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Public Consultation on Best Practice Principles for Governance Research Providers

Submission by F&C Investments

F&C Asset Management plc is the listed holding company of the F&C Group, a global asset management group based in London, United Kingdom, with offices in Amsterdam, Boston, Dublin, Edinburgh, Frankfurt, Hong Kong and Lisbon. As at 30 September 2013, F&C Management directly managed £90.1 billion in assets. F&C offers a range of responsible investment products, including reo® (responsible engagement overlay), which provides integrated engagement and voting services to institutional clients. F&C was an original signatory to the United Nations Principles for Responsible Investment, and as an asset management firm is also committed to the principles of the UK Stewardship Code.¹

F&C presents its views on the Public Consultation on Best Practice Principles for Governance Research Providers as a user of these services. F&C has been a customer of most of the charter signatories to these Principles, and makes active use of governance research and voting services in its day-to-day operations.

As a general introductory point, we would like to stress that as current and past customers of many governance research Providers we believe there is a clear need by institutional investors for quality voting and research services to support informed and effective proxy voting. Without services of this nature it would be very difficult for institutional investors to participate in a robust corporate governance process and fully exercise their ownership and voting rights across a wide range of companies and jurisdictions.

F&C is aware of criticisms that have been levelled at the proxy advisory industry, and is alert to concerns about undue influence of individual Providers, limited competition and quality of research. In particular we recognise the challenges of maintaining high quality, timely and consistent research opinions in coverage universes that often are in the thousands of companies. While we would acknowledge that these are significant issues that require ongoing attention, we would also say that our own professional experience with the Providers of these services has on the whole been positive. The Providers we have worked with as clients of their services have left general impressions of sound professional standards and quality.

We would also note that as an institutional investor, committed to the principles of the UK Stewardship Code, it is the responsibility of investors, as users of investment services, to use these governance services with care and with accountability for effective understanding and responsible oversight of these services.

Consultation Questions

We will not answer every question posed by this Consultation, but will focus on those questions which have the greatest relevance from F&C's input.

Question 3. Comply or Explain. The comply or explain framework is relevant for these Principles. Particularly given the relatively wide scope put forward by these Principles not all aspects of the Principles may be relevant to all potential signatories. Comply or explain is an appropriate mechanism for addressing the potentially contrasting business mixes of differing signatories.

¹ See F&C's Stewardship Code submission on its website: <http://www.fandc.com/corporate/about-us/responsible-investment/>



Question 10. Definition of Governance Research Services. The definition of governance research services in this consultation is overly broad. It identifies a wide range of governance research outputs, ranging from alerts to voting recommendations. While these are all outputs of some, if not most, providers of proxy voting services, it is not the case that all service providers that produce some of these outputs—for example, bulletins, analysis and ratings—should come under a common definition of Governance Research Provider for the purposes of these Principles. That would be too wide a perspective, and such a broad purview of scope could marginalise the meaning of a more focused set of Principles. The success of this initiative should not be to define governance research services so broadly as to maximise the number of signatories.

Instead, the focus should be on a clear set of Principles for a well-defined set of service providers. In our view this definition of Provider should place emphasis on specific services, which include individual proxy research on company meetings, as well as either analysis of or recommendations on individual resolutions. Service deliverables that do not include these core proxy voting services should not, in our view, be in the definition of governance services. Given the above it may make more sense to relabel these Principles as pertaining to “Proxy Voting Services” rather than “Governance Research Services.” For example, in the case of F&C, even though we offer an overlay service that includes engagement and proxy voting for third-party clients, our core activities are wholly distinct from the core services provided by proxy voting agencies—such that it is not relevant for F&C to come under the scope of these Principles.

Question 11. Definitions of additional services. There is scope for potential confusion as to the definition of what constitutes governance research services and engagement and overlay services. As noted in Question 10 we believe it is most important to focus on the narrower definition of proxy voting research and analysis services, and to make it clear that these Principles do not address other providers of related services.

Question 12. Standards of conduct for investors. It is not appropriate for these Principles to impose standards of conduct for investors. As noted in question 8, investors are governed by different regulatory bodies, and in the case of F&C we are also committed to the principles of the UK Stewardship Code—which is the more relevant code of best practice for investors.

Best Practice Principles

We believe the basic principles of service quality, conflicts of interest management and communications policy all make sense in general terms. In particular we think it is important that research quality improves in such a way that votes can take into greater consideration company-specific issues that might result in a less mechanistic application of voting rules and recommendations. The granular points on research policies, voting guidelines, methodology and quality of research are all important. While these principles make sense for service providers, we should also take care to ensure that regulatory barriers or administrative requirements are not sufficiently high to thwart the development of greater competition in the sector.

Question 23. Issuer-related dialogue. We believe there is legitimate scope for Providers to engage in dialogue with issuers in providing governance and voting services. Governance issues are often qualitative and there can be scope for engagement with issuers to help to inform understanding of a company’s governance practices and key voting decisions. Not all Providers need to offer this, and in some cases may not have sufficient resources to meet with issuers as a matter of practice. To the extent that Providers do engage with companies, conflicts of interest clearly must be avoided or mitigated. However, done well and transparently, we believe that issuer dialogue may produce better research outcomes.

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