

Report of the Independent Review Chair of the 2019 Best Practice Principles for Providers of Shareholder Voting Research & Analysis

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Acronyms and Definitions Used

BPP or The Principles refer to the Best Practice Principles for Providers of Shareholder Voting Research and Analysis

BPPG refers to Best Practice Principles Group for Providers of Shareholder Voting Research and Analysis

BPP Oversight Committee refers to the governing body providing an annual independent review of the monitoring of the Best Practice Principles and the public reporting of each BPP Signatory

BPP Review Committee comprises the current BPPG members and Independent Review Chair

BPP Signatories refers to all ratified signatories to the Best Practice Principles

ESMA refers to the European Securities and Markets Authority

General Meeting refers to a meeting of a company's shareholders whether an Annual General Meeting or Extraordinary General Meeting

SRD II refers to the EU Shareholder Rights Directive II

Acknowledgements

As the Independent Review Chair of the Best Practice Principles for Shareholder Voting Research & Analysis, I would like to express my appreciation to all members of BPPG, the [BPP Review Committee](#), the [2017 and 2019 Stakeholder Advisory Panels](#), and [Chris Hodge, the 2017 Independent Review Chair](#), who led the first phase of the [Review Process](#), focusing on stakeholder outreach and the [Public Consultation](#). Special thanks also to [Dr. Anna Tilba](#), who provided an analysis report in 2018 of the qualitative responses from the 2017 public consultation ([see Annex 2B](#)).

On behalf of the BPP Review Committee, I would like to express my deepest gratitude to all of the regulators, investors, companies and representative bodies, that provided the BPP Review Committee with their valuable input and devoted time to engage thoughtfully with the Review Process, including those who responded to the [2017 consultation survey](#), took part in our stakeholder advisory panels as well as those present during our [Preview Event](#) held on June 24, 2019 in the Museum of London.

Furthermore, I would like to extend my sincere thanks to Sarah Ball who supported the BPP Review Committee with her excellent drafting skills. I am also grateful to Jen Thompson for her great organizational and secretarial support during this Review Process. It has been an honour and pleasure to work with you.

The input from all parties involved has enabled me to draw a comprehensive picture of both the opportunities and challenges with regard to the further development of the Best Practice Principles and has provided the BPP Review Committee with a strong basis from which to draw conclusions and recommendations for the review and update of the Best Practice Principles in 2019.

Introduction to the Review Process

In October 2018, I was appointed Independent Review Chair of the Best Practice Principles for Shareholder Voting Research & Analysis (“BPP”), to finalize the Review of the operation of the Principles. I succeeded Chris Hodge, the 2017 Independent Review Chair, who conducted the first phase of the Review Process, which included outreach to key regulatory and market representative bodies and co-ordination of the 2017 Public Consultation process. As Independent Review Chair of the second phase, my remit focused specifically on finalizing the Review Process in a highly structured way, based on all of the inputs listed below. I chaired the structured 2019 Stakeholder Advisory Panels and June 2019 Stakeholder Preview Event, but I did not conduct any further ad hoc stakeholder engagement with individual stakeholders, to ensure complete consistency and objectivity in the Review Process.

This Independent Review Chair report details the structured Review Process, key discussion items and the final rationale behind each update to the reviewed Principles and Guidance as discussed within the BPP Review Committee. It refers to the latest updated stewardship codes globally¹, the requirements of the revised EU Shareholder Rights Directive II (“SRD II”) and 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”). It also refers to the input of investors, issuers and other stakeholders received through the public consultation by the BPPG (completed in December 2017) plus subsequent 2019 Stakeholder Advisory Panel members’ draft review and feedback.

As Independent Review Chair, I have followed through on the Review’s original objectives and I am confident that this final stage of the Review process has resulted in a thoroughly reviewed, globally applicable, updated set of Principles and Guidance (see Annex 1). In particular, this includes new governance, monitoring and reporting structures. In these, stakeholders can recognise the ambition of the Best Practice Principles Group (the “BPPG”) to act in accordance with the highest standards and to be transparent about their activities and policies.

As Independent Review Chair, I am particularly proud of how the current signatories to the Best Practice Principles, the current members of BPPG, worked together in this Review Process, on a voluntary and constructive basis. This involved respecting investor as well as issuer concerns plus differences in various service provider business models notwithstanding being competitors in their respective markets, in order to complete the review and update of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis. In a landscape that is increasingly complex, global in nature and challenging, I congratulate the BPPG on their achievements.

Dr. Daniëlle Melis MBA
Independent Review Chair BPPG

¹ See Appendix 5 of Annex 1

Summary of the Review Process

Following the publication of the ESMA Final Report and Feedback Statement on the Consultation Regarding the Role of the Proxy Advisory Industry in February 2013, a number of industry members formed a committee under the ESMA endorsed independent chairmanship of Prof. Dr. Dirk A. Zetzsche, LL.M. (Toronto), to develop an industry code of conduct. The “Best Practice Principles for Providers of Shareholder Voting Research & Analysis” were published in April 2014. In May 2014, the Report of the Chairman of the Best Practice Principles Group² was further published with the aim of making the committee’s work and discussions transparent, to facilitate the application of the provisions and enhance understanding of the reasoning behind their adoption. The report also aimed to enhance transparency and understanding on the functioning of Providers of Shareholder Voting Research & Analysis and their role in corporate governance, to assist in creating a more informed discussion.

In December 2015 ESMA produced a Follow-Up Report on the Development of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis (“2015 ESMA Follow-Up Report”). In the 2015 ESMA Follow-Up Report, it was emphasized that, “while the drafting of the BPP met ESMA’s governance expectations, the subsequent governance regarding the on-going functioning of the BPP after their publication was viewed less positively and constituted the main area for improvement”. The key concluding recommendation of the 2015 ESMA Follow-Up Report was that the BPPG would benefit from a clearer and more robust governance structure.

In April 2017, the BPPG Steering Group announced its intention to launch a Review of the operation of the Best Practice Principles for Shareholder Voting Research (the “Principles”). In order to gather the views of stakeholders, a public consultation was held at the end of 2017, and an advisory stakeholder panel was established to provide input to the preparation of the consultation document and any subsequent revisions to the Principles. The Review was to be overseen by the BPP Review Committee comprising representatives from the current signatory members to the Principles, and the Independent Review Chair, who was to be appointed following a formal nomination process³.

In April 2017 the BPPG appointed BPPG Independent Review Chair, Chris Hodge, who served in the role until June 2018 and completed the first phase of the Review Process, i.e. the public consultation phase. In October 2018, the BPPG appointed Dr. Danielle A.M. Melis MBA, to succeed Chris Hodge as the new Review Chair of the BPPG. The main task of the new Chair was to oversee the BPP Review Committee and coordinate and facilitate the second (drafting) phase of the Review process as outlined below.

The purpose of the Review was to:

- assess the implementation and content of the Best Practice Principles;
- ensure that they achieved the original objectives;
- identify where there was scope to improve practice and transparency; and
- ensure that the Principles would be capable of being applied in all markets for which voting research and analysis is provided, and by all providers of such services.

The original objectives of the BPPG in establishing the Principles were to:

- promote a greater understanding of the role of shareholder voting research providers in the voting decisions made by institutional investors;

² [2014 Report of the Chairman of the Best Practice Principles Group developing the Best Practice Principles for Shareholder Voting Research & Analysis](#)

³ See Annex 1 for the Terms of Reference for the Independent Review Chair nomination process.

- promote the integrity and efficiency of processes and controls related to the provision of these research services; and
- foster a robust management of any conflicts of interest.

The assessment involved consideration of:

- the structure and content of the Principles;
- the form and frequency of reporting against the Principles;
- the process and criteria for providers to become signatories; and
- the oversight arrangements for monitoring and reviewing the Principles

The Review was informed by:

- experience of implementing the Principles since they were introduced in 2014;
- the December 2015 report on the development and implementation of the Principles by the European Securities and Markets Authority;
- the revised EU Shareholder Rights Directive plus regulatory and stewardship code developments in other markets since the Principles were introduced;
- the views of investors, companies and other stakeholders through the 2017 Public Consultation; and
- 2017 & 2019 Stakeholder Advisory Panel draft reviews and feedback.

The Review Process was completed by June 2019 and resulted in:

1. Updated set of Principles (and guidance to the Principles)
2. Updated governance structure of BPPG (oversight and monitoring process)
3. Independent Review Chair Report

BPP Review Committee

| Independent Review Chairs | | |
|-------------------------------------|--|--|
| Dr. Danielle A.M. Melis (2018-2019) | Director | Aequinova |
| Chris Hodge (2017-2018) | Director | Governance Perspectives |
| Members | | |
| Loïc Dessaint | CEO | Proxinvest |
| Lorraine Kelly | Managing Director, Head of Governance Business | Institutional Shareholder Services Inc (ISS) |
| Alan MacDougall | CEO | PIRC |
| KT Rabin | CEO | Glass Lewis |
| Sarah Wilson | CEO | Minerva |
| Support Staff | | |
| Sarah Ball | Drafting support | ISS |
| Jennifer Thompson | Administrative support | Glass Lewis |

2019 BPP Stakeholder Advisory Panel Members

| | | |
|------------------------|------------------------------------|------------------------------------|
| Richard Gröttheim | CEO | AP7 |
| Jakob Skafte | Senior Analyst, ESG | ATP |
| Mirza Baig | Global Head of Governance | Aviva Investors |
| Geof Stapledon | Vice President Governance | BHP |
| Michael Herskovich | Head of Corporate Governance | BNP Paribas Asset Management |
| Matt Orsagh | Director, Capital Markets Policy | CFA Institute |
| Ken Bertsch | Executive Director | Council of Institutional Investors |
| Rients Abma | Executive Director | Eumedion |
| Lutgart Van den Berghe | Professor of Corporate Governance | Vlerick Business School |
| Carine Smith Ihenacho | Chief Corporate Governance Officer | NBIM |
| Francesco Chiappetta | