



PIRC COMPLIANCE STATEMENT

# **Best Practice Principles for Providers of Shareholder Voting Research & Analysis**

October 2014

Regulated by the Financial Conduct Authority



---

# **PIRC compliance statement with the Best Practice Principles for Providers of Shareholder Voting Research & Analysis'**

## **Summary**

1. We recognise that PIRC is in a position of trust and should act at all times in the best long terms interests of its clients.
2. We seek to avoid any conflicts of interest and if they arise, openly declare them.
3. We operate within a culture of open dialogue with our clients, the companies we evaluate and other relevant third parties.
4. We are clear what is factual analysis, interpretation of analysis and what is PIRC's opinion.
5. We provide information and services that are clear, timely, usable and relevant to our clients and relevant third parties.
6. We have a clear and transparent charging policy for the range of services we provide and we are open about where the sources of income that sustain the business derive from.
7. We maintain a viable operational and financially sustainable business model free from any conflicts.
8. We seek to build an open and conflict-free relationship with the companies we research and analyse.
9. We are prepared to act collectively with others who have similar objectives to protect the interests of shareholders and relevant third parties.
10. We seek to produce governance analysis that reflects the long term interests of shareholders and relevant third parties taking into account generally accepted best practice in company governance, recognising operating best practices of leading companies and monitoring risks of poor governance to our clients, shareholders and relevant third parties.
11. We are proactive in highlighting poor governance arrangements and comparative corporate governance best practice so those receiving our research and analyses are well informed.
12. We seek to ensure all outputs are based on quality research and analysis with the integrity of our database is securely maintained and refreshed over time.
13. We facilitate engagement with company senior management on governance issues with the objective of improving governance or addressing significant risks that could damage shareholder value.

---

## 1.0 Background

In 2012 the European Securities and Markets Authority (ESMA) issued a discussion document for consultation that reviewed the role and practices of the small industry of corporate governance and proxy voting services firms operating in Europe. Its review focused on the development of the proxy advisory industry in Europe, and its principal services to the institutional investor community such as asset managers, mutual funds and pension funds.

Following its fact finding work in 2011, ESMA said that it recognised that the proxy advisory industry within Europe was expected to grow in prominence and that investors are, or are expected to be, increasingly using proxy advisor services. In its paper ESMA identified several key issues related to the proxy advisory market which it surmised may have an impact on the proper functioning of the voting process.<sup>1</sup>

In February 2013 ESMA published a final report as a Feedback Statement on the consultation regarding the role of the proxy advisory industry that “it has not been provided with clear evidence of market failure in relation to how proxy advisors interact with investors and issuers”.<sup>2</sup>

PIRC felt that the concerns that had been raised by various consultation responses needed to be addressed. These concerns were set out in the ESMA final report, stating “there are several areas, in particular relating to transparency and disclosure, where a coordinated effort of the proxy advisory industry would foster greater understanding and assurance among other stakeholders in terms of what these can rightfully expect from proxy advisors.”

PIRC was pleased therefore to agree to participate in an initiative with fellow proxy voting advisory firms to establish a set of best practice principles that would form the basis of a guide to the market about what standards of behaviour it should expect to see in relation to a firm’s clients, the issuer community and the capital market as a whole in its role and operations.

This proxy research industry initiative led to the establishment of the ‘Best Practice Principles for Providers of Shareholder Voting Research & Analysis’, published March 2014 (hereinafter ‘Best Practice Principles’ or BPP). PIRC is a signatory to these Principles and this statement constitutes PIRC’s compliance with these Principles as at September 2014.

---

<sup>1</sup> Discussion Paper: An Overview of the Proxy Advisory Industry. Considerations on Possible Policy Options, ESMA, March 2012, [www.esma.europa.eu](http://www.esma.europa.eu)

<sup>2</sup> ESMA Final Report, February 2014 [www.esma.europa.eu](http://www.esma.europa.eu)

---

## **PIRC Compliance Statement**

### **Principle One: Service Quality**

*Signatories provide services that are delivered in accordance with agreed client specifications. Signatories should have and publicly disclose their research methodology and, if applicable, “house” voting policies.*

### **PIRC’s basic research methodology and process is set out below.**

Collect corporate information:

- Proxy Material
- Most recent annual report
- Social report
- Environmental report
- Sustainability report
- Internal database search
- External database search
- All relevant internal information

