Innovation and Action for Workers' Capital and Corporate Accountability

Scaling Up!

25-27 NOVEMBER 2012
OECD CONFERENCE CENTRE, PARIS

Conference Report

Over 85 participants from 12 different countries participated in **Scaling Up: Innovation and Action for the Responsible Stewardship of Workers' Capital and Corporate Accountability**, a Global Unions Conference organised by the Committee on Workers' Capital (CWC), the International Trade Union Confederation (ITUC) and the Trade Union Advisory Committee to the OECD (TUAC). The conference brought together trade union representatives, pension fund trustees, corporate governance and responsible investment experts and labour-linked financial service companies to discuss practical initiatives as well as regulatory and financial challenges for the sustainable management of workers' capital and the promotion of effective corporate accountability all along the investment chain.

CWC committee on workers' capital | ITUC CSI IGB | TUAC | Global Unions

With participation from:

European Trade Union Confederation (ETUC)
Confédération européenne des syndicats (CES)

european trade union institute etui.

Scaling Up Conference Report

25 – 27 November 2012

OECD Conference Centre

2 Rue Andre Pascal, 75016 Paris

About the CWC

The Global Unions Committee on Workers' Capital (CWC) is an international labour union network for dialogue and action on the responsible investment of workers' retirement savings. It is a joint initiative of the International Trade Union Confederation (ITUC), the Global Unions Federation (GUFs), and the Trade Union Advisory Committee to the OECD (TUAC).

The CWC works to educate union pension trustees on responsible investment issues, monitor global trends and policies related to corporate and financial market governance, and examine ways in which the responsible investment of workers' capital can yield economic and social value in our communities.

26 November 2012

Opening Plenary

Welcome remarks were delivered by Sharan Burrows (General Secretary, ITUC), Xander den Uyl (Trustee, ABP), Carolyn Ervin (Director of the Financial and Enterprise Affairs Directorate, OECD), Phillipe Defosses (CEO of ERAFP), and John Evans (Secretary General, TUAC). Regrets were conveyed on behalf of CWC Chair Ken Georgetti (President, Canadian Labour Congress).

Introductory statements emphasized the urgent need for trade union leadership and innovation to change route from conventional market logic that promotes casino capitalism to patient capital; for proposals of actions to ensure the scaling up of socially responsible screening, green investments, and union and worker governance; and for decent retirement security for workers through just, responsible investments.

Some progress has been achieved in the promotion of environmental and sustainable investment practices. In fact, reaching a 5% pension fund portfolio share of climate change assets in the coming years could be a realistic objective. But more could be done to ensure the USD 30 trillion pension industry's investments meet social objectives, including worker rights principles. Trade union forums such as the Global Unions Committee on Workers' Capital can help unlock the potential of pension funds to meet both decent retirement security objectives and sustainable investment practices.

Responsible investment and corporate governance are important topics for the OECD, and are addressed by several OECD guidelines and principles. Two current OECD policy research projects cover issues significant to pension funds, one on institutional investor long-term investment and another on equity markets contribution to long-term value creation.

It was argued, however, that the first step towards responsible ownership might be found on the liability side of institutional investors, and in the need to ensure reasonable discount rates – which set return on investment rate targets – so as to alleviate pressure for short-term gains.

Facilitator & Speakers

***Bill Patterson**, (facilitator), IUF, Executive Director of CTW Investment Group*

***Rob Lake**, Director of Strategic Development, UNPRI*

***Xander den Uyl**, Trustee, ABP*

***Pierre Schereck**, Head, Department of Corporate Savings Schemes, Armundi Asset Management*

***Daniel Simard**, General Co-ordinator, Bâtirente*

Workshop A: Pension Trustees

The CWC convenes its global trade union pension trustee network on an annual basis to provide trustees with an international perspective on the challenges and opportunities of responsible investing (RI). The 8th annual trustee network meeting took place as part of the Scaling Up conference for consultation on strategic approaches to active ownership, rising issues such as climate change financing, and new tools for labour trustees to hold corporate management to account.

Session A.I

Overcoming barriers to responsible investing

Responsible investing and sustainability have been emphasized in the management of union pension funds, but trustees face many challenges in formulating investment beliefs and policies that reflect the various interests and concerns of fund beneficiaries.

Panelist views

The importance of collective action

The long-term objective of RI is to increase the overlap between long-term financial interests and the interests of society at large; there is a need to ensure the health and stability of the market as a whole. Practical implementation of RI has been impeded by the difficulty of factoring long-term ESG issues into investment decisions, due to systemic and strategic issues. The UNPRI is starting work on collective action, with fifteen engagement priorities on ESG topics including supply chain labour standards and human rights. Next steps involve convening groups of signatories to develop solutions and action plans.

