

20 december 2013

Dr. Zetzsche
Chair
The Best Practice Principles for Governance
Research Providers Group

Nordic Investor Services Response to the Public Consultation on Best Practice Principles for Governance Research Providers

Dear Dr Zetzsche.

Nordic Investor Services is a Stockholm based Nordic governance and advisory firm. Founded in 2002 we have developed several products and services, aiming at providing research and advice to primarily Nordic institutional investors. Our services in this area include mainly corporate governance research, voting recommendations, remuneration analysis and advice.

General remarks

We welcome the draft Best Practice Principles for Governance Research Providers and the opportunity to comment on them.

Nordic Investor Services believes that investors in publicly listed companies should be encouraged to exercise their rights as owners as this is in the wider public interest. The proxy voting industry as a whole and the proposed principles should be understood and judged in the context of assisting investors exercising these rights and living up to the accompanying responsibilities.

The careful delineation between the responsibilities of investors and those of proxy advisors is essential for getting the proposed Best Practice Principles right. Investors have a responsibility to exercise their voting rights in the manner and to the extent they deem appropriate, whereas proxy advisors have a responsibility to provide investors with unbiased voting recommendations and other services within the scope defined by specific commercial agreements between the two parties.

The draft Principles make it clear that the overall responsibility for exercising voting rights rests with the investors. As different investors have different priorities and approaches to voting, no one business model or service model can be made to fit all customers or all service providers. A key factor for the quality of the products on the proxy advisory market is the resources allocated governance research services by investors and the specific demands they make as customers. The providers of these services will, in a competitive market, respond to the market demand by offering differentiated products and services. It is therefore crucial that the Best Practice Principles to not attempt to regulate in detail the workings of all service providers, as variation in the market place for proxy advisory services is vital.

Below are comments on some of the specific provisions and answers to some of the questions posed in the consultation.

Specific remarks

Background, Comply or Explain, Application, Scope and Definitions

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

Nordic Investor Services participated in the early stages of the process but did not actively take part in the later stages of the Drafting Committee's work. The intensity of the debate in certain areas is an indication and natural consequence of the heterogeneity of the market actors.

2. Respondents are welcome to express their expectations regarding the review and monitoring of the Principles. As the ongoing 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.

A review process should be set up in order to enable continuous reviews and adjustment of the principles. The process must of course be transparent and sensitive to the comments of the signatories, who are the parties most directly affected by the principles.

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

A comply-or-explain framework is in our mind the only feasible approach for this type of best practice principles.

10. Do you agree with the definition of "governance research services"? Is the scope of the definition adequate?

The definition is reasonable and well thought-out. A fairly loose and activity oriented definition is necessary due to the diversity in the industry in terms of scope of business, size and place in the governance chain. The general nature of the definition, however, means that it is essential that the principles and accompanying guidance will not be developed with only the major market players and their business practices in mind.

12. Do you agree that the Principles should not impose standards of conduct on investors?

Nordic Investor Services agrees with the decision not to include standards of conducts on investors. As it is stated in the draft Principles "the responsibility for the vote decision lies with the shareholder or its investment manager". As has been mentioned above, the delineation between the responsibilities of the investor and advisors/facilitators is extremely important. As in any market, customers evaluate service providers based on quality of service as well as price. The level of quality of the services delivered is intrinsically linked to the demands of the investor community and the services provided will be adapted to meet these demands. The conclusion must therefore be that while we agree that investor conduct is beyond the scope of these Principles, this reality must be factored in when discussing the draft principles.

Principle One: Service Quality

13. Do you think that Principle One will help the market to better understand the different kinds of services and approaches that participants operate?

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?

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 do not feel that the different business models of service providers in the market are given sufficient consideration in this area. For service providers who work with customised voting

policies and/or customer originated policies much of the guidance in this area becomes moot. The principle and guidance as it is currently written is still possible to relate to due to the comply-or-explain principle but if changes are contemplated this factor should be considered.

The key statement in the section, however, (“A signatory’s primary responsibility is to provide services to clients in accordance with agreed specifications”) is crucial as it hones in on the fundamental role of the industry. This is also relevant for Principle Three.

Principle Two: Conflicts Of Interest Management

18. Does Principle Two address the relevant issues or considerations relating to potential conflicts of interest in the provision of governance research?

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

A written, publicly available conflicts-of-interest policy is an appropriate measure and one that Nordic Investor Services considers a useful way to handle Principle Two.

Principle Three: Communications Policy

22. Please express your views on the scope and content of the proposed policy disclosure under this principle with respect to: a. Issuers b. Media and the public

The Principle as currently expressed is acceptable as it does not attempt to set up rules for dialogue with issuers or others. Such rules would be illogical and counter productive for the functioning of the market.

Communication between investors and issuers is of course crucial in several aspects. It is not evident, however, that it should be the ultimate responsibility of proxy advisors to manage this communication regardless of whether or not such a service is demanded by its client, i.e. the investor. Improved dialogue between all parties in the market is of course desirable and should be encouraged. However, allocating a one-sided responsibility to the proxy advisors for dialogue concerning voting decisions, in the manner that is sometimes suggested in the general debate - n.b. not in these draft principles - could prove to be very harmful indeed.

Efforts should be made, however, to disclose whenever analysis has been adjusted as a result of dialogue with an issuer.

We hope that you find these comments useful and please do not hesitate to contact me for further clarifications or questions regarding the comments.

Yours sincerely,

Helena Levander

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