



**ICGN**

International Corporate Governance Network

Financial Stability Board (FSB)

Via email: [fsb@fsb.org](mailto:fsb@fsb.org)

31 August 2017

To Whom this May Concern,

**Re: Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices (P&S Guidance Consultation)**

The International Corporate Governance Network (ICGN) welcomes the opportunity to comment on the Financial Stability Board (FSB) consultation on Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices, due for submission by 30<sup>th</sup> August 2017.

Established in 1995, ICGN Members include institutional investors with global assets under management in excess of US\$26 trillion present in over 45 countries. Our mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. As such, ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. For more information on the ICGN, please visit [www.icgn.org](http://www.icgn.org).

On 11<sup>th</sup> July 2017, ICGN Members approved changes to the ICGN Global Governance Principles, first published in 2002, following a peer review and member consultation in 2016. A number of the principles and guidance notes relate to the issues identified in the FSB consultation paper, and are highlighted below for your reference:

- **Principle 4 regarding culture and ethics:** The board should adopt high standards of business ethics, ensuring that the company's vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company's strategy and operations, including risk management systems and remuneration structures.
- **Principle 6 regarding remuneration policy:** Remuneration should be designed to effectively align the interests of the CEO and executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividends to shareholders and retain capital for future investment.
- **Guidance 6.3 regarding malus and clawback:** Companies should include provisions in their incentive plans that enable the company to withhold the payment of any sum ('malus'), or recover sums paid ('clawback'), in the event of serious misconduct or a material misstatement in the company's financial

statements. Performance related elements (such as long term incentive plans) should integrate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders. Performance related elements should be rigorous and measured over timescales, and with methodologies, which help ensure that performance pay is directly correlated with sustained value creation.

- **Guidance 6.8 regarding risk and sustained value creation:** The board should ensure that the development of remuneration structures for company employees reinforce, and do not undermine, sustained value creation. Performance-based remuneration for staff should incorporate risk, including measuring risk-adjusted returns, to help ensure that no inappropriate or unintended risks are being incentivised. While a major component of most employee incentive remuneration is likely to be cash-based, these programmes should be designed and implemented in a manner consistent with the company's long-term performance drivers.

We also refer you to the ICGN Guidance on Corporate Risk Oversight which details a number of topics for dialogue between company boards and investors. With regard to risk culture it is relevant to know to what extent the board retains independent counsel and expertise in executive remuneration to ensure effective organisational and leadership risk management. For example, a relevant topic to discuss in dialogue between investors and companies is who the company's most highly remunerated employees are and why? Are their incentives based on risk-adjusted performance, and if so, how?

We would be pleased to elaborate on any of the points raised in this letter should that be helpful and do not hesitate to contact me or George Dallas, ICGN's Policy Director, by email at [george.dallas@icgn.org](mailto:george.dallas@icgn.org) for more information.

Yours faithfully,



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