Strategic imperatives that motivate RI at a large pension fund

As a large fund, ABP accepts it has an interest in acting as a long-term investor, despite pressure from regulators and others for short-term returns. In their engagement policy, ABP recognizes it is not easy for companies to adopt ESG practices quickly, but has proved a willingness to divest if change is not apparent over time (for example, Wal-Mart). For engagement opportunities, ABP looks to where it has large holdings, or identifies concerns around particular issues and the likelihood that other investors will collaborate on these issues.

Alignment with global standards for corporate citizenship

From the perspective of asset managers, globally accepted standards of good corporate conduct - such as the UN Global Compact - to benchmark corporate performance on environmental and social issues are important. In practice, Amundi weights ESG issues for a given investment in order to determine whether it meets an established benchmark, applies the best-in-class process for SRI portfolio management, and has an active proxy voting policy that is used to engage companies on their ESG performance.

Small can be effective

Despite being a small fund, Bâtirente has been able to achieve impressive results on ESG priorities. These results are attributed to a robust corporate engagement policy and active monitoring of corporate behavior. The fund focuses on Canadian businesses and engages on social issues that tend to be neglected by financial markets (such as right of the community and matters of corruption).

Batirente's experience suggests that funds may be in a stronger position than fund managers to articulate ESG concerns directly to companies; however, dialogue with fund managers as to how they apply ESG principles and mechanisms in investment decision-making remains important.

Discussion highlights

Role and experiences of trustees in implementing ESG principles
It was noted that US funds and trustees have significant distance to cover, but that their contribution largely takes the form of macro-campaigns – taking on the corporate governance system in the US and supporting high profile initiatives, such as the mobilization of investor opposition to Wal-Mart.

Participants discussed a number of effective responsible investment initiatives that took place in 2012. For example, a Dutch trustee pointed to the CWC's efforts in supporting investors to take a more active policy engagement role with EU and US regulators in relation to the easing of investment restrictions in Burma, despite continued human and labour rights risks.

A Canadian trustee highlighted an investor campaign on UN arms treaty negotiations and a unionizing campaign with a local corporation. This trustee observed that more corporations than expected have been open to engagement, with a few companies demonstrating a willingness to modify practices. While there are still some corporations that are unresponsive to engagement, by these observations there is a growing potential for success through collaborative processes.

ESG rating methodologies
Participants recognized that the application of responsible investment policies and practices to non-equity investments merits greater attention. A French pension fund representative explained that while most of their portfolios are made up of conventional instruments, the task of incorporating alternative investments into the ESG assessment framework is difficult due to the complexity of these instruments.

It was also noted that while there are a various ESG rating methodologies available, it is important for trustees to have fund managers disclose what ESG issues are covered, to determine whether identified issues include those most important to the fund's investment priorities and beneficiaries, and to identify whether appropriate criteria used to derive ESG ratings.

Reflections on systemic changes towards responsible investment
Participants raised questions as to the degree to which funds take a pro-active approach in corporate engagement rather than reactively addressing particular issues tabled for discussion at a company's AGM. Among approaches discussed, one fund explained that they review their entire portfolio with fund managers in light of pre-determined ESG issues, where the fund may express a desire that measures be taken on specific ESG concerns. It was observed that over time, both fund managers and companies have become more responsive to identified concerns.

A participant acknowledged that ABP'S experience is a model case in demonstrating how systematic efforts can achieve systemic change over time. The scale and pace of change needed to deal with issues like climate change is daunting, and progress is also challenged by fundamental social engagement issues. As such, a long-term view is essential to achieve the kind of success that the Netherlands has seen, and confirms the need to press forward with frameworks such as the UNPRI.

To support trustees and other actors to take a more active role in systematic shifts towards RI, the UNPRI plans to publish reports on practical mechanisms for fund managers to incorporate ESG issues, investor experiences of integrating ESG factors in company valuations, and key factors in systems change towards greater adoption of responsible investment principles.

Facilitator & Speakers

Helen Mountford, *(facilitator), Deputy Director, OECD Environment Directorate*

Fiona Stewart, *OECD, Principal Administrator*

Christopher Kaminker, *OECD, Economist*

Samantha Smith, *Leader, WWF International*

Sean Kidney, *Chair, Climate Bonds Initiative*

Session A.II

Pension funds and climate change: can we achieve 5% exposure by 2015?

Pension funds are expected to play a key role in raising climate change (CC)-related private finance. Yet pension funds are tightly regulated financial institutions when it comes to risk management of their portfolio. They cannot take excessive risks and the fallout of the 2008 crisis does not making things easier. Presenters addressed whether a 5% increase over the next three years in the portfolio share of green assets a realistic objective. And more broadly, what are the barriers to increasing pension funds' exposure to CC-related assets?

