

20 December 2013

BPP Group
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Dear Sirs

BEST PRACTICE PRINCIPLES FOR GOVERNANCE RESEARCH PROVIDERS

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £4.5 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that IMA members managed holdings amounting to 30% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in companies whose securities are traded on regulated markets. The fact that investors can vote at general meetings is key to their engagement and influence over their investee companies. Many subscribe to governance research services, frequently to two or more, to provide them with research and inform their voting decisions. This supplements their own research and as such is an information source to help them in forming their own judgments. The use of governance research providers is not a substitute for the institutional investor's own responsibility to vote in an informed manner.

In this context, IMA welcomes the development of these Principles which will set minimum standards of conduct and increase transparency in the governance research industry. That said, we set out below our main reservations on the Consultation Document and our detailed answers to the questions raised in the attached annex.

- Many investors consider that the framework that underpins the Principles should have an independent body to monitor progress, report publicly on the outcomes and keep the Principles under review. It would be helpful if the independent body included representatives from the institutional investor community and companies, as well as governance advisory services.
- The Principles should not impose standards of conduct on investors' use of such

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Investment Management Association is a company limited by guarantee registered in England and Wales.

Registered number 4343737. Registered office as above.

advisory services. Investment managers are in any event regulated under various regulations derived from MiFID, UCITS, AIFMD, MAD and the Transparency Directive. It should be subject to each investor's judgement whether they wish to obtain governance research and when they do so, whether and how they use it. Moreover, in many cases investors' engagement is covered by the regional codes of conduct such as the FRC's Stewardship Code and the requirement that UK authorised asset managers either issue a statement of how they comply with its principles or explain their alternative business model.

- The clients of governance advisory services need to be assured that details such as their holdings and final voting decisions will be kept confidential. Signatories should be required to disclose how client confidentiality is maintained.
- It should be more explicit in the Principle that all conflicts of interest (and not only those which the signatories have classified as "material") should be disclosed to clients. This will enhance transparency and ensure the reliability of governance research services.
- ESMA's Final Report on proxy advisors states that: "Proxy advisors should inform investors about their dialogue with issuers, and of the nature of that dialogue". As noted in question 22, the Principles and Guidance are less prescriptive on this point. In this context, we are aware that some advisory services do not consult issuers and even where they do are not prepared to make allowances for specific circumstances and the justification for this. Signatories should be required to consult issuers on their reports and disclose to clients the nature of the dialogue and the outcome. This would help build a more trusting relationship between issuers, advisory services and investors, and should be made clear in the Principles and Guidance.

Please contact me if you would like clarification on any of the points in this letter or if you would like to discuss any issues further.

Yours faithfully



Liz Murrall
Director, Corporate Governance and Reporting

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

IMA's answers to the detailed questions raised are set out below.

Question 1: What are your views about the Principles development process?

We support the collective nature of the process whereby the Principles were developed and the discussions with potential signatories. However, we are concerned by the absence of participants from the institutional investor community, i.e. the clients, and from companies that are subject to the research.

Question 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.

Many investors consider that the framework that underpins the Principles should have an independent body that monitors progress, reports publicly on the outcomes and keeps the Principles under review. The report could focus on the following:

- a. Which institutions sign up to the Principles to determine how widely they are adopted in the industry;
- b. The extent to which signatories adhere to the Principles and the governance research services they provide are in line with what is declared in their public statement.
- c. Proposed changes to the content of the Principles to ensure their relevance in a changing environment. This could be done via periodic consultations with interested stakeholders.

It would be helpful if the independent body included representatives from the institutional investor community and companies, as well as governance advisory services.

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

We welcome the application of the comply-or-explain approach to the Principles. We consider that this affords greater flexibility than set regulation in that it allows for different business models, is easier to update according to industry feedback, and is less costly to implement.

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

We believe this is something to be determined after the industry has gained some experience from the Principles' application within the framework for review and monitoring by an independent body as suggested in question 2. That said, we are concerned that the Principles comprise only three high-level principles with guidance on each. This is a less robust structure than many of the corporate governance codes in the EU which contain much more detailed provisions that listed companies must either comply with, or explain why not. This could undermine the effectiveness of the Principles such that they do not improve standards within the proxy advisory industry.

Question 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.

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

We do not find that the Principles and the supporting Guidance are in conflict with obligations under other legislation or other best practice principles. However, the proposed publication of the Shareholder Rights Directive is awaited and it is possible that this could impact this.

Question 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.

We support the suggested procedures on these issues. Although we welcome ESMA's agreement to maintain a voluntary list of signatories, we recommend that publication should be in one place and on the Committee's website (<http://bppgrp.info>). This would help minimise the time spent by stakeholders in accessing such information.

