CFA INSTITUTE REPORT CALLS FOR HOLISTIC APPROACH TO CORPORATE GOVERNANCE POLICY

LONDON, 4 October 2016 – A patchwork approach to corporate governance regulation has created an imperfect system which needs a holistic policy approach to meet investor needs.

A new report by CFA Institute, Corporate Governance Policy in the European Union: Through an Investor’s Lens, finds that a silo-ed approach to corporate governance policy is endangering the creation of a unified EU capital market. The report suggests that a joined-up approach to governance policy, encompassing the Capital Markets Union initiative, is now necessary to achieve meaningful reforms.

While corporate governance reform over the past 15 years has been positive, important issues remain unresolved, including fixing the “plumbing” of cross-border proxy voting, protecting the rights of minority shareholders, and strengthening the accountability of boards, among others.

CFA Institute engaged with more than 30 investment practitioners, governance experts, and other stakeholders from across Europe to inform the report. The findings reveal there is much to be done to simplify mechanisms to enhance corporate accountability and realise maximum value from reforms that have already been undertaken. Investors are open to many stakeholder issues, such as promoting board diversity, and paying greater attention to environmental, social, and governance factors. But importantly, investors are concerned there is still inadequate protection against abuse by controlling shareholders, where the principle of one share one vote is essential for the exercise of good governance.

Josina Kamerling, Head of Regulatory Outreach (EMEA), CFA Institute, commented: “Corporate governance is vital to making the EU’s Capital Market Union work – it is central to its ecosystem but has fallen off the financial services and markets agenda altogether.

She continued: “With a renewal of the investor vision for European corporate governance and with proper attention to the governance “ecosystem,” there is a considerable prize to be won in the growth, productivity, social, and environmental responsibility of European public companies. To realise these benefits, a more joined-up approach to corporate governance policy is needed; one which serves investors and which reconciles the shareholder, stakeholder, and open market perspectives of corporate governance.”

Based on the report’s findings, CFA Institute makes a series of recommendations to establish a sustainable balance among the various goals of governance:

**Comply-or-explain mechanism**

Investors have a critical role to play in making comply-or-explain systems of corporate governance effective in Europe. This role means that they need to press for the rights to allow them to fulfil their
fiduciary duties as stewards. It also requires them to exercise these rights responsibly. Companies must accept the need for accountability and embrace comply-or-explain monitoring mechanisms.

Protection of minority shareholders
Urgent measures are needed to uphold protection of minority investors. The recommendation to implement these measures includes:

• Promoting better board accountability to minority shareholders through a greater role in the appointment of board members, more robust independence standards and stronger board diversity
• Continuing to press for rights relating to material related-party transaction votes
• Fixing the “plumbing” of cross-border proxy voting to ensure all shareholders can vote in an informed way and ensuring all shareholder votes are formally counted

Clearer guidance following Shareholder Rights Directive II
The European Commission should promote investor engagement including a guidance statement for company boards and institutional investors, which explains the expectations from the Shareholder Rights Directive II.

For further information please contact Nicole Haroutunian, director, corporate communications, EMEA

- ENDS –

About the report
Corporate Governance Policy in the European Union: Through an Investor’s Lens is the result of a qualitative study involving 30 investment practitioners from institutional investors, as well as governance professionals from across Europe.

CFA Institute
CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organisation is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors’ interests come first, markets function at their best, and economies grow. CFA Institute has over 148,000 members in 158 countries and territories, including 141,000 CFA charterholders, and 147 member societies. For more information, visit www.cfainstitute.org.