Panelist views

The policy context

Pension funds are looking for green projects that have the potential to deliver stable, long-term returns. Institutional investors currently have very limited investment in infrastructure in general, let alone green projects specifically. While 5% investment in total infrastructure by 2015 is possible, it is likely too ambitious for green investment. Barriers to green growth include, among others, the lack of a meaningful price on carbon emissions and the lack of collective green investment vehicles for institutional investors. The OECD has provided recommendations to governments to address key barriers in order to promote increases in green investment.

Climate action by trustees – a civil society view

Based on current climate science, concerted action to shift from high carbon to low carbon investments in the short term is essential to help mitigate the detrimental impacts of climate change.
Action items identified for pension trustees included:
<u>At the fund level</u>: divestment from coal; understanding the risks of energy investments (renewable have gone down the cost curve, while fossil fuels could soon lose political support);
<u>At the company level</u>: calling on companies to plan for just transitions for workers who will be stranded as we shift away from fossil fuels;
<u>On the public policy front</u>: appealing to governments to assist by aggregating investments into bonds to enable pension funds to go beyond direct project financing;
<u>On collective action</u>: using the collective power that unions, pension funds and experts hold to help facilitate the transition to a low carbon economy.

The role of trade unions

The shift from a high to low carbon economy has the potential to result in a long green investment boom with substantial infrastructure development and job creation. Trustees have an opportunity to act on climate change as part of their fiduciary duty; as climate change represents a material risk to company performance, trustees have a duty to act. Three action items for trustees were presented:

1. Recalibrating risk, to consider the risks of asset deflation, stranded assets, and missing out on green growth;
2. Aligning interests, by finding out what material risks companies are accounting for in considering or acting on climate change; and
3. Engineering the offload, whereby trustees can signal a shift by identifying a desire for green investments to fund managers and banks to help encourage project flow.

Discussion highlights

Challenges to green investment
The complexities and difficultes of addressing climate change from a trade union/pension fund perspective were raised by several delegates, include challenges to job security in the transition period, concern for investment returns, market limitations without true carbon pricing, and the difficulty of analyzing green investments.

Other participants identified that with proper instruments in place to price carbon and protect investments, climate change presents an opportunity for pension funds to be involved the new green economy. To engage responsibly in green growth, further tools and resources for the analysis of green investments are required, as well as more stable policy signals from governments (for example, clear incentives for renewable energy and the removal of fossil fuel subsidies).

A clarification question was raised in regard to the role for securitization in green growth, considering the part it played in the economic crisis. The presenters responded that such investment vehicles are not the only solution and that they are not advocating for securitization, but see it as one avenue to cautiously pursue for green investment opportunities, while keeping in mind all of the lessons learned from the economic crisis.

Need for joint effort to push for policy change
One participant asked what could be done on a collective front to confront the disappointing progress of policy makers on climate change. Two areas of focus were identified by panellists, one specific to green investment vehicles and the other on climate policy to support the green economy.

One response was that pension funds could work collectively to request that governments take on the risk of green investments through government-backed green bonds. Such investment vehicles could allow institutional investors to increase exposure on green investments without the level of risk that is associated with current limited selection green investment options.

Another perspective emphasized that the scientific community has escalated the level of urgency necessary to mitigate climate change, but increased urgency has not yet registered in current government policy. There is a major opportunity and need for trustees and trade unions to work collectively to demand climate policies that will apply appropriate costs for emissions and incentives for mitigation, in order to provide the proper market signals and supports to scale up green investments.

Moving forward on green growth
Trustees were informed of promising initiatives underway to encourage green investment, including the UK Green Investment Bank, the Clean Energy Finance Corporation established by the Australian federal government, infrastructure bank proposals, and the Climate Bond Standard – third-party verification assurance from the Climate Bond Initiative.

As the session came to a close, participants were asked to reflect on the theme of the session. While only a few of the delegates indicated that they thought that 5% exposure in green investments is possible by 2015, many participants around the room identified that they felt a personal responsibility to strive for greater green investment exposure.

Facilitator & Speakers

Dieter Waizenegger, *(facilitator), SEIU Capital Stewardship Program*

Brandon Rees, *AFL-CIO Office of Investment (via videoconference)*

Colin Meech, *PSI, UNISON National Officer*

Kirstine Drew, *Senior Policy Advisor, TUAC*

Amanda Card, *CWC Secretariat staff*

Session A.III

Campaigns and tools for active ownership

This session reviewed current shareholder campaigns being pursued by CWC members on issues such as corporate activity in Burma and social shareholder activism in the wake of the Ruggie Principles. Meeting participants also discussed how the revised OECD Guidelines for Multinational Enterprises can be used as a tool for effective engagement with corporate management. Finally, recognizing the vital role of trustees in ensuring adequate oversight over proxy votes cast on their fund's behalf, participants learned about the CWC's 2012 Global Proxy Review report that surveyed key environmental, social and corporate governance votes in 8 countries.