Screen on disputable practices:

- Websites & newsgroups
- Internet search
- Issue specific sources

Contact company for further information:

- Phone/mail company in order to establish/confirm contact(s) with relevant/appropriate person(s) (in principle company secretariat Company Secretary)
- Explain purpose of inquiry (or written standard letter)
- Ask additional questions in order to obtain the missing information or to check available third party information

Collect relevant stakeholder information, where required:

- Identify representative stakeholder groups; at the minimum two trade union representatives (two different unions or one on company level and one sector representative), environmental, human rights, developing countries, corporate governance, sector specific stakeholders and issue specific stakeholders
- Contact the stakeholder groups and make inquiries, focused at the stakeholder’s specific field of interest (telephone interview or questionnaires)

Submit Proxy report to senior researcher for review:

- Receive feedback of senior researcher on

---

quality, completeness

- Conduct additional research when necessary

Submit Proxy report to the company:

- Ask for comments and additional information
- Agree on deadline
- Assess relevance of feedback

[NB: this Stage is currently only operated for the UK and Irish market]

Quality check and delivery:

- Check conformity with PIRC Shareholder Voting Guidelines
- Check language and spelling

Final quality check:

Process peer review comments

### **Shareholder proposals:**

PIRC reviews and analyses each shareholder proposal on its merits. It follows a standard operating procedure that identifies the proponent where possible; reviews the merits of the proposal and any supporting statement; reviews and analyses the company responses; considers any relevant PIRC Shareholder Voting Guidelines (eg PIRC guidelines for the US market) and provides a recommendation based on this analysis or any custom client guidelines required.

### **Shareholder Voting Guidelines:**

PIRC Shareholder Voting Guidelines

PIRC provides shareholder voting guidelines for all the markets in which its clients hold stock.

PIRC's shareholder voting guidelines have been influenced by global leadership organisations such as the International Corporate Governance Network's best practice recommendations, the Organisation for Economic Cooperation and Development, local market codes such as the Dutch Tabaksblat Committee Code and the guidelines issued by other market players such as the Council of Institutional Investors in the US and the King Report in South Africa.

In setting out general principles, we seek to ensure consistency and fairness in determining voting advice. However, special circumstances are considered whether appropriate. Whilst our guidelines cannot provide for all eventualities, in particular situations PIRC will exercise its judgement according to the nature and materiality of the issue, the composition of meeting agendas and the nature of the company response to issues raised and our judgement as to what would be in our clients' interests.

As far as possible we have set out in our guidelines where our view of best practice goes beyond existing legal or regulatory requirements. PIRC plays an active role in debating corporate governance issues via submissions to government consultations, client seminars, membership of various working parties and bilateral company meetings. These

---

activities along with client feedback and company comments inform our Guidelines. PIRC consults with clients on each new annual edition of its guidelines. Many of PIRC's pension fund clients adopt the PIRC guidelines following a presentation and endorsement by their respective pension fund committees. Others will set out their own voting guidelines/templates.

PIRC encourages boards of listed companies to adopt corporate governance best practice and seeks to review how companies perform on various criteria that:

- Adopt clear values and standards in business dealings throughout the organisation.
- Develop a culture of transparency and accountability.
- Focus on strategic issues and the quality of the business rather than simply short term numbers.
- Develop appropriate checks and balances to deal with conflicts of interest.
- Maintain effective systems of internal control and risk management.
- Create fair remuneration structures that reward the achievement of business objectives at all levels; and
- Recognise and manage impacts on stakeholders.

These goals are intended to assist companies in making effective business choices so as to maximise the wealth and welfare of all affected by their operations.

In general terms, PIRC considers the following in deciding on voting recommendations:

- PIRC's shareholder voting guidelines;
- Local market codes of best practice;
- The Board's explanation for the proposal including any departure from good practice;
- Board assurances on positive changes;
- Potential impact of oppose votes on corporate structure (and likelihood of occurrence)
- Use of shareholders' funds (the capital of a company), and a comparison with particular balance sheet items which, net of liabilities comprise the capital, focusing not only on what shareholders' funds have been spent on, but also to identify investment risk and governance considerations.
- The materiality of any concern and timescales involved;
- Opportunities for further votes in the future on the issue;
- Market implications from any precedent created

Our role is to provide advice in the best interests of all of our clients. In assessing where these interests lie, we assume our clients are long-term equity investors who value high standards of corporate governance and business conduct, the creation of wealth within legitimate boundaries and the importance of good relations with other stakeholders, as key factors in the ongoing success of the companies in which they invest. PIRC does provide (corporate responsibility/sustainability/environmental and social) ESG analysis alongside its core corporate governance analysis. PIRC will always apply its judgement and experience to the individual circumstances of companies, which may lead to different outcomes other than those indicated in its particular country guidelines.

