into account the size of listed companies. Smaller companies are faced with different structures than larger companies and applying the same measures to both categories would prove inefficient and burdening for smaller companies. Imposing the same minimum number of independent directors for both large and smaller companies is an example of measure that is less relevant for smaller companies but highly recommended for a large one. Similarly, issues that vary according to the maturity and size of the company include financing the growth strategy, capital increase authorizations, and remuneration structures.

Member State corporate governance codes could serve as an example of corporate governance principles tailored for large and smaller companies (France, UK).

(2) Should any corporate governance measures be taken at EU level for unlisted companies? Should the EU focus on promoting development and application of voluntary codes for non-listed companies?

Yes, Eurosif supports a set of recommendations on corporate governance in unlisted companies, not necessarily legally binding measures at this stage, since rules should offer flexibility in order to adjust to companies' specifications: sector, size, development stage, family-ownership etc.

A set of best-practices gathered into a code to which non-listed companies could voluntarily adhere would be welcome at EU level. This could evolve into a mandatory "comply-or-explain" type of code. Non-listed companies should be able to rely on solid corporate governance practices, particularly in difficult economic



conditions and such practices could include stakeholders' interests such as employees and minority shareholders.

Therefore, Eurosif recommends that the EC explore the possibility of a set of EU Corporate Governance recommendations for non-listed companies, as already done in some EU Member States (Belgium, Finland, and UK). A European-level approach would enable to harmonize practices, and therefore lift some of the barriers encountered to building European transnational alliances (an increasing number of non-listed companies are transnational).

(B) Boards of Directors

(3) Should the EU seek to ensure that the functions and duties of the chairperson of the board of directors and the chief executive officer are clearly divided?

Some of the existing guidelines in Europe already recommend the clear separation of the Chairman of the Board and the Chief Executive Officer.¹ Eurosif considers that the tenure of these two functions by one person should be clearly discouraged in listed companies as there must be a clear distinction between the management of the institution (ensured by the CEO and the Executive Board) and its governance (ensured by the Board of Directors) to prevent any conflicts of interests, and/or too much power in the hands of one person. Alternatively, companies should explain the tenure of these two positions by the same person. Another possible solution would be that of an independent vice-president in case the separation of these two positions cannot be ensured, although we do stress that the separation of the two positions (Chairperson of the board and CEO) should be clearly encouraged.

This recommendation follows Eurosif response to the public consultation on corporate governance in financial institutions (2010).² Also, Eurosif supports the 2009 ICGN Corporate Governance Principles and recommends that the EC explore how these could feed into the EU Corporate Governance Framework.

(4) Should recruitment policies be more specific about the profile of directors, including the chairman, to ensure that they have the right skills and that the board is suitably diverse? If so, how could that be best achieved and at what level of governance, i.e. at national, EU or international level?

Yes, Eurosif believes that recruitment policies should be specific about the director profiles. The selection process should be transparent and recruitment based on objective criteria. Board nomination committees are also a good corporate governance measure to ensure that board member recruitment is done fairly and in a transparent manner.

It has been proven that boards achieve a higher level of efficiency when they are composed of members with diverse profiles in terms of skills, experience, age, nationality and gender. Board diversity is also reflected by the number of independent directors and mandate renewal practices. Given the lack of positive evolution encountered in many boards on those criteria, it might be necessary to create common EU rules, in particular in respect to women representation and director's age limit.

(5) Should listed companies be required to disclose whether they have a diversity policy and, if so, describe its objectives and main content and regularly report on progress?

Yes, Eurosif considers that companies should be required to disclose whether they have a diversity policy (of backgrounds, experience, gender, etc) and report progress on this policy. For investors, when making

¹ The UK Corporate Governance Code as of June 2010 and the Walker Review, "A review of corporate governance in UK banks and other financial industry entities" (2009),

² Eurosif's response to the 2010 consultation on Corporate Governance in Financial Institutions can be found at: http://www.eurosif.org/images/stories/pdf/response_green_paper_corp_gov_fin_inst_2010.pdf



investment decisions, diversity of board member experience skills, competencies and gender supports a better understanding of the company's practices on the topic. Moreover, understanding company policies on diversity is relevant for other stakeholders. Company diversity policies should be made public to enable investors and stakeholders to identify the results of this policy and possible progress to be achieved.

