

# Best Practice Principles Group for Shareholder Voting Research

## Leading Global Shareholder Voting Research & Analysis Providers Commit to New Governance & Oversight Structure in Independently Reviewed Updated 2019 Principles

Released: 22 July, 2019

**The Independent Review Chair** of the **Best Practice Principles for Shareholder Voting Research & Analysis Group** (the “BPPG”), **Dr. Danielle A.M. Melis MBA**, on behalf of the signatory members of BPPG, today (22 July 2019) announced the formal public launch of the new 2019 Best Practice Principles for Shareholder Voting Research & Analysis (“the Principles”). The launch is the culmination of a two-year Independent Review process, resulting in a new formal governance and oversight structure for the BPPG<sup>1</sup>, updated Principles and Guidance, and an Independent Review Chair Report detailing the topics discussed in the Review Process and the rationale for the changes made to the original principles that date back to 2014.

The updated 2019 Principles were developed within the framework of a structured Independent Review Process which referred to the ESMA 2015 Follow-Up Report on the Development of the Best Practice Principles for Providers of shareholder voting research and analysis (“2015 ESMA Follow-Up Report”), the requirements of the revised EU Shareholder Rights Directive II (“SRD II”) and the latest updated stewardship codes globally. The Independent Review Process also referred to the important input of regulators, investors, issuers and other stakeholders received through a Public Consultation by the BPPG (completed in December 2017), 2017 and 2019 Stakeholder Advisory Panels and a June 2019 BPPG Stakeholder Preview Event.

Dr Melis said: “As Independent Review Chair, I am confident that the Review process has resulted in a thoroughly reviewed, globally applicable, updated set of Principles and Guidance. In particular, this includes new governance, monitoring and reporting structures in which stakeholders can recognise the ambition of the BPPG to act in accordance with the highest standards and to be transparent about their activities and policies.”

The updated Principles establish the agreement to appoint a BPP Oversight Committee to provide an annual independent review of the Best Practice Principles and the public compliance statements of each BPP Signatory. Responsibilities of the BPP Oversight Committee further include ratification of applications by new BPP Signatories that have been approved by BPPG members and sanction of Signatories that are non-compliant, up to the point of ending the BPP Signatory status and BPPG membership. The new BPP Oversight Committee will consist of both investor and issuer representatives, as well as independent members, and will be chaired by an independent oversight Chair. Full terms of reference are detailed in the new Principles.

The new governance structure was one of the key recommendations of the 2015 ESMA Follow-Up Report, and is complementary to the requirements of the revised EU Shareholder Rights Directive II (“SRD II”) as well as stewardship developments in other markets globally, since the Principles were introduced. The introduction of new governance arrangements was also strongly supported by investors, companies and other stakeholders alike in the 2017 Public Consultation, 2019 Stakeholder

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<sup>1</sup> See page 12 of 2019 Best Practice Principles for Shareholder Voting Research & Analysis

## Advisory Panels and June 2019 BPPG Stakeholder Preview Event.

These Principles have also been updated to address SRD II with ‘avoidance’ added to ‘management’ of conflicts-of-interest with regard to the policy which should be disclosed. It also responds to feedback from the 2019 BPP Stakeholder Advisory Panel, acknowledging that conflicts of interest will always exist; therefore it is incumbent upon the BPP Signatories to have proper policies in place to try to avoid such conflicts wherever possible and when they do arise, to be transparent and manage them properly. The 2019 BPP Review Stakeholder Advisory Panel also reiterated the importance of the more stringent updated “Apply and Explain” approach for BPP Signatories to follow in light of SRD II Article 3j in relation to the Principles.

Another further area the updated Principles focused on was delineating the scope of proxy advisors’ responsibilities versus those of investors, in light of continued market misperceptions regarding the alleged overinfluence of proxy advisors and/or alleged “robo-voting” on the part of investors. As of June 2019, there are existing and evolving regulatory and stewardship frameworks, which further delineate responsibilities and disclosure requirements with regard to investors’ use of proxy advisory services, in addition to direct requirements for proxy advisors. [Article 3g of SRD II](#) stipulates that institutional investors and asset managers shall develop and publicly disclose an engagement policy and on an annual basis disclose how their engagement policy has been implemented, including a general description of voting behavior, an explanation of the most significant votes cast and the use of the services of proxy advisors. The updates to the Principles are complementary to the spirit of these evolving regulatory and stewardship frameworks supporting good practice on the part of investors with regard to the responsible and transparent exercise of shareholder rights, including the use of proxy advisory services.

Dr Melis said: “I am particularly proud of how the founding signatories to the Best Practice Principles, the current members of BPPG, worked together in the Review Process, on a voluntary and constructive basis. They respected investor as well as issuer concerns as well as differences in various service provider business models notwithstanding being competitors in their respective markets, in order to promote the integrity and efficiency of shareholder voting research services, which play an important role in investors exercising their stewardship rights and responsibilities effectively.”

The BPPG members said: “We are extremely grateful to our Independent Review Chair, **Dr. Danielle A.M. Melis MBA** for her stewardship, dedication and professionalism in developing the updated Principles, with her ability to prioritize the transparency of the Review process, alignment of interest and a focus on common ground.”

## **Summary of Key Takeaways**

### **2015 ESMA Follow-Up Report recommendations for improved governance and oversight of Principles have been addressed by:**

- new BPP Oversight Committee;
- new reporting arrangements;
- new monitoring arrangements.

### **SRD II requirements on transparency of proxy advisors have been addressed by updated Principles and Guidance that include:**

- annual public disclosure by each BPP Signatory to the Principles of the Signatory's commitment to this code of conduct and of how the BPP Signatory applies and complies with this code of conduct;
- annual public disclosure relating to the accuracy and reliability of their research activities;
- identification and disclosure without delay to their clients of any actual or potential conflicts of interests or business relationships that may influence the preparation of their research, advice or voting recommendations and the actions they have undertaken to eliminate, mitigate or manage the actual or potential conflicts of interests.

### **2017 Public Consultation feedback regarding need for improved governance and oversight of Principles have been addressed by:**

- new BPP Oversight Committee;
- new reporting arrangements;
- new monitoring arrangements.

### **2017 Public Consultation feedback regarding need for updated Principles and Guidance in key areas have been addressed by:**

- updates regarding how BPP Signatories alert clients to any material factual errors or revisions to research, analysis or voting recommendations after research publication;
- updates regarding potential and actual conflict avoidance or management;
- updates with regard to disclosure of dialogue with issuers, shareholder proponents and other stakeholders.

### **2017 Public Consultation feedback regarding potential 'overinfluence' of proxy advisors have been addressed by:**

- updates with regard to the Scope of the Principles highlighting the importance of delineating investor and proxy advisor responsibilities.

### **Note to Editors:**

The original Best Practice Principles for Shareholder Voting Research were launched in March 2014 following two public consultations. The Principles were developed at the suggestion of the European Securities & Markets Authority (ESMA) which suggested that the industry would benefit from increased understanding of how it operates. The Principles are global in their scope and can be used by any organisation providing research services to inform institutional investors' stewardship and voting decisions.

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