

## **CORPORATE GOVERNANCE & VOTING POLICY**

Corporate Governance, as defined by the Cadbury Committee is the system by which companies are directed and controlled for the long-term benefit of shareholders. It concerns the arrangements for appointing directors and auditors and the controls in place that enable them to discharge their responsibilities with diligence and effect. It also concerns the relationship between shareholders and the companies they own so as to satisfy themselves of the appropriateness and strength of the governance system in place. Good governance demonstrates transparency and accountability and reduces risk. Within this context, corporate governance allows the exercising of responsible and considered shareholder influence through informed voting. Voting is a right and a responsibility and shareholders have a stewardship role to play in encouraging and promoting higher standards of corporate governance in the companies in which they invest through the considered use of their votes.

The Ethical Investment Advisory Group supports a pro-active voting stance, and has adopted the following framework for recommendation to the three central Church of England investment institutions, which are responsible for voting their shares. The main principles of the voting policy endorsed by the EIAG are:

- *to support management through routine informed shareholder voting,*
- *except where proposals are either not in shareholder interests or*
- *fall short of best corporate governance practice*

Compliance with the Corporate Governance Combined Code (1999) is generally high and its main principles well understood. Compliance with its successor Code published in 2003 applies for reporting years beginning on or after 1 November 2003, and companies are expected to report on a “comply or explain” basis. The EIAG has developed a corporate governance voting template that covers the main provisions of the Code, and has recommended this be applied flexibly and on a case by case basis.

The EIAG has also given consideration to the issue of senior executive remuneration, which remains the most difficult area in which to apply clear and unambiguous criteria. Remuneration guidelines are expected to evolve over time, but certain fundamental principles have been identified:

- *packages should be sufficient to recruit retain & motivate without excess*
- *transaction bonuses and the re-pricing of options should be resisted*
- *disclosure is essential in being able to assess overall value*
- *remuneration committees should comprise independent non-executive directors*
- *one off awards should be disclosed and justified*
- *discretionary share options should not be offered at a discount*
- *incentive rewards should be available for superior performance*
- *maximum value of awards and performance criteria should be fully disclosed*
- *individual awards should not usually exceed 100% of salary*
- *performance targets should be stretching and comprise two performance criteria*
- *excessive awards should not be available for median performance*
- *multiplicity of incentive schemes may result in potentially excessive awards*
- *ideally performance periods should be 5 years, and not less than 3 years*

*The Church of England Ethical Investment Advisory Group was established in 1994 and includes representation from the Church Commissioners for England, the CBF Church of England Funds, The Church of England Pensions Board, the General Synod, the Archbishops’ Council, and the Mission & Public Affairs Council*

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