MSCI ESG THOUGHT LEADERS COUNCIL

FROM MSCI ESG RESEARCH INC.

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INTRODUCTION TO THE MSCI ESG THOUGHT LEADER COUNCIL

The goal of the MSCI ESG Research Thought Leaders Council is to maintain our leading edge in research methodology by regularly seeking feedback and opinions from external experts in key industries and relevant ESG issue areas. The MSCI ESG Research Thought Leaders Council consists of a series of about three to four panels annually, with three to seven members on each panel. We aim to assemble international experts with recognized leadership and expertise on the topic area related to the panel.

The eighth council on Corporate Governance Fundamentals, the first in a series of panels on corporate governance themes, was held on **March 29, 2016**. Panel members were asked to review MSCI ESG Research's proprietary GovernanceMetrics Ratings methodology, as well as specific company and thematic reports before participating in the official panel call with MSCI ESG Research. The following key takeaways and discussion points represent a synopsis/summary of the discussions and do not represent a transcript.

KEY TAKEAWAYS

- **The panel agreed that while some governance standards are universal – the need for independent board members for example – a proper governance assessment has to incorporate market specifics.** Besides comparing governance in one jurisdiction to another, investors want to be able to compare companies within the same industry across borders. One challenge is that disclosure is a key driver of cross-border governance assessments, and companies are automatically disadvantaged if they operate in a regime with poor disclosure requirements. Even companies that want to disclose more can't get too far ahead of their regulators.
- **Accounting integrity is becoming an increasingly important aspect of governance.** Still, while governance assessments should include high-level indicators of accounting integrity, which should be clearly supported by factual data, highly technical forensic accounting assessments should be presented separately.
- **In addition to current governance practices, investors are increasingly focusing on trends / momentum / trajectory.** How have governance risks at a particular company changed over time? What specific factors have changed, and when did those changes occur?
- **Governance quality matters as much to fixed income investors as equity investors – perhaps even more as fixed income investors don't have voting rights.** However, while issues like proper capital allocation matter to all asset classes, there may be certain governance issues where fixed income and equity investors have a different point of view – for example, shareholder rights.
- **The panel agreed that corporate culture is a critical concern, though often difficult to assess, and seems to have played a key role in recent corporate scandals like Petrobras, VW and Valeant.** One possible avenue of research is to look at whistleblower policies and controls. The panel also referred to the ICGN's "Corporate Culture Indicators" as a helpful guide.
- **Other issues the panel agreed were critical included a "laser-like focus" on board skills and composition, a growing awareness of the need for diversity at both the board and company level, and CEO succession planning.** Assessing the differences in how hybrid instruments are issued was also discussed as an area of growing interest, particularly in Europe.

PANELISTS

Bess Joffe
TIAA

Marina Brogi
University of Rome

Dr Stephen M. Davis
Harvard Law School

Dr Marcel Jeucken
PGGM

Matthew Orsagh
CFA Institute

Paul Schneider
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Dr Daniel Summerfield
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