(6) Should listed companies be required to ensure a better gender balance on boards? If so, how?

Yes, Eurosif believes that the European Commission should establish mechanisms to ensure balanced gender representation on boards.

To this end, Eurosif would support that the EC set *minimum recommended levels of gender representation on boards* (and management). Companies should be required to have a gender diversity policy which they should disclose (including reporting on progress on a "comply or explain" basis). Furthermore, if companies decide to depart from EU recommendations, they should be required to explain the reasons of doing so. If gender representation objectives are systematically not met by companies across Europe, Eurosif recommends that the EC consider stronger measures, including mandatory gender quotas.

Gender balance is still an issue across Europe and is an important factor among others to beneficial corporate governance practices. A study conducted from 2005 to 2009 showed that the gender balance within the Boards of internationally operating companies only slightly increased in the favour of women participation, with just 26% of companies having more than 20% women in their Boards of Directors.³ More recently, a study run by the Cranfield School of Management showed the weak representation of women as executive or non-executive directors.⁴ Furthermore, gender balance in company board is likely to have a positive effect on the overall productivity and therefore directly benefits the company, as shown in the 2010 "Women Matter" report.⁵

(7) Do you believe there should be a measure at EU level limiting the number of mandates a non-executive director may hold? If so, how should it be formulated?

Yes, there should be a measure at EU level to limit the number of non-executive board mandates (both number of mandates in the same company and mandates as director of many companies). Limiting the number of mandates that a director holds (both within the same company and in many companies at a time) has a positive impact on his/her independency, objectivity and critical perspective. This would also ensure the group diversity within boards. Therefore, Eurosif considers that there should be an EU legal mechanism that limits the number of mandates (both within the same company and in many boards at a time) and recommends that the EC looks into already implemented Corporate Governance Codes to find the best way (number) to limit this.

As suggested by currently existing guidelines in Europe,⁶ Eurosif contends that non-executive directors should have the ability to allocate greater time commitments for their respective boards. Limiting the number of board mandates that a director can hold is a solution already implemented in some of the EU Member States Corporate Governance Codes.⁷ It would require to be adjusted to directorship characteristics, such as being executive or non executive director, being member of a board committee or not.

³ According to a study carried out by Ernst&Young in partnership with Le Monde and Die Zeit. Available at this [link](#).

⁴ According to the study, in 2010 women made up only 12.5% of directors of the FTSE 100 companies. Only 5.5% of FTSE 100 executive directors were women. These executive director positions are typically the most senior and hands-on roles in companies, such as chief executives or chief financial officers.

⁵ The "Women Matter" report conducted by McKinsey&Co. suggests that the companies where women are most strongly represented at board or top management level are also the companies that perform best: http://www.mckinsey.com/locations/swiss/news_publications/pdf/women_matter_english.pdf

⁶ The UK Walker Review, 2009, recommendation n°3.

⁷ The Dutch and the French Corporate Governance Codes currently limit the directorship mandates, for example.



There are also other measures that could ensure greater time commitment by director such as setting time-commitment expectations (weekly/monthly/yearly) in director appointment letters. Transparency of time-commitment expectations and evaluation of board attendance should be ensured effectively.

(8) Should listed companies be encouraged to conduct an external evaluation regularly (e.g. every three years)? If so, how could this be done?

Yes, Eurosif believes that the EC should establish a mechanism to encourage companies to conduct a periodical external evaluation, as a healthy measure to evaluate corporate governance practices by a third objective party. Furthermore, the conclusion of such an evaluation should be communicated to shareholders.

In addition to what already exists in the EU regulation on corporate governance (Directive 2006/46/EC), a possible solution could be a set of Corporate Governance Recommendations (also mentioned above) which would include measures such as the external evaluation and other topics which could be subject to recommendations rather than to regulation.

(9) Should disclosure of remuneration policy, the annual remuneration report (a report on how the remuneration policy was implemented in the past year) and individual remuneration of executive and non-executive directors be mandatory?

