

#71

COMPLETE

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Page 2: Information on Respondent

Q1 Name of Organisation

Korn Ferry Hay Group

Q2 Type of organisation [select one]:

Company advisor

Q3 Main country / region of operation

Global

Q4 Are you currently a client of a voting research provider? [Yes/ No]

Yes

Q5 All responses will be posted on the Review website unless requested otherwise. Please indicate below if you wish your comments to be treated as confidential.

Respondent skipped this question

Q6 If you would like to be informed of the outcome of this consultation please provide a contact email.

ian.greenwood@kornferry.com

Page 3: General questions on the Principles

Q7 Were you previously aware of the Best Practice Principles? [Yes/No]

Yes

Q8 If yes, how would you rate the positive impact of the Principles since they were introduced in 2014? [Scale of 0-5 where 0 is no impact, 5 is very positive]

3,

Please give a reason for your rating:

The Principles provide useful guidance on good practice for organisations providing research and analysis to institutional investors on shareholder meetings (for simplicity we refer to these organisations in our response as "proxy advisers"). The Principles have had a positive impact given the requirement on signatories to report on the extent of their compliance, and many signatories do this in a detailed and transparent fashion. The signatory statements are useful summaries of how proxy advisers operate. However, in our experience, companies (i.e. issuers) are either not aware that the Principles exist or do not believe that the existence of the Principles has made a material difference to their interactions with proxy advisers.

Q9 If you are a user of voting research services, do you, or will you in future check whether a service provider had signed up to the Principles before appointing them? [Yes/No]

No

Q10 Would it be beneficial to have a set of principles that are capable of being applied in all markets? [Yes/No]

Yes

Page 4: Scope and Structure of the Principles

Q11 At present the Principles address three areas: service quality (which includes duties to clients, research methodology and voting policy); managing conflicts of interest; and communications with issuers, the media and other stakeholders (see the BPPG website here). Are there other issues or activities that should also be covered by the Principles [tick each that applies]

ESG advisory services and indices ,

Governance engagement services,

Other (please specify):

To the extent that proxy advisory firms continue to extend their business models beyond the provision of conventional shareholder voting analysis, we would support the extension of the Principles to other areas and (potentially) other organisations. This could include, for example, those organisations providing ESG advisory or ratings services, or those which offer governance engagement services. This is particularly relevant as more and more investors take a wider interest in ESG issues, and consider these issues outside of the framework of exercising voting rights.

Q12 Each Principle is accompanied by guidance which sets out practices to be followed and information to be disclosed, on a "comply and explain" basis. Is this structure clear and appropriate? [Yes/No]

Yes

Q13 If no, how might it be improved?

Respondent skipped this question

Page 5: The Content of the Principles (1: Service quality)

Q14 If you are a client of one or more signatories, do you consider that this Principle deals adequately with the various service commitments that you expect? [Yes/No]

Yes

Q15 If no, how might it be improved?

Respondent skipped this question

Q16 Depending on the wishes of their individual clients, those signatories that make voting recommendations will follow either bespoke or house voting policies. How satisfied are you with the process used by signatories to develop their house voting policies? [Scale 0 to 5, where 0 is dissatisfied and 5 is very satisfied]

3

Q17 How might the process be improved?

The policy development process varies between signatories. ISS, for example, has a reasonably transparent annual process for updating its policies which involves a public survey and a public consultation on its final proposed policy changes. This gives the opportunity for interested parties to provide feedback on policies prior to their finalisation. Such input is, however, limited to the topics on which ISS believes are particularly important in any one year. For all signatories, we would recommend some formal process through which comments on existing policies or suggestions for improvements could be made. This would be helpful in ensuring that the views of companies are clearly heard and can be factored into the policy development process. We would also recommend some type of forum through which – on an annual basis – signatories would make themselves available to hear the views of companies on how voting policies could be improved. This is particularly important given the continuing criticism from some companies that proxy advisers apply their voting policies on a “one size fits all” basis and without due consideration to individual company circumstances.

Q18 In addition to national law and listing rules, which, if any of these considerations should signatories take into account when deciding whether to adjust their house policies for different markets? [Tick all that apply]

Standards in national corporate governance codes and equivalent

Views and practices of local companies

Views of local and international investors

Q19 How informative are signatories' descriptions of their research methodologies (see BPPG website here), including how they ensure that the research is reliable? [Scale 0 to 5, where 0 is uninformative and 5 is very informative]

4

Q20 While recognising the need for signatories to protect their intellectual property, how might the statements be made more informative?

The statements on research methodologies vary significantly from signatory to signatory; the better ones provide informative summaries of the research process. Where additional colour could be provided is on how proxy advisers make judgements in "difficult" situations, or on issues where the adviser's house policy is to take a "case-by-case" approach to assessing proposals. In these situations it is not always clear what specific factors are critical in determining whether the vote recommendation is "for" or "against"; some more clarity would be helpful.

Page 6: The Content of the Principles (2: Conflicts)

Q21 The Principle does not attempt to eliminate potential conflicts, but to ensure that the signatories disclose the procedures by which they are managed. Is this an adequate approach? [Yes/No] **Yes**

Q22 If no, how might it be strengthened? **Respondent skipped this question**

Q23 The Principles include the following non-exhaustive list of potential sources of conflict: **No**

- A signatory's ownership or shareholder base/structure, such as when a signatory is owned by an investor that owns shares in companies under coverage or when the investor is owned by an issuer under coverage;
- A signatory's employee activities, such as board memberships, stock ownership, etc;
- Investor-client influence on the signatories, such as when an investor who is a client of the service provider is a shareholder proponent or is a dissident shareholder in a proxy contest;
- Issuer-client influence on the signatories, such as when signatories provide consulting services to companies under coverage for research; and
- Influence of other investor clients.

