Mike McCauley reports on a significant new initiative that aims to provide a framework for governance and stewardship in the U.S. The Investor Stewardship Group (ISG) is a collective of some of the largest institutional investors and global asset managers with a goal of establishing a core set of governance and stewardship principles for companies and investors.

At its launch, the sixteen founding members—comprised of U.S. and international institutional investors with large investments in the U.S. equity market—were led by each member’s senior corporate governance practitioner. Since its inception in late January 2017, membership in the ISG has grown significantly, with signatories as of writing up to over US$20 trillion in the first 3 months alone. Many stakeholders view the ISG as an unprecedented event and one that could be a turning point in the evolution of U.S. governance practice.

The ISG, as a private initiative wholly independent of any regulatory body, was formed to unite disparate investors to establish a framework of fundamental standards of investment stewardship and corporate governance for U.S. institutional investor and boardroom conduct. Its “Framework for U.S. Stewardship and Governance” comprises both a set of six stewardship principles for institutional investors as well as six corporate governance principles for U.S. listed companies.

The ISG governance principles are not intended to be overly prescriptive or all-encompassing in their scope, allowing flexibility in their application. The Framework borrows from other governance codes outside the U.S., which are typically structured on a “comply-or-explain” basis, thereby avoiding concerns over strict compliance and “one-size-fits-all” criticism. The Framework also serves to improve alignment of U.S. corporate governance practices with those in other global markets. The ISG strongly encourages shareholders’ elected representatives—company directors—to apply the corporate governance principles at the companies on whose boards they serve.

Although members of the ISG are supportive of the corporate governance principles, individual members of the group may—and often do—differ on specific standards regarding corporate governance practices that are expected of companies. The ISG framework, however, is intended to be static and will be evaluated and revised periodically, with input over time that seems likely to have a major impact on how U.S. companies govern themselves, and also improve how asset managers and owners conduct their fiduciary activities on behalf of clients.

In addition to the governance principles, the Stewardship Framework seeks to articulate a set of fundamental stewardship responsibilities for institutional investors. Listed companies should recognize that some of their largest investors now stand together behind these principles.

The ISG Corporate Governance Principles espouse the adoption of annual director elections, boards comprised of a majority of independent directors, majority voting standards used for uncontested board elections, equal voting capitalization with a one-share, one-vote structure, and clear explanations why the board has chosen to adopt or maintain a variety of anti-takeover devices. The Framework also takes the view that directors need to make the substantial time commitment required to fulfill their responsibilities and duties to the company and its shareholders—when considering the nomination of both new and incumbent directors, nominating committees should assess a candidate’s ability to dedicate sufficient time to the company in the context of their relevant outside commitments.

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