Yes. Considering that one of the aims of remuneration is to incentivise and reward appropriate performance, risk management and behaviour (both short and long term) Eurosif believes that there should be increased transparency of remuneration for directors of all listed companies. Disclosure should also include all elements of remuneration and benefits together with a sufficient level of details on performance requirements.⁸

As shown in the evaluation report on the application by the EU member states of the Remuneration Recommendation EC/2009/384, only 8 EU Member States fully implement the recommendations related to disclosure of the remuneration policies. As illustrated in the above mentioned Recommendation, the control of the design and implementation of the remuneration policy is more likely to be effective if the relevant stakeholders are properly informed and engaged in the process. To this end, Eurosif considers that the remuneration policies in all listed companies should be fully transparent both internally and where relevant, to their shareholders. Furthermore, Eurosif considers that the disclosure to the shareholders of the decision making-process used for determining the remuneration strategies should be mandatory.

Furthermore, Eurosif strongly recommends that the EC explore how executive remuneration policies are linked to broader extra-financial measurements of corporate performance linked to long-term business strategy, including environmental, social and governance (ESG) measures. As such, Eurosif's position is that remuneration strategies should be linked to ESG performance. Companies should disclose the extent to which ESG targets are incorporated or explain the lack of ESG targets integrated in remuneration strategies.

(10) Should it be mandatory to put the remuneration policy and the remuneration report to a vote by shareholders?

Yes, shareholders should have an opinion on company top executive remuneration and should be able to express their approval/disapproval on the progress of remuneration policies. Greater involvement of relevant stakeholders in the design and implementation of remuneration policies is more likely to create an effective control over the process. To this end, shareholder involvement in the remuneration policies is important.

⁸ For example, the French Afep-Medef code, 2008, point 21 on remuneration contains such recommendations.



Eurosif considers that Directors' remuneration packages should be subject to mandatory shareholder approval at an EU level, as recommended in the EC Recommendation 2009/385/EC complementing Recommendations 2004/913/EC and 2005/162/EC.

(11) Do you agree that the board should approve and take responsibility for the company's 'risk appetite' and report it meaningfully to shareholders? Should these disclosure arrangements also include relevant key societal risks?

Eurosif considers that the board should have *greater involvement* (including reporting) in overseeing the company's risk appetite and risk management processes. Regarding societal risks, Eurosif strongly considers that reporting the environmental, social and governance (ESG) risks and how they are controlled should be mandatory for companies, along with the disclosure of financial risk control methods. Some EU Member States require companies to include in annual reports a risk management section and this could be encouraged at an EU level.⁹

Initiatives such as the *Transparency Directive*¹⁰ make the periodical financial reporting compulsory for companies; however, extra-financial data disclosure (ESG) remains the decision of companies which slows the progress in the field.

(12) Do you agree that the board should ensure that the company's risk management arrangements are effective and commensurate with the company's risk profile?

Yes, this is one of the responsibilities that the board should take greater involvement in. The relevance and effectiveness of risk management arrangements is vital to ensuring long-term effectiveness and should cover several areas, such as: (1) internal control and risk management need to be implemented by the management and their team, under board accountability; (2) in the board, the audit committee is responsible for monitoring the efficiency of internal control and risk management systems and (3) the audit committee should report its work and conclusions to the board and suggest potential recommendations.

(C) Shareholders

(13) Please point to any existing EU legal rules which, in your view, may contribute to inappropriate short-termism among investors and suggest how these rules could be changed to prevent such behaviour.

Solvency

While acknowledging the EC position in its June 2011 letter¹¹ that the Solvency II Directive will enable insurers to continue to make long-term investments, Eurosif shares the concern within the industry that it will instead result in pressures to reduce holdings in equities, longer-dated bonds and illiquid asset classes and move towards short-dated bonds. Eurosif is also concerned that EU approaches to pensions solvency need to avoid encouraging short-termism in investment.

Liquidity / Trading

In our view, liquidity-related provisions within the MiFID directive have enabled and encouraged a greater focus on the short-term within financial markets. It can be argued that the current level of liquidity exceeds that needed for efficient functioning of the financial markets and may now work against that.

⁹ Included in the Dutch Corporate Governance Code, for example.