The UK Guidelines have six main sections that match the structure of a PIRC Corporate Governance report. These are: directors, remuneration, audit and reporting, share capital and shareholder relations and corporate responsibility reporting.

---

PIRC seeks to promote dialogue and engagement with companies we research through:

- Giving companies the opportunity to comment on PIRC analysis both prior to and after publication of reports and in regular meetings throughout the year.
- Circulating the PIRC Shareholder Voting Guidelines to all listed companies, investors and other market participants.
- Engaging in dialogue with companies, investors, regulators and professional bodies.

PIRC has a Policy Forum comprising staff from all levels of the PIRC team that acts as a conduit for information to ensure that new issues (whether or not they have a voting outcome) are considered in the preparation of our corporate governance and corporate social responsibility research.

In setting out general principles, we seek to ensure consistency and fairness in determining voting advice. However, special circumstances are considered where appropriate. Whilst our guidelines cannot provide for all eventualities, in particular situations PIRC will exercise judgement according to the nature of the company response to issues raised and our judgement as to what would be in our clients' interests.

During its' 27 years history, PIRC has had significant influence on the development of standards applying to the operation and management of public companies. Many of the elements of corporate governance that are now taken for granted at public companies were reforms that PIRC had proposed at a much earlier stage. A list of the core governance reforms that have been introduced at UK listed companies and the corresponding PIRC initiative in support of them is available on PIRC's website. [www.pirc.co.uk](http://www.pirc.co.uk)

### **Custom Voting Clients**

For PIRC's clients who operate a custom voting policy our research process provides a draft report that can be amended by the client up to 48 hours following receipt. The guidelines used are based on the client's own policy. PIRC devises an appropriate voting template that reflects the client's policy.

### **Employee Qualification and Training**

PIRC has a staff base of approximately 40. The majority of staff members work in the research team and are dedicated to producing global corporate governance research and voting recommendations. PIRC also has four consultants based in the UK, Spain, Macao, and Japan who work on governance research and engagement. PIRC has a data team that collects and interprets corporate governance data that is used in the PIRC corporate governance proxy reports.

PIRC has an internal induction and training process that all research and data staff must complete on joining the company. This initial induction is vital to establishing a common framework of understanding on corporate governance and corporate responsibility/sustainability/environmental and social analysis ESG matters and how PIRC brings its unique perspective to these matters in the context of its values and client services. The average length of service for research staff is four years. The average length of service/experience in our management team for corporate governance and corporate responsibility research delivery is 10 years at PIRC.

---

## Complaints Handling

PIRC responds to company concerns about our research or proxy reports through email and correspondence within 48 hours with a formal acknowledgement. Depending on the nature of the concern/complaint raised, a detailed response is prepared for sign-off by PIRC's managing director. There can be a delay in responding to such concerns/complaints at the height of the proxy season. PIRC makes best efforts to review the materiality of such concerns/complaints in the first 48 hour period. Detailed responses may take up to several weeks depending on materiality and business pressures.

In addition PIRC is regulated by the Financial Conduct Authority rules of business conduct and Financial Services Ombudsman procedures in the UK. PIRC is regulated by the Financial Conduct Authority.

### Feedback Management

PIRC's feedback management arrangements are discussed under Principle Three below.

### Client and Supplier Understanding

PIRC's client and supplier understanding protocols are discussed under Principle Three below.

## Principle Two

### Conflicts of Interest Management

*Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for addressing potential or actual conflicts-of-interest that may arise in connection with the provision of services*

#### 1. Purpose:

PIRC has conflict of interests management policy that describes how we manage potential conflicts of interest we may have. Our objectives in drafting this policy statement are as follows:

- (1) to assure clients that the information and advice PIRC provides is impartial;
- (2) to outline a system whereby actual and potential conflicts are disclosed to clients and managed effectively.
- (3) to provide clients with clear disclosure obligations.