Campaigns

Burma

While sanctions have been eased based on positive political reforms underway in Burma, there is still substantiated concern for continued labour rights violations. Combined efforts in the campaign for human rights due diligence in business activity include an investor brief and letter campaigns to US and EU regulators from the CWC, work to identify collective bargaining as a human right by the ILO, and engagement with the Burmese Chamber of Commerce by the AFL-CIO. Trustees are urged by panelists and participants to monitor fund portfolios for companies operating in or moving to Burma, and to continue to engage with companies on the need for mechanisms of due diligence to ensure the protection of labour rights.

CEO pay

Executive remuneration has been a galvanizing issue for shareholders in 2012. In some cases, say-on-pay votes against management have helped curb some of the worst practices in corporate compensation, though many shareholder votes have instead condoned excessive pay. Trustees are encouraged to discuss the potential for voting against inappropriate executive remuneration with fund managers.

NewsCorp

The corporate governance failings at NewsCorp, such as a combined board chair and CEO, a lack of succession for independent directors, and an inequitable share structure that gives far more power to family shares, gave rise to concerted shareholder action in 2011. Shareholder resolutions, letters and other communications with board members targeting improved board governance have seen some success. Continued shareholder pressure on the company is expected for 2013.

In light of the NewsCorp case, participants highlight the need for large-scale, coordinated campaigns to confront dominant shareholders such as a family or government-controlled entities, including approaches that harness regulatory or political means.

Tools for trustees

Trustee checklist to revised OECD Guidelines for Multinational Enterprises

The complaints mechanism for the OECD Guidelines allows union trustees and pension funds to follow cases brought against multinational enterprises, or to bring cases forward themselves. The trustee checklist provides a guide for trustee engagement at each stage of the complaints process, available at www.tuacoecdmneguidelines.org. With the 2011 Guidelines update, there is an added onus on pension funds to prevent or mitigate adverse impacts of entities that they are linked to.

Key votes surveys

The Global Proxy Review from the CWC highlights key shareholder votes on ESG issues of particular importance to the labour movement. It provides trustees with resources to engage fund managers on compliance with ESG principles in voting. The CWC produces a trustee checklist and has launched an online key votes search function to help enable trustees to search companies held by their funds in order to determine how votes were cast on their behalf. These resources can be found at www.workerscapital.org/proxyreview.

One participant had consulted the Global Proxy Review checklist and found that fund managers had voted in favour of ESG concerns in only four cases, highlighting a great deal of work yet to be done in getting fund managers to follow RI principles. He emphasized the need for shared expertise from other trustees on best practices and efficiency in shareholder voting activism and oversight.

Discussion highlight

Are the Ruggie Principles and the revised OECD Guidelines the long waited shot in the arm for a new focus on the social in ESG? How can we help draw institutional investors' attention to the S?

There was considerable discussion on the potential of these frameworks (especially the OECD Guidelines for Multinational Enterprises) to support engagement with companies, as they set requirements for corporations to identify how they contribute positively to society.

The OECD Guideline's dispute resolution component can be used to draw the attention of institutional investors and identify the need for fund managers to consider social issues. The need for an increased level of coordination among funds, union trustees and other stakeholders around the table to harness the potential of this tool was identified, in both monitoring cases and highlighting the risk for pension funds to be implicated through links to enterprises with adverse impacts – in light of the 2011 revisions to the OECD Guidelines.

One participant underlined room for improvement within the Ruggie Principles and other agencies that measure social indicators in terms of integrating key labour issues in their assessments. CCOO Spain has developed proposals for improvement that have been shared with such agencies as well as the CWC network.

Workshop B: Corporate Governance

Facilitator & Speakers

***Mike Musuraca**, (facilitator), Consultant, AFL-CIO*

***Mats Isaksson**, Head of Division, Corporate Affairs, OECD*

***Sigurt Vitols**, Associate Researcher, ETUI/Goodcorp*

***Jeroen Hooijer**, Head of Unit, Corporate Governance, EC DG Internal Markets & Services*

In an evolving policy climate, CWC members are kept informed of key regulatory and policy developments. In partnership with the European Trade Union Institute (ETUI), trade union representatives and academic experts convened to take a closer look at the current corporate governance reform agenda and the role of worker representatives.

Session B.I

Four years into the crisis, where are we on the regulatory front?

Defects in our systems of corporate governance are widely considered to be a cause of the 2008 financial crisis. What is our diagnosis of these defects? What have been done on the regulatory front to address these defects four years into the crisis regarding shareholders' rights, corporate reporting & transparency, accountability of the board of directors and stakeholders' rights? What reform measures have been implemented so far at the OECD and European levels, and what still needs to be done? Looking into the future, what should a robust 'post-crisis' system of corporate governance achieve?