¹⁰ The Transparency Directive is designed to enhance transparency on EU capital markets and is currently being modernised by the European Commission through a public consultation open between May 27-Aug 20, 2010. More details [here](#).

¹¹ Letter by Commissioner Barnier available at:

http://ec.europa.eu/internal_market/insurance/docs/solvency/barnier_june_2011_en.pdf



Accounting standards and taxation

Eurosif believes that some aspects of international accounting standards encourage inappropriate short-termism by investors. In addition, some aspects of investment taxation discourage ownership behaviours (i.e. by making the use of corporate debt more tax-efficient than equities). While the EU is not directly responsible for either of these areas, we would encourage the EU to use its influence to address them.

(14) Are there measures to be taken, and if so, which ones, as regards the incentive structures for and performance evaluation of asset managers managing long-term institutional investors' portfolios?

Eurosif agrees that the agency relationship between institutional investors (asset owners) and their asset managers can have an impact on short-termism. This is however, a complex topic with multifaceted solutions, and a separate EU consultation would be relevant.

Nevertheless, Eurosif wishes to acknowledge the contribution of international initiatives to increasing asset owner active approach in overseeing investee companies. Various reports or the rise of voluntary initiatives such as the Principles for Responsible Investment have contributed to the integration of long-term considerations (ESG) into investment practices, both by asset owners and asset managers. However, Eurosif acknowledges that thorough implementation of these principles, although improving has not been yet achieved by the majority of signatories.

The asset manager evaluation mechanisms need to focus on longer term performance and the active involvement of long-term oriented investors is vital in this sense. To avoid encouraging asset managers to seek short-term benefits in managing investment contracts, Eurosif agrees that there are a series of additional measures that can be taken to encourage healthy incentive structures:

- To mitigate long-term risks, asset managers could be required to report how they assess environmental, social and governance (ESG) risks in their mandates; this includes areas from investee company selection to engagement methods;
- As part of investment management contracts, asset managers should also offer ESG options (including active ownership measures) and advice for asset owners;
- Adherence to investor codes of practice on a comply-or-explain basis is another measure that can boost investor (and asset manager) transparency on how they manage investment mandates. Member States examples, such as the UK Stewardship Code could serve as a model for a pan-European code.

Furthermore the ICGN Model Mandate Initiative outline a series of additional issues that asset owners need to monitor when drafting a mandate and the EC could explore how this could feed into the EU Corporate Governance framework.¹²

Finally, Eurosif wishes to point a recent report by UNEPFI's Asset Management workgroup that revealed the necessity of embedding ESG issues in investment management contracts and statements of investment principles.¹³ The report also stressed on the need of periodic ESG-inclusive reporting by asset managers and the need for longer-term assessment of asset manager performance, better linked to long-term incentives.

(15) Should EU law promote more effective monitoring of asset managers by institutional investors with regard to strategies, costs, trading and the extent to which asset managers engage with the investee companies? If so, how?

Yes. Eurosif strongly recommends that the EU promote more effective monitoring of asset managers by institutional investors. As such, Eurosif believes that there are two possible areas for legal action on this topic: (a) to clarify fiduciary duties and (b) to require additional transparency by asset owners both about

¹² http://www.icgn.org/files/icgn_main/pdfs/drafts/mmi_consultation_31jan2011.pdf

¹³ UNEPFI Fiduciary Responsibility Report, 2009, a follow up to the 2005 Freshfields report, available at: <http://www.unepfi.org/fileadmin/documents/fiduciary11.pdf>



their investment principles in relation to ESG issues and about how these principles are implemented in practice.

In regards to the latter point (requiring transparency by asset owners on ESG issues), Eurosif considers that there should be mandatory reporting by asset owners on how they integrate ESG factors into investment decisions (as stated in some of our past responses to EC consultations).

(16) Should EU rules require a certain independence of the asset managers' governing body, for example from its parent company, or are other (legislative) measures needed to enhance disclosure and management of conflicts of interest?

Yes. Where asset managers are owned by a parent asset owner company, independence must be ensured and any possible conflict of interest should be disclosed, as a mandatory EU requirement. Eurosif agrees that conflicts of interest are likely to arise when an institutional investor or asset manager or its parent company has a business interest in the investee company. Therefore, Eurosif strongly recommends that there is mandatory disclosure of any possible conflict of interest.

