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The Drafting Committee of the Best Practice Principles  
By email: [consultation@bppgrp.info](mailto:consultation@bppgrp.info)

20 December 2013

Dear Sir

**Best Practice Principles for Governance Research Providers - November 2013**

Thank you for the opportunity to comment on the consultation paper.

Capita Asset Services, through the Shareholder Solutions and Corporate Solutions businesses, provide share registration and value-added services to over 7 million shareholders on behalf of more than 1,500 companies in the UK and Ireland. We are responsible for share registers and share registration, corporate actions, share plans, and company secretarial support across a base of clients that range from small or recently floated to large multinationals.

Shareholder Solutions also provides a custody and settlement operation supporting overseas companies listing on the UK market and a share dealing service primarily aimed at shareholders in its client companies. Some of these client companies are based in other EU countries. Shareholder Solutions is part of a FTSE 100 organisation, Capita plc.

The administration of the voting processes for clients is a key feature of the service we provide. Capita manages the proxy voting process on behalf of issuers which includes the collation of responses by shareholders and the provision of the shareholders' instructions to the companies for their General Meetings. In addition, via our Investor Relations operation (part of our Corporate Solutions business) we provide value added services in relation to proxy solicitation and intelligence around underlying beneficial owners of shares to assist issuers in good governance practices.

**General comments on the proposals**

We believe that there is a serious debate that needs to take place with respect to the role of governance research providers and proxy advisors in the market. There is no doubt they

provide a valuable service to the investors who purchase their services. Some are extremely good at what they do and how they do it, engaging appropriately with issuers and investors. However, there are those who do not practice good governance or engage with issuers. Companies and investors have stepped up their game in respect of corporate governance and are being asked to do more, but it would appear that proxy advisors have lagged behind somewhat in this area. It should be a priority to ensure the important role of the governance researcher/proxy advisor works effectively for the market as a whole. The establishment of these best practice principles could be the starting point for that change.

The original ESMA consultation acknowledged that there is another major activity of some governance researchers/proxy advisors – voting logistics or as identified/defined in the consultation paper “vote agency” services (para 2.1.2). This was not included in the ESMA considerations, principles or the current consultation. We believe that this is an omission and it is an area that we feel requires some action to standardise the approach and guide the players in the best interests of the issuers, investors, engagement and transparency. It is pertinent to the discussions about conflicts of interest, transparency and engagement between investors and issuers in order to facilitate effective corporate governance. The ICSA Registrars Group published a guidance note in 2012 on “Practical issues around voting at general meetings” which draws attention to voting issues where proxy advisors may have some influence and involvement. We are also pleased to note the Shareholder Voting Working Group is looking at this issue and should publish a paper shortly. The other service identified in the consultation paper, “engagement and overlay” may also be an area for future debate and consideration by the Committee.

We believe the principles should help to improve some areas of the inter-action between issuers, institutional investors and proxy advisors. Certainly those paying for these services should have assurances about the expectations around quality and be confident in terms of conflicts of interest. Communication and dialogue will, we feel, continue to be the largest area of potential conflict. It is certainly desirable to operate under a voluntary code before contemplating any regulatory framework. There may be no punitive consequences in failing to uphold the voluntary principles, but the market and clients will judge governance researchers/proxy advisors and “vote” with their money and feet if the principles are not being met by the operators.

Below are the responses to some of the specific questions set out in the consultation.

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

No comment.

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 quality and content of the Statements of Compliance and the “comply or explain” disclosures will develop over time. However, the Committee could look to shape that development by actively reviewing disclosures and actual compliance, perhaps on an annual basis. The results or findings of these reviews should be published in order to guide signatories and others coming into the market. The Financial Reporting Council undertakes a similar task with regard to corporate governance disclosures by issuers. The Committee may also like to consider providing a mechanism for client users of the governance research services, investors and also issuers to feedback on their experiences of compliance with the Principles. The Committee’s independent website may be the vehicle for the feedback together with a confidential option should the need arise.

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

It would seem appropriate to use this approach as long as there is a review process to monitor quality, accuracy and the application of the Principles ie how many are suggesting future compliance and delivering on the proposed timetable for implementation.

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

As discussed above in our general comments in relation to the activity of voting services (and engagement and governance services) undertaken by some proxy advisors.

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.

No comment.

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.

No comment.
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?
If there is a global environment for the provision of the governance research services, then there should be no regional boundaries for the Principles.
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.
N/a
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.
Yes.
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.
12. Do you agree that the Principles should not impose standards of conduct on investors? If not, please explain why.
Yes. Governance research is guidance and there should not be a requirement on investors to confirm what information or advice has played a part in assisting the investor in executing their voting responsibility.

<p>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.</p>
<p>Yes.</p>
<p>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.</p>
<p>No.</p>
<p>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.</p>
<p>It is important for investor assessment of the research to clarify the extent to which local guidelines and standards are used and to what extent these differ from the voting guidelines.</p>
<p>16. Please express your views on the scope and content of the proposed research-related disclosure under this principle with respect, to:</p> <ol style="list-style-type: none"> <li>1. a. research policy</li> <li>2. b. voting guidelines</li> <li>3. c. research methodologies</li> </ol>
<p>No comment.</p>
<p>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.</p>
<p>N/a.</p>
<p>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.</p>
<p>It is understandable that there should not be public disclosure of specific conflicts in order to prevent harmful disclosures and it should be possible for clients to grasp from the definition of possible services provided what the potential conflicts might be. However, disclosure of potential areas of conflict might be helpful to clients.</p>
<p>19. Do you agree with the proposed conflict management and mitigation procedures? If not, please explain why and what additional measures you would propose.</p>

Yes.
20. Do you agree with the proposed approach on disclosure of material conflicts? If not, please explain.
Yes.
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?
N/a.
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
No comment.
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.
Governance research reports should indicate clearly whether there has been any dialogue with the issuer on the content of the report. This transparency requirement and the need for a declaration could be included in the policy principles.
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.
No.
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?
N/a.
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.

No comment.

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?

No.

We have responded to the areas of the discussion paper where we have current knowledge and experience. We would be happy to discuss our comments further if required.

Yours faithfully

Phil Kershaw  
Senior Manager – Industry and New Products