



The Honorable Barney Frank  
Chairman, House Financial  
Services Committee  
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Dear Congressman Frank,

*Proposed Shareholder Advisory Vote on Compensation: H.R. 1257*

I am writing as chairman of the International Corporate Governance Network (ICGN), a global membership organisation of institutional and private investors, corporations and advisors from 38 countries with capital under management in excess of US\$10 trillion. The ICGN is a global leader in promoting good corporate governance around the world.

As you might expect, executive compensation is a critical issue to our members as it sets the framework of incentives for long term wealth creation upon which all sides depend. The ICGN strongly supports H.R. 1257 as we believe this concept will increase the competitiveness of the U.S. capital markets which are viewed internationally as relatively weak in this area.

Information about the ICGN, its members and its activities is available at our web site ([www.icgn.org](http://www.icgn.org)). You will also find there a detailed statement on executive remuneration best practice which was recently revised to reiterate our support for shareholder advisory votes.

As you are aware, several major international markets currently provide owners with a vote on the overall policy the board proposes for executive compensation. We have members in these countries who have practical experience of how the measures were introduced, and why, plus evidence of their recent impact. Overall we see a positive contribution to both level and quality of communication between companies and shareholders.

ICGN members in the UK, Netherlands, Australia and Sweden have commented that the practical impact of this dialogue between companies and shareholders has been positive. They see that compensation is becoming more closely aligned to long term performance. They have also commented that the discussion around the advisory vote allows companies to communicate their strategic goals and tailor executive pay around specific objectives rather than market wide targets.

This provides benefits to both the company and their shareholders concerned with sustainable business success. For companies feeling the short term pressure of the market, this form of dialogue with long term owners can only be positive. We are seeing that communication on pay means discussion of long term objectives, and hence advisory votes are becoming a practical tool for addressing short-termism. For that reason alone they are a measure companies should support.

Shareholders have appreciated an opportunity to focus upon compensation because of its impact upon strategic performance, and because of the inherent conflict of interest for boards when making recommendations. We have found that boards are better able to exercise independent judgement when they have shareholder support for their proposals for the executive compensation package. As one of our members has commented “they pre-empt excess”.

Our members have also found it helpful to have an instrument which focuses on the issue, rather than the individuals. As companies introduce majority voting, we want to support reforms which allow shareholders to separate out issues of significance.

While improving communication may appear to be a simple task, these significant benefits should not be underestimated. We believe the advantage of the approach you have taken in H.R. 1257 is the balance between the rights of owners for input into such an important policy topic as executive compensation and the need for companies to have flexibility. The advisory vote is non-restrictive and non-intrusive, yet provides remuneration committee members with sharpened accountability to owners. This, coupled with the improved disclosure rules in the U.S., will permit owners to participate constructively in broad policies related to executive compensation.

We believe suggestions that long term shareowners are not capable of providing meaningful feedback to companies through considering and discussing an advisory vote are misplaced. Rather, our experience is that the ultimate owners, those whose capital is at risk, are in the best position to provide this type of oversight. In fact, we consider that the lack of such oversight has been a contributing factor to poor executive compensation practices in the U.S. Our members are long-term shareowners and any vote they make related to compensation, whether it be advisory or not, will clearly reflect this.

Our members’ experience in other markets has shown that the “message” companies receive via an advisory vote (such as your bill would require) reflects a strong commitment to:

- pay-for-performance,
- good long-term alignment between the interests of executives and shareowners,
- avoidance of rewards for failure,
- reasonable levels of compensation.

All of this is a positive outcome for companies, their owners and other stakeholders. Indeed, we have seen that many companies have welcomed an opportunity to seek support for their approach to remuneration, and the associated benefits in terms of focusing upon long term performance.

As an organisation representing long term shareholders from around the world, including the US, we believe an advisory vote on executive compensation in the United States will be a great benefit to companies in the long-term, the competitiveness of the U.S. capital markets, and thereby to investors. We strongly support H.R. 1257 and urge a rapid approval process and implementation.

Should you have any further questions, or if we can be of further assistance, please feel free to contact Ted White, Chair of the ICGN Executive Remuneration Committee at (530) 313-3048 who has led the development of our policy in this field supported by a group of international investors.

We would be pleased to provide further information about how shareholder votes on compensation have worked in the UK, Netherlands, Australia and Sweden and the impact on the overall dialogue between companies and shareowners, and positive effect in aligning incentives for executives with the long term strategies that their investors are seeking.

If you would like more information about ICGN's work, do contact Anne Simpson our Executive Director on +44 207 612 6098 or by email at [execdirector@icgn.org](mailto:execdirector@icgn.org)

*Yours sincerely,*



Mark Anson  
Chairman  
International Corporate Governance Network

cc: Rients Abma, Netherlands  
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