The feedback received by the EC to the 2010 public consultation on corporate governance in financial institutions could also serve as a basis for possible measures to manage conflicts of interest at the EU level.¹⁴

(17) What would be the best way for the EU to facilitate shareholder cooperation?

Eurosif supports better frameworks for shareholder cooperation and recommends that the EC explore the best ways of achieving this, while ensuring that shareholders cooperating to influence corporate governance practices would not fall under possible "acting in concert" claims.

When talking about shareholder cooperation, additional topics need to be taken into consideration and included in the debate, such as the ability of shareholders to engage in the voting process. Eurosif Member Affiliates have raised the issue of operational processes by which shares are voted and the need to ensure that all possible bottlenecks are removed (for example, there have been cases reported where investors have been required by intermediary voting agents to make voting decisions on meetings for which agendas have not been finalised on voting deadline day). This is only an example of possible issues to be addressed that are linked to shareholder engagement and that are related partly to shareholder cooperation.

Full implementation of the Shareholder Rights Directive is a means to ensuring that all shareholders across Europe enjoy the same rights when investing in companies.¹⁵ In the context of this Directive review, Eurosif would like to point to the investor letter sent to Commissioner Barnier in 2010, by ABI, Eumedion and Eurosif, addressing several shareholder rights issues.¹⁶

Other examples of ways to increase shareholder cooperation are already existing tools (such as the UNPRI Engagement Clearinghouse)¹⁷ and Eurosif recommends that the EC explore how such tools could feed into EU shareholder cooperation models.

¹⁴ Summary of responses can be found at :

http://ec.europa.eu/internal_market/company/modern/corporate_governance_in_financial_institutions_en.htm

¹⁵ As of 2010, only 19 Member States fully implemented the Shareholder Rights Directive, with Member States (Belgium, Cyprus, Greece, Spain, France, Luxembourg, The Netherlands and Sweden) still have to implement some or all of its provisions.

¹⁶ Letter available at : http://www.eurosif.org/images/stories/pdf/Lobbying_Papers/Response-EC-consultation-SLD-Jan-2011.PDF

¹⁷ More information at: <http://www.unpri.org/workstreams/#1>



(18) Should EU law require proxy advisors to be more transparent, e.g. about their analytical methods, conflicts of interest and their policy for managing them and/or whether they apply a code of conduct? If so, how can this best be achieved?

Proxy advisor transparency raises issues especially in the case of lack of multiple sources of research and generic voting policies by investors. From the discussions with Eurosif Member Affiliates, several potential solutions can be envisaged to address proxy advisor transparency:

- Voting advisors should disclose all conflicts of interest;
- Voting advisors should disclose whether they make generic voting recommendations ("in-house voting advice") for each meeting. If they do, then they should indicate what proportion of the voting instructions they send on behalf of their customers are voted automatically in line with in-house voting advice (i.e. determined, confirmed and instructed by the voting advisor without the need for confirmation by the investor);
- Also, voting advisors should indicate the proportion of the voting instructions voted in line with in-house voting advice (but confirmed by the investor prior to instruction) or voted differently to in-house voting advice, either because the investor has made a different decision despite the in-house advice, or they have a custom policy (and give details on this policy).

Where the advisor provides more than one set of in-house voting advice (e.g. where they have a generic 'SRI' voting policy), they should break down the above proportions on a per-policy basis, showing all proportions in terms of total votes processed by them. The principles underlying in-house voting advice should be made available to issuers and investors making use of them. However, advisors should be given discretion to divert from their voting policy on specific recommendations, provided they offer an explanation for why they have done so. Such information could be gathered together with other information in an annual report, made compulsory by a European regulation or national supervisory authorities, certified by them and made publicly available.

(19) Do you believe that other (legislative) measures are necessary, e.g. restrictions on the ability of proxy advisors to provide consulting services to investee companies?

Conflicts of interests when proxy advisors act as consultants to companies can potentially raise issues, but rather than additional legislative measures, we believe there is a scope for a code of conduct between the proxy agents, issuer and proponent to clarify rights, responsibilities and boundaries of interest to ensure effective conflict management.

