



# Best Practice Principles on Corporate Governance Research

## ABI Response

---

### The ABI

The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 and today has over 300 members, accounting for some 90% of premiums in the UK. As institutional investors with assets under management of around £1.6 trillion, our members are major users of corporate governance research and have a strong interest in a competitive, high quality market for proxy adviser research.

This response is made on behalf of the ABI Investment Committee, drawing on the views and expertise of 14 prominent institutional investors, who are all end users of proxy adviser services.

### Introduction

Voting is a critical aspect of responsible ownership. It is also an important means to exercise appropriate influence. There is a clear need from institutional investors for quality voting and research services to support informed and effective proxy voting. Without services of this nature, it would be difficult for institutional investors to participate in a strong corporate governance process and exercise their voting rights in an informed manner across a large number of companies and jurisdictions. On the whole, our members' professional experience of providers of these services has been positive.

There is, however, increasing interest in how institutional investors exercise their voting responsibilities. There is also increasing focus on how institutional investors use proxy adviser research in formulating voting decisions, both from companies and regulators. It is important to demonstrate to the market that institutional investors undertake rigorous voting analysis and decision-making. As signatories to the UK Stewardship Code, all ABI members disclose their voting policies, their formal voting process and actual voting decisions.

Some companies have suggested that investors simply follow proxy advisers without regard to their own ownership policies and principles. In the ABI's recent report *Improving Corporate Governance and Shareholder Engagement*, we analysed how our members use proxy advisory research. We found that all members have a policy of using proxy adviser research primarily to identify potential issues and to inform their own in-house analysis. Proxy adviser voting research and recommendations are not relied upon for final voting decisions. This is true for both UK and overseas markets.



In this sense, proxy advisers act as information agents to aid the engagement process between investors and companies and facilitate more informed engagement and ownership. Where some members have a very small holding, they do sometimes vote in accordance with proxy adviser recommendations. However, we found that in all such cases, they have specified their own voting policy to the proxy adviser, so that the voting decision will always be made in accordance with the asset manager's proxy voting policy.

- 1. What are your views about the principles development process?**
- 2. Respondents are welcome to express their expectations regarding the review and monitoring of the principles. As the on-going governance of the principles has yet to be determined, the committee particularly welcomes suggestions by stakeholders as to how a representative feedback mechanism can be implemented.**

The development of the Principles through the Committee of research providers ensures the Principles address the significant issues to the industry. However, through this consultation it is important for the Committee to consider the perspective of their clients and the issuers they report on.

The European Securities and Markets Authority (ESMA) found that no market failure had occurred, and the ABI continues to be of the view that, in the absence of evidence, consideration of regulation would be inappropriate and likely to lead to severe unintended consequences. However, this view is not shared by all stakeholders. It is important that all stakeholders are considered in the final formulation of these Principles. The industry has been subject to criticism from issuers and needs to be seen to be addressing these concerns in a proactive way; otherwise it will be subjected to further calls for regulation.

The Best Practice Principles will only receive full support from all stakeholders including issuers, investors and research providers, if oversight and administration of them are independent of the Committee. It is standard practice for Codes or Principles to be monitored and administered by independent parties. For example, the UK Stewardship Code is independently administered and reviewed by the Financial Reporting Council (FRC).

An independent oversight Board should be established and populated with representatives of key capital market stakeholders, such as institutional investors (both asset owners and asset managers), issuers, custodians and proxy advisers. The Board should be given powers of oversight of the Principles and have a transparent Terms of Reference, the development of which should be subject to consultation.

The Board should have a global remit (see question 7), to facilitate ongoing review and promote continuous improvements in service quality. The Board may seek to undertake periodic review of the Principles and provide an opportunity for stakeholder feedback.



**3. Please share your views on the practicality of a comply-or-explain approach to the principles**

Given that signatories are likely to have different business models and operation procedures, the concept of comply or explain is important in ensuring the principles are appropriate for all signatories. Accordingly, it is important that signatories provide good disclosures where an explanation is necessary.

**4. Could the effectiveness of the principles be further enhanced? Please elaborate and provide specific examples and/or suggestions.**

See above.

**5. Do you believe the Principles and/or supporting Guidance conflict with obligations under legislation or other best practice principles? If yes, please elaborate and provide specific examples and/or suggestions**

Whilst the Principles do not conflict with the requirements under the UK Stewardship Code, a number of the disclosure in the Principles replicate those required as a Service Provider under it.

**6. Please share your views on the procedures for registering as a signatory, describing and disclosing how Principles and related Guidance are being applied, and for disclosing the Statement of Compliance.**

This should be a matter for the independent body which is responsible for the oversight of the Principles.

**7. What should the regional scope of the Principles be, in terms of signatories and services provided? For example, do you think that the Principles should be global?**

Reflecting the global nature of the services provided by the signatories, the Principles should have a global remit.



