

## **Hermes' response to the ICGN policy statement & initial guidance on anti-corruption practices May 2008**

Hermes is pleased to provide a response to the ICGN anti-corruption practices working group's consultation on the above document.

By way of background, Hermes is one of the largest pension fund managers in the City of London and is the principal manager of the BT Pension Scheme, on behalf of whom we are responding. We also respond to consultations such as this one on behalf of many other clients, including Ireland's National Pension Reserve Fund, Denmark's PKA, the Netherlands' PNO Media Stichting Pensioenfondsen and Canada's Public Sector Pension Investment Board. We have some £35 billion assets under management and over £45 billion assets under advice<sup>i</sup>.

We welcome the group's work and the proposals contained in this document. Hermes has long believed that corruption is primarily a governance issue and that companies should adopt a zero tolerance approach to the making and receiving of corrupt payments.

Below we respond to the specific questions posed in the consultative document. We also attach a document with tracked changes suggesting some amendments in line with our comments below. We would of course be happy to expand on any of these views if that would be helpful to the group.

### **1. Do you agree with the proposed ICGN Policy Statement on anti-corruption practices?**

We agree with the spirit of the statement and welcome the ICGN's focus on this area. In particular, we support the inclusion of a statement on anti-corruption in the ICGN principles. We do feel, however, that the statement would benefit from being more concise. In particular, the third paragraph seems superfluous to us. There are few documented cases of corruption within the sphere of fund management and so this statement seems liable to detract from the central focus of the paper.

### **2. Should the statement include any other aspects relating to anti-corruption practices?**

No. As discussed above, we believe that a more concise statement is preferable.

### **3. Do you agree that the definition of corruption as set out by Transparency International is a practical one to inform shareholder action?**

Yes. As a recognised authority in this area, Transparency International's definition is helpful and appropriate.

### **4. Do you agree that companies should report on anti-corruption practices? If so, in what form and to whom?**

We agree that companies should report on the steps they have taken to guard against corruption. It is for each company to decide on the materiality of this risk in the context of their own business, however, and therefore the extent of any such reporting. We would expect to see more comprehensive reporting from companies operating in high risk sectors and countries as well as a clear explanation of who at board-level is accountable for these issues. Conversely, there will be some companies in which the risk is negligible and the reporting requirement will be commensurately less onerous. We would expect reporting on this area to be included in the annual report or on the company's website and to be directed to shareholders, although such information is likely to be of interest to other groups.

**5. What are your views regarding the aim of providing guidance to investors in this paper?**

While there is a great deal of guidance available for companies in this area, there is very little targeted specifically at investors. We therefore support the aim of providing an engagement tool for shareholders, bearing in mind that each company is unique and investors will need to take the particular circumstances of each into account when engaging with them.

**6. Do you believe that the four areas for investors to consider regarding anti-corruption practices as described above are appropriate and sufficient?**

We believe it is also useful to consider the legal framework within which companies are operating and the likelihood, or not, of anti-corruption laws being effectively enforced

**7. Are the questions on Initial Guidance on Anti-corruption practices appropriate and sufficient?**

**8. Are there any additional questions that should be included? If so, what are they?**

Below we suggest a number of additional questions that might be included although we accept that the list cannot be exhaustive:

Policy

Does the policy extend to third parties eg contractors and agents of the company?

Procedures

Is adherence to the policy part of the selection process for new contractors?

Does the senior management encourage a culture of transparency through their own behaviour?

Does the company review the anti-corruption systems of joint venture partners?

**9. Do you consider the ICGN Initial Guidance on anti-corruption to be helpful to investors in their investment decision-making?**

We prefer to focus our comments on engagement, rather than inclusion in or exclusion from investment portfolios of particular companies, as that is our area of expertise. We believe that this guidance is helpful in providing a set of questions which investors could use as a starting point for their conversations with companies. As mentioned above, however, each company is unique and the individual circumstances of each would need to be taken into account when discussing these issues.

**10. What role should the ICGN play in the development of anti-corruption practices**

The most important role that the ICGN can play, in Hermes' view, is to convey to companies that corruption is an area of legitimate concern for long-term investors and that they have a responsibility to guard against it. The inclusion of a statement on anti-corruption in the ICGN guidelines is an important step in this respect. At the same time, the ICGN should also encourage long-term investors to raise these issues with companies where they have concerns. We also believe that the ICGN has a key role to play in communicating to governments that the existence and enforcement of anti-corruption legislation is an important factor in building investor confidence and attracting capital. We fully support the recommendations of the 2007 ICGN conference that the ICGN should write to national governments in this respect. There is one particular area where we do not believe it would be helpful for the ICGN to play a role however, and that is in the development of best practice guidelines for companies. This is not an area of expertise for the ICGN and other organisations are

better placed to continue the substantial work that has already been done in this area.

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<sup>i</sup>At 31<sup>st</sup> December 2007