

Dr Dirk Andreas Zetsche
Chairman
Charter Signatories
Best Practice Principles for Governance Research Providers Group
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Dear Dr Zetsche

The Financial Reporting Council (FRC) welcomes the opportunity to comment on the Best Practice Principles for Governance Research Providers ('the Principles') published by the Charter signatories.

The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the framework of codes and standards for the corporate reporting, accounting, auditing, actuarial and investor communities, including the UK Corporate Governance and Stewardship Codes. We monitor their application and oversee and enforce the conduct of the professionals involved.

We welcome the work of the charter signatories as a response to European Securities and Markets Authority's (ESMA) encouragement for the industry to develop its own code of conduct. The FRC agrees with ESMA's assessment that more transparency and disclosure from governance research providers would 'foster greater understanding and assurance among other stakeholders'.

As proponents of a 'comply or explain' approach, we believe that this model can strike the right balance between ensuring transparency and good practice and giving organisations scope to operate in a way that best suits them.

Clients of governance research providers should ensure that they are delegating activities to advisors that will carry out those activities in a manner consistent with their own approach to engagement and decision-making. Greater transparency and accountability can assist them in this regard.

During discussions with UK companies and investors in them in connection with corporate governance and stewardship, the FRC has repeatedly heard concerns about the services offered by governance research organisations. Such concerns include the robustness of the research and the level of communication with companies. Whether or not these concerns are justified, the perception should be addressed.

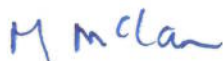
Principle Three provides that signatories should have and publicly disclose a policy for communication with issuers, shareholder proponents, other stakeholders, media and the public. The FRC considers that the lack of minimum standards for such a policy may impact on its credibility with issuers and others who may believe that self-certification is not strong enough.

The proposed principles may go some way towards calming the concerns about governance research organisations and the FRC urges the charter signatories to consider the system of overseeing and monitoring adherence to the principles. Without clearly independent oversight the code is unlikely to have much credibility with those groups that are not satisfied with the self-certification system.

Whilst the FRC welcomes the action taken by charter signatories to implement industry-based principles, the FRC wishes to make clear to those organisations which are also signatories to the Stewardship Code that reporting against the Principles will not, on its own, be sufficient to demonstrate compliance with the Code. The FRC would, however, be happy to discuss reporting to assist in avoiding duplication.

We would be happy to discuss or clarify any of the points made in this response.

Yours sincerely

A handwritten signature in blue ink that reads "M McLaren".

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