Therefore, Eurosif recommends that proxy advisors should prominently disclose in meeting analysis where (1) the target company is a customer, and what services they use, (2) the research and/or recommendations have been vetted by the target company prior to publication and (3) a resolution is proposed by a customer of the proxy advisor, and what services they use.

(20) Do you see a need for a technical and/or legal European mechanism to help issuers identify their shareholders in order to facilitate dialogue on corporate governance issues? If so, do you believe this would also benefit cooperation between investors?

It is increasingly recognised that effective company dialogue improves long-term shareholder-ship and this benefits both sides- investors and companies. Involved investors are more likely to be loyal to company direction and to support company strategies and it is therefore in the interest of companies to ensure that investors are kept informed on corporate governance issues.

There is an increasing need for better corporate governance dialogue both from the issuers' side and investors, as revealed in discussions with Eurosif Member Affiliates. Therefore, Eurosif welcomes an EU



technical and eventually legal mechanism aimed to improve dialogue between companies and investors on corporate governance, as promoted in some of the Member States Corporate Governance Codes.¹⁸

(21) Do you think that minority shareholders need additional rights to represent their interests effectively in companies with controlling or dominant shareholders?

Minority shareholders primarily need protection from controlling dominant shareholders and Eurosif recommends that the EC explore how EU Member States current examples can be replicated at the EU level (for example, the Italian one) which can enhance minority shareholder protection. However, Eurosif does not recommend a particular director representing minority shareholders as it would come in contradiction with the principles according to which directors act in the benefit of all shareholders. Over-representation of a reference shareholder to the board should be avoided by limiting director seats to a percentage of voting rights or equity holding. Furthermore, we believe minority shareholder interests can only be protected by having a sufficient number of independent board directors, whatever the proportion of free-float.

Further regulation on ramping hostile takeovers would be useful to protect minority shareholders. Companies and minority shareholders need to be informed of such moves, whatever the investment vehicle used to gain access to equity. Shareholders building significant stakes without disclosing the appropriate information to minority shareholders need to be deprived of their voting rights for a long period of time (i.e. 3 to 5 years). The crossing of shareholding thresholds must include individual and collective holdings. It would be positive step to harmonize thresholds for notices of intent and hostile takeover bids at a European level.

(22) Do you think that minority shareholders need more protection against related party transactions? If so, what measures could be taken?

Eurosif recommends that the EC explore how the European Corporate Governance Forum Statement on Minority Shareholders can be adopted at the EU level.¹⁹ Furthermore, Eurosif believes that shareholder vote needs to bear compulsory consequences rather than being a consultative one, in such a way as to enable improper transactions to be cancelled or interrupted. It is important that each transaction is put to vote through a different article in order for shareholders to be able to approve them separately and reject practices that might be unsound, without having to vote against proper transactions at the same time.

(23) Are there measures to be taken, and if so, which ones, to promote at EU level employee share ownership?

Eurosif recommends that the EC explore how already existing employee share ownership standards in some EU Member States can be standardized at the EU Level.²⁰ However, Eurosif believes that this issue needs to be analyzed differently according to companies' business-sector and type of growth. It is necessary to avoid employee share-ownership (and their voting rights) being controlled by management, while it is financed by shareholders (through dilution).

¹⁸ i.e. the Dutch Corporate Governance Code.

¹⁹ Statement available at : http://ec.europa.eu/internal_market/company/docs/ecgforum/ecgf_related_party_transactions_en.pdf

²⁰ As per the PEPPER IV Report, available at : <http://www.efesonline.org/2008/seventh%20european%20meeting/Presentations/Draft%20PEPPER%20IV%20Report%20-%20Strasbourg%20Edition%20-%20Jens%20Lowitzsch%20and%20others.pdf>

(D) Monitoring and implementation of Corporate Governance Codes

(24) Do you agree that companies departing from the recommendations of corporate governance codes should be required to provide detailed explanations for such departures and describe the alternative solutions adopted?