#### 2. Definitions:

PIRC applies the following definitions to terms used in this policy statement:

A) "Conflict of Interest" or "Conflict" includes those circumstances that create or have the potential to create an actual or reasonably perceived conflict between PIRC and the client and/or the client's key personnel. A conflict exists when PIRC or the client, or PIRC's key personnel, or the client's key personnel or a close relative, domestic partner or other significant personal or business relationship of PIRC or the client's key personnel knows,

---

or has reason to know, that he or she has a financial or other interest that is likely to bias his or her advice or evaluation of any matter regarded as material to the services between PIRC and the client.

B) “Key Personnel” refers to those persons identified by PIRC who will exercise a significant role in providing to the client the services required under an assignment or contract.

C) “Staff” refers to the client’s staff.

### 3. Disclosure of Responsibilities:

A) In its response to a Request for Proposal (“RFP”), PIRC shall generally identify in writing the circumstances and nature of Conflicts that may arise if it were selected to provide to a client the services set forth in the RFP’s scope of work.

B) In addition, at the time of a specific assignment PIRC shall generally identify in writing to the client the circumstances and nature of all Conflicts pertinent to the specific assignment, recommendation, advice or other service. PIRC will explain the steps or measures that it intends to take to avoid the Conflict or manage the Conflict. The disclosure required under this paragraph must be made prior to the time that PIRC provides the services that give rise to the Conflict.

C) Once a Conflict has been disclosed, PIRC will promptly update the client in writing of any changes in circumstances.

D) In following this policy statement, PIRC will consider the spirit as well as the literal expression of this policy. PIRC will take responsibility for scrutinising the services provided under the terms of the contract with the client for any future Conflicts and make appropriate disclosures. In cases where PIRC is unsure whether a Conflict actually exists, the Conflict will be disclosed, for example in an individual company proxy report, where it will be identified in the body of that report.

Induction and internal training: All staff undergo conflict of interest identification training as part of their overall induction upon appointment.

PIRC is sensitive to particular conflicts that may arise in the course of its work. It envisages that the following examples of potential conflicts are important areas that it wishes to bring to clients’ attention:

- Providing an analysis of a shareholder proposal in which PIRC or its employees have been advising the proponent;
- Providing an analysis of a particular company in which PIRC or its employees has played a part in supporting one or more of its clients in supporting a particular shareholder action in relation to the company under review.

PIRC will provide a summary of any or all of those conflicts for its clients on an annual basis where it has take remedial action to disclose and manage such conflicts.

---

## Principle Three

### Communications Policy

*Signatories should have and publicly disclose their policy (or policies) for communication with issuers, shareholder proponents, other stakeholders, media and the public.*

#### Communicating with Issuers:

PIRC's initial communications policy with companies (issuers) begins with a letter sent by email to a published contact address at the company. PIRC seeks to have a dialogue via the company secretary but will use a general corporate contact address if this is absent from disclosures. In that letter PIRC will ask for documents to assist with its reporting. These include prior year's annual reports and the Company's articles of association. These requests follow inclusion of the company within PIRC research coverage, determined by the portfolio holdings of clients or local market indices. Changes in these holdings are monitored on a quarterly or monthly basis, depending on availability of new data.

#### Voting guidelines

PIRC updates and publishes its Shareholder Voting Guidelines each year. Companies can expect a complimentary pdf version by email following each annual publication and a corresponding explanatory document which sets out where PIRC policy has changed. For foreign markets outside the UK and Ireland, PIRC provides guidelines for each market where client stocks are held.

#### Proxy Report Delivery

Companies can expect their investors to be informed of PIRC's voting recommendations ahead of statutory voting deadlines for any given market. As PIRC is just one of many intermediaries involved in the proxy voting chain we are subject to the imposition of deadlines by other intermediaries with whom we have no contractual relationship. Where externally imposed voting deadlines conflict with PIRC's contractual delivery deadlines to clients, companies should expect that PIRC will adhere to its own contractual terms. This is particularly the case where such deadlines are subject to change at short notice.

