

# Widening the governance forum

Eumedion, the successor to the pension funds' corporate governance forum, has widened its scope to include asset managers and insurers. **Rients Abma** sets out its responsibilities

**O**n 1 January 2006, the new Dutch corporate governance forum Eumedion was officially launched. Eumedion is Greek for 'good guardian' and is the successor to the Foundation for Corporate Governance Research for Pension Funds (SCGOP). Not only pension funds, but also asset managers, mutual funds and insurance companies can now become member of the Dutch corporate governance forum.

Membership is open to Dutch and foreign institutional investors that are active in the Dutch market, and there are currently 45 members. Together they have €800bn of assets under management, which is double the amount of the members of the former SCGOP.

Several developments in the environment of SCGOP contributed to the decision to convert SCGOP into Eumedion. First of all, there have recently been a number of large-scale accounting scandals worldwide and one of the causes of these was a defective corporate governance structure. Fraud and corruption, inadequate monitoring by supervisory directors, high increases in remuneration despite poor performance, and inadequate auditing by auditors have resulted in a crisis of confidence on the capital markets and among the general public. Listed companies have lost substantial asset value, leading to significant losses for investors.

These events have led to the amendment of or new legislation in many countries in the last few years and to the design of codes of conduct intended to improve the corporate governance structure of listed companies. The rights of shareholders have been extended correspondingly. In this way, shareholders can exercise rights of their own when management and supervision fail. Due to the size of their shareholdings, major institutional investors have the potential to exert considerable influence on the decision-making process in annual general meetings of shareholders. Institutional investors have a fiduciary responsibility to their beneficiaries or investors to assess the corporate governance of the companies in which they (intend to) invest.

Additionally, society expects that institutional investors in particular

will start to make use of their shareholders' rights, since these have recently been widened. In the Netherlands, the introduction of the Dutch corporate governance code (the Tabaksblat Code) and the corresponding legislation has been an important catalyst in the increased focus on corporate governance.

The Tabaksblat Code has had a legal basis since 31 December 2004. This code of conduct contains principles and best practice provisions intended to improve the management and supervision of Dutch listed companies. With effect from the financial year 2004, the annual reports of Dutch listed companies must state the extent of their compliance with the principles and best practice provisions of the code and reasons have to be given for non-compliance with a principle or best practice provision.

Listed companies are also accountable to the annual general meeting of shareholders for the extent of their compliance with the code, and the Tabaksblat Committee and the Dutch government expect institutional investors in particular to monitor whether listed companies are doing this in a prudent manner. In order to enable them to fulfil this role, more controlling rights have been conferred on shareholders, both by means of the code and through legislation. Shareholders can use their votes to more effect than they could previously and companies in which they invest can be called to account for the policies pursued.

Engagement by institutional investors enables them in particular to raise objections to a company's defective corporate governance structure. Influence can be brought to bear on management boards and supervisory boards to change the corporate governance structure and/or to improve compliance with the code. New rights therefore lead to new obligations for institutional investors, something which is emphasised in the code.

The code contains best practice provisions for institutional investors with regard to the transparency of their voting policies, as well as their accountability for the implementation of these policies and their voting behaviour during annual general meetings. In addition, the code states that institutional investors are prepared to enter into dialogue with

listed companies on subjects such as failures to comply with the code.

Where institutional investors are concerned, the code does not address pension funds alone, but all institutional investors, including asset managers, mutual funds and insurance companies. A growing number of these have already declared corporate governance to be a significant factor in their investment policies.

In response to the developments outlined above, the SCGOP board decided in the autumn of 2005 to convert SCGOP into an organisation that includes not only pension funds, but all institutional investors, irrespective of their size and country of origin. As non-Dutch institutions own around 70% of the Dutch shares, it is important that also non-Dutch institutional investors also become involved in Eumedion.

The broadening of the membership base is an excellent opportunity to raise Dutch corporate governance standards to a higher level. In due course good corporate governance will improve the performance of the listed companies, which will ultimately benefit the institutional investors themselves. For an increasing number of studies indicate a positive relationship between good corporate governance, corporate performance and the reduction of risks.

On the basis of the responsibility of institutional investors established in the Netherlands, it is the objective of Eumedion to maintain and further develop good corporate governance and to advance the acceptance of and compliance with generally accepted corporate governance standards by listed companies and institutional investors in the Netherlands and Europe in particular.

Eumedion wants to achieve this objective by the following means:

- Encouragement of joint consultations between institutional investors and with listed companies and their representative organisations;
- Consultation with the Dutch government, institutions of the EU, other relevant authorities and sectoral organisations;
- Influencing relevant legislation and regulations;
- Providing service in the field of corporate governance to its members;

□ Other activities that advance the objective of Eumedion.

Eumedion expects that the broadening of the services provided and the strong representation of interests will attract a growing number of members. Eumedion operates as a service provider for its members and as a representative of the interests of those members with respect to the listed companies and policy-makers.

Eumedion will encourage its members' awareness of the importance of corporate governance, assist its members in formulating their voting policies, provide them with up-to-date information on corporate governance developments at listed companies and with regard to legislation and regulations, offer them a platform for consultation on corporate governance matters in general and in relation to individual listed companies, and promote the effective and efficient provision of services in the field of corporate governance by specialised suppliers.

In the first place, Eumedion expects this improved awareness, increased knowledge and reduction in costs to lead to a greater presence of institutional investors at the annual general meetings of shareholders. The higher attendance level of shareholders is the legitimisation of the role of the annual general meeting as a correction mechanism for failing management and supervision, and enables it to better fulfil its role in this capacity.

In the second place, the consistent focus on improvement of corporate governance at listed companies is expected to improve the risk-reward profile of companies invested in. This is not only to the advantage of the underlying beneficiaries and investors, but is also to the good of the listed companies themselves.

Finally, the expansion and professionalisation of Eumedion will lead to a more unequivocal and more effective lobbying and advisory body for political and sectoral organisations, which represents the voice of the various categories of institutional investors on corporate governance. In this way, the demands of institutional investors with regard to corporate governance can be highlighted even more effectively.

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