Corporate governance
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Corporate Governance - shareholders engagement

Ladies and Gentlemen,

Let me first thank you for your kind invitation to attend your Annual Conference. I am delighted to be here, with you, today. Commissioner Barnier, who should have been here today and who, as you know, attaches great importance to corporate governance, is deeply sorry to miss, due to conflicting commitments, such a great opportunity to engage with you.

Good corporate governance is a prerequisite for sustainability and growth. It is in everyone's interest, not only shareholders but society as a whole. We are convinced of that. This is a belief that I know we share on both sides of the Atlantic.

The theme of the conference is long-term shareholder engagement. How to ensure that shareholders and investors take a long term view on the perspectives of the enterprises? How to ensure that they accompany the long term strategies of the firms? How to avoid that they force companies to look only at short term results?

The relationship between long and short term is not relevant just for corporate governance, but for all economic policy. How to avoid that focusing on short-term issues actually becomes an impediment to reaching long-term policy objectives.

So let me start by focussing on the importance of providing a long term horizon for economic actors. I will then turn to corporate governance, in particular on the lack of engagement and on transparency. I will then conclude on the Transatlantic perspective.

The most important example of a long term project is the euro. It has been conceived to provide a stable long-term horizon for economic actors in Europe.

You may note that despite all the recent difficulties and the talks about disruption, the value of the Euro has remained stable. The euro is a solid currency and the underlying economic situation is not so negative – deficit and debt in the euro area are lower than in the US or the UK, for instance.

Obviously there are internal difficulties – and risks - for Europe and beyond. These difficulties are precisely related to how to ensure that the long term project – the euro – is underpinned by governance and policies that are consistent with its long term nature.

And the steps decided by the successive European Councils go precisely in this direction, to provide the right institutional framework to support the currency.

There is still some way to go, but the determination to stand by the long term project has increased, as all start to realise the costs of abandoning it and to understand its long term benefits.

The shareholders of the euro – Member States, enterprises, citizens – are finally engaging.

And the discussions to a large extent centre on issues familiar to you here: the composition and the powers of the board, so to speak.

So let me turn directly to Corporate Governance, which is above all about boards and shareholders. Skilled, committed and dynamic board members. Engaged and long-sighted shareholders. These are key components for successful and sustainable companies.

One of the core tenets of Corporate Governance is indeed the expectation that shareholders will detect problems and hold management to account for its decisions and actions.

On the contrary, "Group think", due to lack of skills, diversity or time devoted, and "short-termism" can dramatically affect the effectiveness of those key actors in their fundamental check and balances duties.

Problems identified are complex and stakes are high. The challenges that we face may be global but, at the same time, practices remain local with significant differences not only across the Atlantic but sometimes for us even within Europe.

That is why such dialogue with you is crucial to exchange, to explain, to benchmark, to compare and at the end to facilitate a better design of political options.

Diagnosis: lack of engagement:

Our recent Green Paper concluded that one of the lessons of the crisis was that there was a lack of shareholder interest in holding the management accountable for their decisions and actions.

In recent decades, if trading volumes and liquidity have increased, average shareholding periods have dramatically decreased.

But let's be fair: short-termism may also have been indirectly incentivised –or aggravated- by past regulatory measures aiming at providing more liquidity.

Defining the appropriate disincentives for excessive risk taking and short termism has become a key issue supported on both sides of the Atlantic.

First, we agreed in the G20 to take steps not to encourage anymore **remuneration** schemes fostering excessive risk taking practices.

In the US, it was decided to rely primarily on supervisory guidance.

In Europe however, we chose a tougher approach because we are convinced that otherwise the financial sector alone would never be able alone to correct its wrong incentives.

We chose to regulate by law because there are some key principles which need from now on to be respected and where it is crucial not to leave too much room for manoeuvre. It is a matter of getting a real enforcement otherwise we will have no impact, behaviours and the vicious circle will go on with the same expected dramatic consequences.

We remain convinced that if you want to be serious about enforcing stricter remuneration principles, you must impose them on banks.

In the next months we will see how the two approaches function.

But it's clear that society – and economic efficiency – require us to be strict on the structure of remuneration, probably much stricter than we have been until now.

Actually, one of the positive effects of shareholder engagement should lies precisely in a stricter control of remuneration practices and policies in large companies.

The difficult question is then: how to ensure that shareholders are more engaged? Which incentives could be used to encourage investors to be more engaged and have a more long-term strategy? Which investors could be targeted: asset managers, pension funds, insurance companies?

More transparency:

Our recent consultation shows that there is strong support for improving **transparency of asset managers** as regards their fees and also their investment and engagement policies.

As in the US, in some Member States (like the UK) 'stewardship codes' for shareholders have been or are being developed. These are codes of conduct for shareholders and asset managers, which aim at enhancing the quality of engagement between shareholders and companies and at improving transparency on shareholder activity.

This development is in our view welcome. It facilitates a debate on shareholders´ responsibilities and deals with problems arising from the principal-agent relationship between investors and their asset managers.

It can have a positive effect on shareholder engagement and, as an ultimate consequence, on the management of companies.

Will this be sufficient? Should we consider additional ways to introduce incentives for long term engagement?

Most probably. We cannot only focus our approach on the asset management stage if we want to deal with long term investment and to get results.

We all consider indeed that beyond potential positive aspects on engagement, it would be valuable for the society and tomorrow's growth to make long term investment more attractive.

Only promoting short term capital gains would not help our economies to build tomorrow's competitiveness. Only restoring long term investment within a decent and coherent share could help. But markets are at least on some aspects rational. Long-term investment has a cost: to engage, to perform analysis, to finance a stake generates costs. If those costs are too important regarding the estimated associated benefits, why should investors make any effort? We need to bear in mind that investors are there to make money not to fulfil public interest duties.

As long as it is easier and more profitable to free ride, it will be difficult to push investors to reallocate their funds towards the long term.

We probably need to think about providing incentives to steer and create a different mainstream. Efforts and work need to pay back.

The design of incentive structures needs to be directed towards the decision makers: the institutional investors and the end beneficiaries. Because it is at their level, the decision level, at the top of the investment chain that we need to manage to generate a behavioural change. We need to work on those crucial topics even if they are quite complex.

Other lessons from our recent consultation:

Another related issue – addressed in our Green paper - is the development of "**proxy voting**" and "proxy advisors".

This activity is only beginning to emerge in Europe. On the contrary, in the US, it is quite developed. In fact, most of the companies engaging in this business on our side of the Ocean are American.

I know that these companies are, in the US, considered to provide investment services, and are regulated as such. And there may be further reflections on going on their status and legal framework.

In Europe, we are still considering our options. Proxy advisors fulfil an important role, ensuring that distance, expertise and resources are not an obstacle to engagement. Being a committed shareholder can be a complex, time-consuming and potentially expensive business.

But we also consider that their privileged access to information and the influence proxy advisors can exercise means that safeguards might be needed to mitigate the risks.

This is an area where the US experience can provide us with useful insights.

In mid-2012 we will announce new possible initiatives in the field of corporate governance, covering issues such as shareholder engagement, remuneration, transparency of asset management and proxy voting.

Let me conclude by making a general point on how Europe and the US should cooperate to provide the long term horizon so necessary for investors and enterprises.

We work together in the international institutions – G20, Financial Stability Board, the various standard setter bodies. We have a strong bilateral cooperation. An open channel of dialogue and discussion.

On both sides there are constraints, difficulties. We both face powerful lobbies.

Yet, we must continue to confirm our commitment to pursue financial reform. We must work together and be seen working together in pursuing it. We must deliver on our common international commitments.

Shareholders and investors can engage in the long term only if Europe and the US are capable to show that they are working together to make the global financial system safer and more transparent.

And let me say that delays and uncertainties in the US about implementing the Basel agreements to make the banks safer or in adopting international accounting standards send the opposite message.

Companies operate in a global environment. Good corporate governance is also a global challenge. It is in this respect of extreme importance to us that any action we take, in our part of the world, is taken in full knowledge of what is in place or being prepared in other parts of the world. Events such as today's are fantastic occasions to learn and engage. We might, in the end, decide to do things slightly differently –or not do anything at all.

Thank you very much for your attention.