Session highlights

Corporate governance

The session began with a presentation on the European Commission (EC) action plan for corporate governance – as set out in the 2011 "Green paper" and in a forthcoming report – with three objectives: enhancing corporate transparency and reporting, increasing engagement of shareholders, and the contribution of corporate governance to growth (the latter being an EC-wide cross-directorate objective). The EC would also want to review board organization and responsibilities. Directors should be able to challenge more strongly the position of management and to avoid "group think". The EC recently issued a proposal to increase gender diversity in the boardroom. Board diversity, however, should not be limited to gender issues; it is also a matter of diversity of professional and geographic background. Board level employee representatives can help meet board diversity objectives. They have "institutional memory" and are expected to have a long-term perspective on the company.

Equity markets and corporate affairs

According to recent OECD policy research, the nature of modern OECD equity market systems has changed somewhat in the past decade, with a lengthening of the investment chain between asset owners and invested companies. The rise of exchange traded funds (ETF) and of high speed frequency (HFT) has created complications for institutional investors' monitoring of risks and the effective exercise of shareholder and governance functions. Remuneration incentives of asset managers and other intermediaries in the investment chain are not necessarily aligned with the long-term perspective of both institutional investors and of the invested companies. In addition, the 2008 banking crisis has revealed severe deficiencies in monitoring risk at the board level, such as the weak "fit and proper" test for directors.

Reforms on the regulatory front

In the Q&A that followed, it was suggested that the OECD Principles on Corporate Governance of 2004 would need a serious revision to take on board the lessons of the 2008 crisis with regard to board accountability, risk management and active ownership, but also the rights for stakeholders, including workers being represented in the governance of firms.

Wrapping up the session, the facilitator suggested two specific topics on which post-crisis regulatory reforms might need to be deepened:

1. Because workers have a unique perspective on the companies they work for, their role in the governance of firms should be acknowledged and policymakers should help identify the best ways for efficient employee representation.

2. Policymakers should also urgently address the changing nature of the equity market as a result of the lengthening of the investment chain and the misalignment of market incentives.

Facilitator & Speakers

Pierre Habbard, *(facilitator), Senior Policy Adviser, TUAC*

Janet Williamson, *Senior Policy Officer, TUC*

Grant Kirkpatrick, *Corporate Governance Expert*

Sigurt Vitols, *Associate Researcher, ETUI/Goodcorp*

Session B.II

Defining, overcoming corporate short termism

Short termism within the boardroom is a recurrent corporate governance concern. Corporations are too strongly oriented towards the short term. However, this abstract term is rarely defined in practice. This session aimed to determine: what exactly is short-termism? How does it affect companies' stakeholders (shareholders, workers and others)? And what needs to be done to overcome it?

Session highlights

Kay Review findings and implications

The session began with a discussion on the findings of the British Kay Review of UK equity markets and long-term decision making, which was made public in early summer 2012. The review includes a helpful description of the weaknesses and dysfunctions in the UK equity market system which, it is argued, has weakened the corporate performance of listed companies. Among others, the report highlights the excessive focus on liquidity risk, under-investment in intangibles, bias in favour of "engineering" and takeovers. The report further exposes the increasing "fragmentation" of shareholder ownership structures, the exploding number of intermediaries in the investment chain, the dominant role of asset managers, the risk of flawed incentives and conflicts of interests. Competition between asset managers is a "zero-sum game" in which corporate performance of invested companies comes second to the industry's own remuneration.

While the Kay Review offers a good description of the failures of the UK equity system, its recommendations are rather disappointing. Essentially the report advocates for more voluntary and industry-led initiatives, the use of "good practice statements on stewardship", the creation of new "investment forum for shareholder engagement" (these forums exist already), the suggestion that fiduciary duties could be legally reviewed, enhanced disclosure of asset managers' fees, abolishing mandatory quarterly reporting requirements, etc. The review also fails to consider the implications for asset owners themselves and their relationships with asset managers. In particular, the review is silent on the governance and regulation of pension funds.

Addressing short termism

The discussion then turned over to the broader concept of "short termism" which can take different forms country by country. It was argued that short termism can be found in all forms of capitalism, and is not limited or specific to the Anglo-American sphere. Continental Europe and Japan have had their own limitations in ensuring companies adopt long term strategies. Moving forward, specific areas were singled out to help address short termism. First, and unsurprisingly, a lot more could be done to ensure executive remuneration is in line with the long term interest of the company and its shareholders. Secondly, corporate governance should help ensure the company sets "real economy" objectives – linked to market share, to technology and innovation, etc. – not financial ones, such as objective related to share price or return on investment. Thirdly, there is a need to seriously address the "fascination" of CEOs with takeovers or even for listing, especially when investment bankers that are hired to advise the CEO have a vested interest in takeovers and mergers operations. Fourthly, the length of the mandate of senior management and of CEO should be in line with the long term strategy of the company. Excessive turnover and frequency CEO replacement is counter-productive.

