

## **Public Consultation on Best Practice Principles for Governance Research Providers**

### ***Introduction***

We are responding on behalf of Aviva Investors. Aviva Investors is the global asset management business of Aviva plc. The business delivers investment management solutions, services and client-driven performance to clients worldwide. We operate in 14 countries in Asia Pacific, Europe, North America and the United Kingdom and have assets under management of £250bn at June 2013

We believe it is important for institutional investors to consider governance and sustainability issues at companies responsibly and we put significant resources towards this both by having a discrete team, the resources and time put towards this by the investment teams and in the purchase of good quality research to support our activities.

We use a number of governance research providers and we value the information without which we would not be able to cover all the companies we need to. We do not follow recommendations unless they align with our views. As such, it is important that the information provided to us is accurate and timely and we work closely with our providers to ensure this is the case.

We welcome the best practice principles as a way of ensuring that a good service and accurate and timely information is continually improved upon and give the industry increased credibility, especially with companies. Companies should also speak to their institutional investors if they are unhappy with the research and voting recommendations. It is ultimately the company's investors who will be using the information and they need to know if the information is inaccurate or if the voting recommendation does not take in the special circumstances of the company. We note that on page 10 the consultation document suggests that some investors shift responsibility for ownership and voting to the governance research providers. Aviva Investors does not do this and keeps responsibility for engagement and voting in-house, working closely with the fund management teams.

### ***Response***

#### **1. What are your views about the principles development process?**

We support the concept of principles that govern the provision of services from governance research providers. However, for the next step in the development of the principles, we believe these would have more authority if an independent committee were to finalise the principles and to continue to oversee and review the Principles and sign up process for signatories.

#### **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.**

We believe it is essential that there is independent review and monitoring of the principles and their adoption by governance research providers. The independent committee and its terms of reference should be clearly outlined.

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

We agree with the ‘comply or explain’ approach to the principles. The Principles and their supporting guidance should be clearly set out.

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

Yes, 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.**

Not so far as we are aware.

**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 overseen by the independent committee.

**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?**

We believe that the scope of these Principles should be global as signatories, the investors and the companies covered are global.

**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.**

Not applicable

**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.**

Not applicable

**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.**

Yes, we agree with the definition and the scope. However, the scope has expanded significantly from the ESMA focus on just the proxy advisory industry. This has the potential to cause confusion as to what service is being referred to. Therefore, if this wider definition is to be used, each signatory should separate each service they provide into identifiable chunks and explain how each service provided and the service provider as a whole, complies with the Principles or explain why not.

**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.**

Yes, but we have had a long history of dealing with these definitions. It is possible that companies may not fully understand how these other services fit into the way investors approach their responsibilities. The Website should have a section on definitions and also a description on how the services might be used by investors.

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

Yes, we agree that the Principles should not impose standard of conduct on investors as investors already have their own Code (Stewardship Code).

**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.**

Yes, these disclosures are essential to better understanding of the services. However, this depends on how clear the final set of Principles are and how the signatories describe their services. There may need to be further re-evaluation and monitoring which an independent committee should be assigned to do. We also believe the wording in Principle One is weak. To 'aim' to offer services in accordance with agreed client specification is almost meaningless. The wording should be strengthened, at least to 'Signatories *should* offer services....'

**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.**

Yes, there are several other areas which this Principle should cover:

- General information about the Signatories organisation and structure and the services each part of the organisation provides so investors and others can see any potential conflicts.
- Signatories should disclose their process for the identification and correction of any errors in relation to the services that they provide.
- The guidance should include information on confidentiality of client information and how this is protected.

**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.**

Yes, but the proof of the pudding is in the actual disclosures the Signatories make and how detailed and contextual they are. The Independent Committee could monitor the disclosures.

**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**

As noted above in our response to Question 14, we believe that there should be an additional bullet point added to require signatories to disclose their process for the identification and correction of any errors in relation to the services they provide.

**b. voting guidelines**

Voting guidelines should also require signatories to disclose the extent to which explanations are taken into account in the application of the guidelines.

**c. research methodologies**

Signatories should disclose whether they allow issuers to fact check their research. This will ensure that there is transparency as to the processes that each governance research provider undergoes. If the signatory does not allow issuers to fact check their research prior to publication and release to clients, then they should explain why not. The content and outcome of any engagement with companies should be disclosed to clients.

**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.**

Not applicable

**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.**

Yes

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

Yes.

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

If a conflict ‘cannot be effectively managed’ then signatories should remove the conflict such as by ceasing to act for a particular client. If the conflict cannot be managed then the signatory’s conflicts of interest policy, no matter how detailed, will not address the problem, so disclosure not sufficient to resolve the issue.

**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?**

Not applicable.

**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**

In dealing with the media and public, Signatories should also be careful not to disclose client confidentialities.

**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.**

Where there has been issuer related dialogue, Signatories should make this known to clients and articulate the content and context of the discussion and any outcomes. Where Signatories do not engage with issuers as a matter of principle or otherwise, this should also be disclosed.

**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.**

We have no comments on this.

**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?**

Not applicable

**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.**

We believe the QCA raises some interesting questions and the Signatories should address them:

- What, if any, are the downsides of governance research providers not complying with the principles outlined in this document. Independent monitoring and review could help with this; but it is not clear what happens as a result of non-compliance.
- What happens if there is a breach identified – for example, if a signatory publicly discloses something and then it is found that they do not actually adhere to that disclosure.

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

Yes.

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

At Aviva Investors, we use the concept of 'integrated governance' which means that governance research is not complete unless the research is expanded to include how sustainable development issues are integrated into corporate governance. Focussing on governance but not environmental or social issues only captures some but not all of the material risks that companies will face in the future. The Principles should therefore disclose the specific topics that the research provider covers.



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