Are there any others that should be included in this list?

Q24 If yes, please identify them. **Respondent skipped this question**

Q25 If you are a client of a signatory, how satisfied are you with the information you receive on how potential conflicts are being managed? [Scale 0 to 5, where 0 is dissatisfied and 5 is very satisfied] **4**

Q26 How might procedures be improved? **Respondent skipped this question**

Page 7: The Content of the Principles (3: Communications policy)

Q27 How satisfied are companies with their communication with signatories? [Scale 0 to 5, where 0 is completely dissatisfied, 5 is very satisfied] **2**

Q28 How might communication be improved?

In our experience, while some companies report a positive experience of communicating with proxy advisers, others are disappointed with the process. In terms of the communication that exists at the time of the AGM, companies remain frustrated with the occasional unwillingness of proxy advisers to discuss specific issues of concern (which may be leading the adviser to recommend a vote against a resolution). While it is recognised that this is often due to the exceptionally busy AGM season, when proxy advisers' resources are particularly stretched, companies would appreciate more of an opportunity to be given a "fair hearing." As a minimum, companies would appreciate the view of a pre-publication draft of the proxy adviser's report on the AGM, a facility which not all proxy advisers currently provide.

Outside of the AGM period, many companies would like to be able to engage in dialogue with proxy advisers in the same manner as they do with major shareholders. Some signatories are indeed open to such engagement, but others are not, and the quality of dialogue can be patchy. Some companies are of the view that proxy advisers' personnel are insufficiently experienced to be able to fully appreciate specific company circumstances or industry characteristics. There is also a feeling that engagement is viewed as an optional extra by proxy advisers, something to be done when time and resources permit but otherwise not a core activity. While engagement may not be central to proxy advisers' business model, a lack of dialogue can have a negative impact more broadly because companies can find it hard to have a conversation with shareholders which have "outsourced" consideration of corporate governance issues to a proxy advisory firm. If neither the investor nor the proxy adviser is able or willing to communicate with the company on governance issues, then companies feel the process is not working properly.

One other frequent comment from companies relates to consultation exercises they undertake with major investors and with proxy advisers, often (but not exclusively) concerning proposals to change executive pay. The issue is that when companies speak to some proxy advisers, the adviser is unwilling to give a firm view as to whether or not it supports what the company is proposing to do. This is unhelpful because it means that the company does not have a clear indication of the opinion of a proxy adviser whose recommendations can be very influential on investor behaviour. Although companies recognise that proxy advisers may not be able to give cast-iron guarantees of support at the consultation stage, some firmer guidance on the likely vote recommendation would be much appreciated and would help companies understand the likely level of shareholder support for their proposals.

Q29 If you are a company, have you used the procedures set up by one or more signatories to make a complaint or provide feedback on their research on, or engagement with, your company?

Respondent skipped this question

Q30 If yes, how satisfied were you with how your complaint was handled? [Scale 0-5 where 0 is not at all satisfied, 5 is very satisfied]

Respondent skipped this question

Q31 Many companies consider they should have the opportunity to comment on the analysis and recommendations in research reports before they are finalised. If you are an investor, which of these statements most closely reflects your view? [Tick one only]

Respondent skipped this question

Q32 At present, signatories are required to produce a public statement on how they have applied the Principles, which they update as necessary; some have chosen to update the statement every year. Signatories also produce a summary in a standard format for purposes of comparison (see BPPG website here). Do the statements adequately cover all the matters that signatories are supposed to report on under the Principles? [Yes/No] **Yes**

Q33 If no, please identify which matters are not adequately reported on **Respondent skipped this question**

Q34 How informative and useful are the statements? [Scale 0-5 where 0 is uninformative, 5 is very informative] **4**

Q35 How might the statements be made more useful?

We have not exhaustively reviewed all of the statements and summaries prepared by each signatory. As a general comment, however, most are sufficiently detailed to cover the matters on which the signatories are supposed to report on, and most are informative and useful in helping the reader understand the proxy advisers' approach to undertaking their work. In terms of improvements, we recommend the introduction of a requirement for signatories to update their statements annually. We note that of the five statements on the BPP website, two have not been updated since 2014 and one not updated since 2015. Signatories should also be required to indicate clearly each year in what areas their statements have been updated (where relevant).

Page 9: Monitoring the Application of the Principles

Q36 As part of this review, the BPP Group intends to introduce an independent element into the monitoring arrangements. Which of the following features should be part of the arrangements for monitoring the implementation and impact of the Principles? [tick all that apply]

Oversight body including members independent of the sector ,

Surveys of market participants ,

Third party certification of how the Principles have been implemented by signatories

Q37 If you have specific suggestions for how the Principles should be monitored, please provide details

An oversight body and third party certification would be particularly helpful in ensuring that signatories implement the Principles and report on their implementation. This would help give some external assurance that the Principles are taken seriously by signatories, and help encourage best practice among all signatories.

Q38 Have you ever used the complaints procedure to complain about a breach of the Principles (see BPPG website here) [Yes/No] **No**

Q39 If yes, how satisfied were you with how your complaint was handled? [Scale 0-5 where 0 is not at all satisfied, 5 is very satisfied]

Respondent skipped this question

Page 10: Signing-Up Process

Q40 The process of signing up to the Principles is being looked at as part of this review. Other than a commitment to apply and report on the Principles and to be subject to the monitoring arrangements, are there other criteria that service providers should have to meet in order to be accepted as signatories? [Yes/No]

No

Q41 If yes, please specify

Respondent skipped this question

Page 11: Other comments

Q42 If there are any additional comments you would like to make as part of this consultation, please do so here:

Respondent skipped this question