The sustainable company

Some broad features of what a "sustainable company" should look like were also suggested. Beyond transparency and reporting on share ownership and asset management, it was argued that regulation should provide for clear incentives for long term holding, such as increasing voting rights with the holding period of shares, or clarifying rules on shareholders "acting in concert" so as to distinguish between different forms of shareholder engagement and activism. Broader financial reforms could also have beneficial implication, such as the introduction of a financial transactions tax – curbing excessive short term trading – or separation of retail and asset management banking activities – to reduce the risk of conflicts of interest of asset managers, as well as accounting and auditing practices.

Moving forward on short termism

Wrapping up, the facilitator suggested that priority in tackling short termist behaviours should be given to (i) strengthening accountability and reporting requirements all along the investment chain – from asset owners, to asset managers, down to the board of invested companies, and (ii) ensuring that corporate governance of the invested companies promotes "real economy" objectives.

Facilitator & Speakers

Aline Conchon, (facilitator), Researcher, ETUI

Roland Köstler, Head of Company Law, Hans-Boeckler Foundation

Catherine Cathiard, Senior Counsel, Jeantet & Associés

Arnaud Tessier, Lawyer, Capstan Avocats

Jean-Paul Rignac, Administrateur, CGT, EDF

Session B.III

Building European stakeholder governance, post-crisis: in the boardroom and beyond

Workers constitute a central constituency of the firm and as such have legitimate rights to information, consultation and participation regarding the firm's strategy, business plan and potential restructuring measures. Introductory speakers addressed questions such as: what kind of European agenda would be needed to ensure works councils are made more efficient in ensuring worker participation in corporate governance? Is there a new role for board-level employee representatives to consider for the future?

Session highlights

Codetermination model

The session began with a brief presentation of the German codetermination system and how it helped German companies adjust to the current global economic crisis. Employee representation on supervisory board, it was argued, contributed to companies' adaptation to changing market conditions, and prevented abrupt restructuring. Board employee representation in Germany is also a powerful tool to promote gender diversity. Women account for 15% of directors in large listed companies, of which 12% are drawn from employee representation.

The risk for re-location of the company seats outside German jurisdiction was discussed. There are some individual cases – such as Air Berlin – but overall one cannot perceive a trend towards relocation. In the same way, the opportunity for German companies to shift to the European Company Statute has not materialized in any real erosion of workers' rights to board representation in Germany.

Framework for worker representation in Europe

Discussion went on to a proposal for a European-wide "framework" directive on worker representation, which was recently discussed by the legal affairs committee of the European Parliament. Such framework direction would be needed to help harmonize the very diverse institutional settings across the EU. Some EU member states have mandatory board employee representation for all large companies, while others impose such requirements for state-owned enterprises, and some leave it up to the company bylaws and on a voluntary basis. The size of board representation also varies considerably, as do nomination processes and the scope of responsibilities.

In France, the prospect of reinforcing employee representation has improved with the new left wing administration. The recent government package of reforms to promote private sector competitiveness includes a commitment to mandatory representation of "at least two employee representatives with voting rights" in all large companies, as well as employee representation on remuneration committees. It was also argued that even with minority representation, having a worker's seat at the board was a helpful way to anticipate the firm's strategy and business plans, especially when combined with representation via works council bodies.

27 November 2012

Workshop C: Trustee Education

Facilitator & Speakers

***Federico Sanchez Llanes**, (facilitator), UGT- Spain, Responsible de Formacion*

***Fiona Reynolds**, CEO, Australian Institute of Superannuation Trustees (via pre-recorded video)*

***David Wood**, Director, IRI, Harvard Kennedy School*

***Jay Youngdahl**, Senior Fellow, IRI, Harvard Kennedy School*

Across OECD and emerging economies, trade unions have established or actively support pension education programmes for pension plan trustees. Trustee networks have developed to better inform trustees about their roles and responsibilities as fiduciaries, build cross-fund collaboration, share best-practices and develop trustee leadership on retirement security and sustainable investment strategies. This workshop, organised with the support of the Dutch Pension Fund ABP, aimed to inform the Committee on Workers' Capital's efforts in scaling up global cooperation across trustee networks in 2013 and beyond.