Yes. The “Explain” element of the “comply or explain” approach is vital in ensuring this approach effectiveness. The current EU legislation on corporate governance requiring the inclusion of a corporate governance report in annual statements favours a “comply or explain” approach. It is increasingly recognised that at times issues arise from the low quality of the “explain” elements: companies that choose to depart from certain corporate governance code recommendations do not give enough explanations. Therefore, effective monitoring becomes a critical element to ensure the effectiveness of the principle.

In the case that there isn’t enough information provided by companies that chose to depart from certain corporate governance principles,²¹ the EC should ensure that there are specific mechanisms in place to ensure this. Implementation guidelines and better monitoring at the EU Member States level or at the EU level could enhance the quality of the information provided.

(25) Do you agree that monitoring bodies should be authorised to check the informative quality of the explanations in the corporate governance statements and require companies to complete the explanations where necessary? If yes, what exactly should be their role?

Yes. Monitoring bodies should be authorised to check the informative quality of the explanations in corporate governance statements. Moreover, shareholders (as company owners) should be the main actors evaluating the quality of corporate governance statements by effectively engaging in dialogue. Nevertheless, if both shareholders and external bodies monitor the information quality, this could prove effective for ensuring a high-quality of the corporate governance statements.

A European system of certification could also be a solution to monitoring the implementation of Corporate Governance Codes, but this would be more appropriate to be at an EU level rather than national, in order to achieve a greater level of understanding and assurance of the certification.

²¹ It is our understanding that the EC draws from recent EU studies that in 60% of cases, there isn’t sufficient explanation when companies chose not to apply high-quality corporate governance code recommendations.



APPENDIX

About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the pan-European network whose mission is to develop sustainability through European financial markets. Eurosif works as a partnership of the national Sustainable Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. Recognised as the premier European forum for sustainable investment, Eurosif's Member Affiliates are drawn from leading pension funds, asset managers, NGO's, trade unions, academic institutes and research providers, together representing assets totalling over €1 trillion. Eurosif's work includes a focus across asset classes - equity and fixed income markets, microfinance, renewable energy, property, private equity and hedge funds - all centred around the industry trends and future legislation affecting this space. The key benefits that Eurosif affiliate members receive include EU interfacing, SRI information and European wide initiatives that integrate Environmental, Social and Governance (ESG) issues into the financial services sector.

For the full list of Eurosif Member Affiliates, please see www.eurosif.org

Eurosif has two main roles: (1) to provide an international forum that allows members and member affiliates to work together on issues pertaining to Sustainable & Responsible Investment (SRI, see below for definition of SRI and its market size in Europe) and Corporate Governance in the EU financial services sector, and (2) to collect input from members and member affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission as well as the European Parliament. Therefore, this note is mainly driven from and by the interest and expertise of our membership.

Sustainable and Responsible Investment Definition

Eurosif continues to use the term "SRI" as the most readily acknowledged expression for this field and defines SRI as follows:

SRI, a generic term covering ethical investments, responsible investments, sustainable investments, and any other **investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues.**

To do so, different approaches exist:

- Best-In-Class approach: Selection of the best companies in their sector with regard to sustainable development.
- Thematic approach: Selection of the best companies according to a specific sustainable development theme (renewable energies, water, job creation, etc.).
- Norms-Based approach: Selection of companies according to their observance of the main international treaties/conventions (e.g. ILO).
- Exclusion approach: Exclusion of companies involved in controversial activities or issues (alcohol, gambling, animal testing, etc.).
- Engagement: this includes proxy voting, collaborative engagement, direct private dialogue with companies, and public engagement. Engagement is often considered as an extra overlay to other SRI approaches or traditional management.
- Microfinance approach: financing Microfinance institutions (bonds or equity) favoring economic empowerment.

Market Size

Eurosif recently published the latest Sustainable and Responsible Investment (SRI) figures and trends in its "European SRI Study 2010". This unique study highlights the scale of European SRI as well as European and National trends across nineteen countries. Based on a survey of asset managers and self-managed asset owners, we found that total SRI assets under management (AuMs) have reached €5 trillion as of December 31, 2009, corresponding to a remarkable growth given the financial crisis over the past two years since the study was last published. The study can be downloaded at: <http://www.eurosif.org/research/eurosif-sri-study/2010>.