

Mr Chris Hodge
Chair
Best Practice Principles for Shareholder Voting Research Consultation Steering Group

Sent by email to: consultation@bppgrp.info

14 December 2017

Dear Chris

Response to the 2017 Consultation on the Best Practice Principles for Shareholder Voting Research and Analysis

The Financial Reporting Council ('FRC') welcomes the consultation on the Best Practice Principles for Shareholder Voting Research and Analysis ('the Principles').

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The FRC recognises the significance of the Principles as guidance for proxy advisors, particularly given the European Union's Shareholder Rights Directive ('SRD'). As proponents of the 'comply or explain' approach, the FRC agrees this model can strike the right balance between ensuring transparency and good practice, and giving organisations the scope to operate in a manner that best suits their particular circumstances and business model. The strong correlation between the Principles and the requirements of the SRD demonstrates the strength of the Principles in representing best practice.

Since the FRC first responded to the consultation on the Principles in 2013, the Best Practice Principles Group ('BPPG') has made significant efforts to improve the transparency and disclosure of research conducted by providers of proxy advisor services. The FRC acknowledges the BPPG's efforts to improve its governance, including its publication of membership and governance guidelines in 2016. In light of the implementation of the SRD, the FRC wishes to reiterate the need to strengthen mechanisms for ongoing monitoring and adherence to the principles. To be clear, this is not the FRC seeking any role in monitoring the Principles. Quite the contrary, it would be inappropriate for the FRC to monitor a code it has not produced, or has no power to do so effectively.

The implementation of the SRD has highlighted the importance of ensuring the Principles build on their status as high standards of conduct that underpin the provision of voting research and analysis services within Europe. Article 3j(1) of the SRD provides that Member States shall ensure that proxy advisors publicly disclose reference to a code of conduct which they apply and report on the application of that code of conduct. The Principles are suitable as an appropriate code of conduct for adoption by the United Kingdom in fulfilling its obligation to

implement the SRD, and the FRC awaits the decision of the UK Government as to how they wish to proceed on this matter.

The FRC would be happy to discuss or clarify any of the points outlined in this response.

Yours sincerely

A handwritten signature in black ink that reads "Paul George". The signature is written in a cursive style with a large initial 'P' and 'G'.

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