Session C.I

Sharing best practices on union-supported trustee education networks

Trustee education networks are key to trustee development and leadership. Panelists provided insights on successful network building through addressing the following questions: How did trustee networks evolve in your national context? What is the best way to develop these networks? What issues should trustee networks address? How would you evaluate the network's success in building a cadre of trustees who are capable of exercising leadership on behalf of trade unions/workers in an investment decision-making context? Could the CWC act as a 'network of networks' platform on trustee education?

Case studies in trustee networks

Trustee education networks

An informative overview of trustee education in Australia was presented, highlighting the development of trustee networks to promote leadership and share knowledge. A key role for the Australian Institute of Superannuation Trustees (AIST) is to act as a trusted discussion forum.

As funds have grown more substantial in Australia, there is an expectation that trustees meet increasing training standards. To respond to this concern, AIST has developed formal trustee training programs equivalent to company director courses. AIST sees the potential for global collaboration and conducts studies where participants travel to other countries to share trustee knowledge. Common issues for trustee education in the global context include ensuring that workers' capital is making a positive contribution worldwide, and determining the potential for investing in projects collaboratively.

Leadership development for trustees

The Trustee Leadership Forum is a project of the Initiative for Responsible Investing (IRI) and stems from an identified need to empower trustees to act on behalf of their beneficiaries and mobilize workers' capital for better markets. The project conducts participatory action research on key issues in a trustee-centric forum. Topics of interest that have emerged include target rates of return, long termism and private equity.

The most fruitful outcome of the project has been bringing trustees together to share challenges and opportunities. The initiative has been successful in providing a forum absent of fund managers for trustees to develop strategies and build support for RI practices. The current challenge is finding resources to ensure that the forum continues.

Discussion highlights

Trustee education in other jurisdiction
Building on the cases presented, participants from other jurisdictions shared their experiences.

In Spain, trustee training is of vital importance, with a variety of educational models focused on economic aspects and other trustee issues. As levels of competence have increased, the trustee education system has evolved to include university training and modules for continuous lifelong learning.

In France, while some technical education is necessary, it is the political dimension that is most important in trustee education. Labour trustees have a role to represent the interests of labour – a political task as much as it is a financial one in the French context. Trustee education needs to expand its focus from primarily financial aspects to provide support for trustees to navigate the political realities of capital stewardship.

One South African participant noted that the reliance on commercial service providers in fund management has marginalized the role of trade unions trustees in capital stewardship. Due to this, there is a desire to bring trustees together to share experiences and provide support for officers in their role so as to lessen the influence of service providers.

Building a global network
One delegate emphasized that the continuity of trustee leadership projects is essential, as they provide trustees with the tools to challenge the mainstream investment community to meet responsible investment priorities. In addition, systemic changes for long-term sustainability require the growth and maintenance of strong regional and national trustee networks that can collaborate globally.

Some trustee network agenda items that could be approached on a global scale include fund governance and management, recruitment of effective board members and approaches for lobbying governments and regulators. In terms of building trustee leadership, there is potential for collaboration on training tailored to the union trustee role at all level of expertise and via different platforms to support the various needs of trustees.

The facilitator identified a role of the CWC in pooling trustee leadership and training work that is conducted by members and providing further opportunities to share experiences. Ideally the CWC can build a “network of networks” to share trustee-focused resources, collaborate on training and leadership activities, and coordinate engagement agendas internationally.

Facilitator & Speakers

Mike Musuraca, (facilitator), Consultant, AFL-CIO

Kjell Ahlberg, Finance Director, LO-Sweden

Peter Chapman, Executive Director, SHARE

Marie-Josee Naud, Conseillère, FTQ

Session C.II

Responsible investment education for trustees- state of the art

Educational tools provide trustees with resources for capital stewardship and responsible investment practices. Highlighting several educational approaches, panelists responded to the following inquiries: What types of RI education tools are available for pension trustees? How do these tools lead to trustee engagement and action? What are the main challenges ahead? What are some ways we can work together to foster more strategic cooperation among trustee education providers to support the ability of trustees to advocate for responsible investment approaches to be better integrated by their fund?

Case studies in education tools

ESG integration

The first presentation outlined the role of a strong RI framework in providing a reference point for trustees to hold fund managers to account. In Sweden, LO unions have established ethical guidelines that are mandatory in external asset management. With a robust RI framework in place, an increasing demand for ESG products and more in-depth engagement with companies the violate guidelines (rather than simply excluding them) have resulted. A new development focuses on requiring ESG factors to be accounted for in company risk assessments, a further tool for trustees to employ in their work.

Despite progress enabled by significant ESG integration, challenges are present that trustees need support to navigate. For example, the lack of consistent and specific ESG definitions makes it difficult for trustees to communicate concrete ESG standards. There is also a need for trustee-specific tools to scale up collective action on ESG globally.

Focus on change

From another organization, SHARE, the premise for the responsible investment education program is that changing how pension funds invest and how they act as owners can have desirable outcomes for pension sustainability, society and the environment. It has been observed that education alone has not produce expected outcomes in improved ESG practices, therefore SHARE has shifted focus to trustee leadership to build motivation and a community of practice for RI behavior change.

Investigations that will be carried forward in SHARE's work include the role that the education of union leadership plays in RI, whether trustees can champion RI if they have not mastered other investment and management skills, and how RI education delivered only to union trustees can equip them to be successful on joint boards. Fostering strategic collaboration on these issues could involve identifying shared curriculum interests, common resource needs and potential cost-sharing developments, as well as creating opportunities for trustees to share experiences and information internationally.

Comprehensive training programs

Training programs at FTQ have existed since 2000 and are structured by fund administrators to cover the fiduciary role as a whole. RI is one of the issues that arises in training and regional trustee networks, and needs to become a greater priority in the future. Approaches to encourage RI behaviour include highlighting successful case studies, organizing campaigns to keep RI issues top of mind, and train-the-trainer programs where participants can discuss RI topics in the context of similar professional experiences and language.

FTQ does not have the resource problem of other trustee training programs as it is entirely funded by the Solidarity Fund, which currently represents net assets of $9 billion and is 100% controlled by the trade union. There are other difficulties for promoting RI, however, in that small pension funds have limited power voting power and can only ask fund managers how they exercise voting rights, and in trustees tending to be a minority on boards which poses challenges to spreading RI practices.

Discussion highlights

Building trustee leadership

The need for further development of trustee leadership, identified in all presentations, was reinforced in the discussion that followed. An agenda for trustee leadership includes not only responsible investment, but also fund governance, financial management and other key issues.

Financial management and fiduciary responsibility

An American delegate stressed that out-dated perceptions of fiduciary duty continue to be a barrier to more active ownership, on the part of trade union trustees specifically and trade unions more generally. As active participants in the financial crisis, it is important for trustees and unions to make real efforts to take control of how capital is invested and to train trustees to invest differently to avoid the next crisis.

Suggested Initiatives for CWC

It was proposed that the Committee could provide the broadest possible best practices for governance of funds and facilitate timely information sharing on key issues and campaigns. Another suggestion was for the Committee to work with organizations such as AIST, SHARE, FTQ and others on trustee leadership training initiatives. Others emphasized the CWC's role in the collection and dissemination of information on current programs and developments in trustee education, and strengthened coordination on shareholder activism for greater efficiency and impact.

Facilitator & Speakers

Mario Sanchez Richter, *(facilitator), Economist, CCOO Spain*

Diane-Laure Arjaliès, *Assistant Professor, HEC Paris*

Workshop D: Workers' Capital in France and Spain

A region-specific meeting was convened on what workers' capital strategies mean for Spanish and French trade unions and their trustees.

Session D.I

Stock-taking of responsible investment practices in France and Spain

What is the responsible investment landscape respectively in France and in Spain? What make France and Spain distinct from other countries and from common law jurisdictions in particular? What are the implications for Spanish and French trade unions, the management of pension schemes and long term occupational employee savings?

Session D.2

Roundtable on proxy-voting policies, engagement with companies, communication to plan members

Workshop highlights

Following overview presentations of the responsible investment landscape in France and Spain respectively, participants shared views on the implications for Spanish and French trade unions.

France and Spain have a lot in common in regards to corporate governance: the levels of concentration of ownership structure above Anglo-American standards, a recurrent problem with CEOs cumulating chief executive functions with chair of the board, a lack of responsiveness of senior management to shareholder engagement initiative prior to the AGM meetings, and a relatively low proportion of independent directors. But some differences emerge - AGLM resolutions on ESG reporting are more frequent in Spain than in France, for example.

The case of a large French public sector pension fund was brought up as a good example of renewed interest in France for shareholder engagement. The pension fund adopted its first ever guidelines on proxy voting in April 2012 – including a policy to vote against executive remuneration that exceeds 100 times French minimum wage. The guidelines were presented as an attempt to regain control over ownership rights. Implementation of the guidelines will take some time and will be gradual, given the limited capacity of the fund.

In the discussion, some participants argued that shareholder activism needed to be clarified and that it should not be limited to narrow corporate governance topics, but rather be articulated with 'real economy' concerns, such as investments in innovation and in job creation, among others. Some participants also suggested that responsible investment issues should be better owned by trade unions, and by trade union leaders in particular, hence the need to develop communication and advocacy tools.

Moving forward, French and Spanish participants agreed on the need to improve trustee networking and trustee education in both countries and that joint initiatives between Spanish and French trade unions on responsible investment at large and/or on specific issues such as proxy voting, be it on a formal or informal basis, would make sense.