**8. For additional potential signatories only: Are there factors that generally would keep you from becoming a signatory to the Principles? If yes, please elaborate and provide specific examples and/or suggestions.**

**9. For additional potential signatories only: What are your views on the Guidance for subscription, adoption and ongoing compliance from an organisational point of view? Do you think the ongoing management of the Principles could be improved? If yes, please elaborate and provide specific examples and/or suggestions. Do you think that principle one will help the market to better understand the different kinds of services and approaches that participants operate? If not, please explain.**

n/a

**10. Do you agree with the definition of “governance research services”? Is the scope of the definition adequate? If not, please elaborate and provide specific suggestions.**

**11. Are the definitions of “vote agency services” and “engagement and governance overlay services” and their distinction from “governance research services” sufficiently clear and accurate? If not, please elaborate.**

The focus of ESMA’s discussion paper and consultation was the proxy advisory industry. The Committee, through the draft Principles, has expanded this scope considerably to include any corporate governance research or engagement activities.

Members are concerned that the Committee has increased the scope. The Principles should focus on Corporate Governance Research provided for the specific purpose of making voting decisions.

**12. Do you agree that the Principles should not impose standards of conduct on investors? If not, please explain why**

We agree. Institutional Investors are already bound by regional investor codes such as the UK Stewardship Code. Following its most recent revision, the UK Stewardship Code strengthened the disclosure requirements relating to how proxy adviser research is used, for example:

“Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.”



**13. Do you think that Principle One will help the market to better understand the different kinds of services and approaches that participants operate? If not, please explain.**

There is a need for signatories to disclose general information about their organisation, including ownership structures and all the services they provide. This should assist investors and issuers in understanding any potential conflicts.

The guidance should include information on how the confidentiality of client information is maintained. As part of their business model, some proxy advisers receive information on their clients' holdings and voting decisions. Investors do not expect this information to be used without their consent, either on an individual or collated basis. The treatment of client information should be covered in the guidance.

The guidance refers to the outsourcing of work in the Employee and Qualification and Training section, which requires signatories to disclose the controls in place when work is outsourced. This section should include a description of the work which is outsourced.

**14. Do you see any issues of service quality that are not addressed in this section? If so, please provide examples and specific information on the purpose and merits of any additional disclosures.**

**15. Do you think the disclosure of the research policy, voting guidelines and research methodologies will enable stakeholders to determine how signatories consider local market conditions? If not, please provide reasons.**

**16. Please express your views on the scope and content of the proposed research-related disclosure under this principle with respect, to:**

**a. research policy**

**b. voting guidelines**

**c.. research methodologies**

We support increasing understanding of processes between issuers and proxy advisers. This will ensure that companies are able to give a fair representation within the constraints of individual proxy adviser processes. However, there may be some research methodologies that remain commercially sensitive and research outputs that should, by their nature, not be subject to review and/or change as a result of company input and opinion. Independent research providers must be able to form their own judgements.



**17. For additional potential signatories only: Does the Guidance provide you with the information necessary to properly apply Principle One? If not, would you prefer further Guidance? Please explain.**

n/a

**18. Does Principle Two address the relevant issues or considerations relating to potential conflicts of interest in the provision of governance research? If not, please explain.**

**19. Do you agree with the proposed conflict management and mitigation procedures? If not, please explain why and what additional measures you would propose**

**20. Do you agree with the proposed approach on disclosure of material conflicts? If not, please explain.**

**21. For potential additional signatories only: Does the Guidance provide you the information necessary to properly apply Principle Two? If not, what additional Guidance do you need?**

We agree that any conflict of interest should be disclosed to relevant clients; it will not always be practicable or desirable for all conflicts to be disclosed to non-clients. However, this issue should be considered carefully under the signatory's communication policy. It would not be appropriate for a signatory to be making statements on a particular issuer if a conflict existed and had not been disclosed.

**22. Please express your views on the scope and content of the proposed policy disclosure under this principle with respect to:**

**a. Issuers; and**

**b. Media and the public**

**23. Are there any other aspects of issuer-related dialogue that should be taken into account? If yes, please elaborate and provide specific examples and/or suggestions.**

**24. Are there any other aspects of media and the public dialogue that should take into account? If yes, please elaborate and provide specific examples and/or suggestions.**



**25. For additional potential signatories only: Does the Guidance provide you with the information you need to properly apply Principle Three? If not, where would you prefer further Guidance?**

It would be helpful for signatories to outline what information is provided to issuers to review; for example, whether the signatory provides the full report, sections of the report (e.g. excluding specific voting recommendations or opinions), or the whole report.

**26. In addition to comments on the specific questions addressed in the remainder of this Consultation Document, views are invited on the general approach taken by the Committee and the general features of the Principles.**

**27. Do you feel that the Principles meet the policy principles set forth in ESMA's Final Report? If not please explain.**

**28. Do you have any other comments that the Committee should take into account when finalising the Principles?**

No further comments.