#### Report Accuracy

In common with other proxy agencies, PIRC endeavours to provide research and recommendations coverage across thousands of companies held in institutional investors equity portfolios. The high concentration of general meetings at certain times of the year requires PIRC, on behalf of investor clients, to distil significant volumes of disclosure. PIRC has processes in place to mitigate the risk of inaccurate commentary reaching its clients. Despite these processes errors will occur. Companies can expect that where factual errors which impact on a voting recommendation are identified and agreed, PIRC will re-issue an amended report to its clients and provide a copy to the company. Outside the UK and Ireland, companies should expect to receive a final copy of our proxy report. PIRC does not guarantee that this copy will be despatched ahead of the company's individual proxy deadline.

#### PIRC's Voting Recommendations

---

Issuers should expect some of the votes cast by their shareholders to be informed by PIRC voting recommendations. PIRC recommendations are based on the principles set out in PIRC's Shareholder Voting Guidelines and the conclusions of research done prior to general meetings.

### Engagement

PIRC works for its investor clients and not the companies in which those clients invest. However for the UK and Ireland PIRC considers that companies should be able to see its recommendations as a matter of courtesy. In these markets PIRC sends a copy of its draft proxy report, including voting recommendations, to each company on which it reports. Companies widely held by PIRC clients can expect to receive the draft proxy report and voting recommendations, prior to publication. PIRC seeks to provide companies with a 48 hour response period. Where companies suggest any amendments to be incorporated into PIRC's draft report, they will only be considered when provided via a written response and received in a timely manner. Such amendments will only be considered on questions of fact. A final copy of the PIRC report is sent to available addresses at each company, after publication to clients.

Purchase of shares brings with it fundamental rights underpinned by Company Law. Companies should expect PIRC to advocate the use of such rights by shareholders. Where a recommendation to vote is premised on our view that a company's behaviour is contrary to a fundamental principle, it is unlikely that engagement or dialogue will result in a change in our recommendation unless there is evidence of a change in corporate behaviour.

In addition PIRC discloses the nature of engagement it has had with a company during the production of its proxy report, in the report published to clients for companies listed on the FTSE ALL Share Index. Such disclosures reflect substantial engagement with a company rather than a literal exchange of communications. We are reviewing this approach for AIM and Fledgling stocks for which we do not provide such a statement in the final report. PIRC seeks to maintain a flexible response to company engagement, bearing in mind its first loyalty is to its clients.

### Voting disclosure

Companies can expect post-meeting public disclosure of each recommendation made by PIRC on PIRC's website. This is uploaded quarterly in arrears.

### Public Disclosures

Companies can expect PIRC to contribute to public policy debate. PIRC advocates improved corporate behaviours via regulatory submissions, event attendance and media opinion. From time to time PIRC will reference company practices in its public comments. Any such references will be evidence based. PIRC will not refer to any company communications of a confidential nature, provided by a company in the course of PIRC's dialogue or engagement with that company, unless it has obtained permission from the company to make such communications available to its clients.

### Dealing with shareholder proponents

PIRC will review all shareholder proposals on the proxy agenda of any company, on a case by case basis. In general terms PIRC supports the right of shareholders to have access to the proxy for nominating directors and shareholder proposals/resolutions. PIRC regards this process as a part of their fundamental rights and broadly encourages such engagement by a company's shareholders as a positive contribution to the shareholder process that can strengthen corporate governance.

---

Each shareholder proposal is analysed and proponents' texts and supporting statements are scrutinised. PIRC will then analyse any statement in support or opposition by the company board. It will on occasion have prior knowledge of such a proposal and this will be disclosed in its analysis within the proxy report.

PIRC is contacted from time to time by other stakeholder interests, such as a company's employee representatives, and PIRC will accord appropriate status to such contacts, whilst always seeking to obtain company responses to the substantive matters under consideration in such dialogue.

### **Communications with the Media and the Public**

PIRC's Head of Communications manages all dialogue with the media and from time to time communicates with media organisations. PIRC maintains a twitter account and publishes press releases from time to time. Designated PIRC spokespersons, will from time to time, appear in or and communicate with the media.

PIRC does not release any company proxy reports to the media unless it has been published to clients first, and then as a rule only when asked. However from time to time, when PIRC considers it is in its clients' interests to press release its voting recommendations on a particular company ahead of a company meeting, it will do so.

Requests for further information:

All requests for further information with regard to this compliance statement should be addressed to Rosy Li at [rosyl@pirc.co.uk](mailto:rosyl@pirc.co.uk)

October 2014