Question 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 Principles should first be developed and tested within Europe with the aim of extending them internationally so as to ensure there is a level playing field. They should include all types of advisory services, regardless of whether they are purely for information or include recommendations.

Question 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.

Question 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.

Question 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.

The listing of what governance research services are clarifies the nature of these services. We would, however, highlight that the definition suggests that this applies to services provided on a "regular basis". This may be too restrictive and we recommend this is removed. Moreover, we are not aware of governance research services using "ratings" and believe that including this term could be confusing and that it should be deleted.

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

Question 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.

We consider these definitions and their distinction from "governance research services" sufficiently clear.

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

We agree with that the Principles should not impose standards of conduct on investors' use of such advisory services. Investment managers are in any event regulated under various regulations derived from MiFID, UCITS, AIFMD, MAD and the Transparency Directive. It should be subject to each investor's judgement whether they wish to obtain governance research and when they do so, whether and how they use it. Moreover, in many cases investors' engagement is covered by the regional codes such as the FRC's Stewardship Code and the regulatory requirement that UK authorised asset managers either issue a statement of how they comply with its principles or explain their alternative business model.

Question 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.

Principle One should help the market understand how signatories approach and carry out their research. However, it would be helpful if they were also required to disclose their ownership structure and the general types of service they provide so that both investors and companies can identify and understand any potential conflicts of interest. Also clients need to be assured that details such as their holdings and final voting decisions will be kept confidential. Signatories should be required to disclose how client confidentiality is maintained.

Question 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.

We do not see any issues of service quality that are not addressed in this section.

Question 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.

The Guidance for the disclosure of the research policy states: "the extent to which local conditions and customs are taken into account". This may lead to a boilerplate statement that the signatory has considered local market conditions. We recommend that this is expanded to include an explanation as to how this has been achieved, e.g. add at the end the phrase "and how this has been achieved".

Question 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

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

b. voting guidelines

c. research methodologies

Subject to the point made in question 15, we find the scope and content of the proposed research-related disclosure sufficiently clear.

Question 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.

Question 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.

We believe that the Guidance to Principle Two addresses the main issues relating to potential conflicts of interest. We would like to highlight that the text of this Principle focuses on the publication of a conflicts of interest policy but does not make reference to disclosure of all conflicts of interest to clients - disclosure of material conflicts is included in the Guidance. We believe that the Principle should state that all identified conflicts should be disclosed to clients (but not to the general public) on a case-by-case basis.

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

We agree with the proposed conflict management and mitigation procedures and particularly with the suggestions of setting up independent oversight committees and transparent policies and procedures.

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

We agree that when a signatory becomes aware of a conflict of interest that cannot be mitigated, it should disclose it to the relevant client(s). However, in line with our answer to question 18, we also consider that it should be made more explicit that all conflicts of interest (and not only those which the signatories have classified as "material") are disclosed to clients even if they can be mitigated. The disclosure should also include an exact description of the method(s) used to mitigate it. This will enhance transparency and ensure the reliability of governance research services to institutional investors.

Question 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.

Question 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

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

We note that the Principle and Guidance make little reference to disclosure to signatories' clients, i.e. institutional investors. According to the Guidance the communications policy should cover: "when and how signatories communicate to clients the nature of any dialogue with issuers, shareholder proponents or other stakeholders regarding voting issues under review".

The "when and how" suggests that disclosure to clients will depend on the signatories' judgement. This contradicts Principle 2.iii in ESMA's Final Report which states that: "Proxy advisors should inform investors about their dialogue with issuers, and of the nature of that dialogue". The rationale to ESMA's Principle 2.iii makes clear that although "it is up to the proxy advisor what should be the timing, frequency, intensity and format for this dialogue [with issuers]" the proxy advisor "should disclose to investors whether there is a dialogue" and if yes, "it should inform investors about the nature of the dialogue, which may also include informing his clients of the outcome of that dialogue".

In this context, we are aware that some advisory services do not consult issuers and even where they do are not prepared to make allowances for specific circumstances and the justification for this. Signatories should be required to consult issuers on their reports and disclose to clients the nature of the dialogue and the outcome. This would help build a more trusting relationship between issuers, advisory services and investors, and should be made clear in the Principles and Guidance.

Question 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.

There are no aspects of issuer-related dialogue that we think should be taken into account other than as raised in question 22.

Question 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 believe that this is sufficiently addressed in the corresponding Guidance.

Question 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.

Question 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 have no other comments to make.

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

IMA's ANSWERS TO THE DETAILED QUESTIONS RAISED

We feel that the Principles meet the policy principles set forth in ESMA's Final Report where governance research services are concerned with the exception of the disclosure to clients of communication with issuers as in question 22.

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

We have no comments other than those raised in the questions above.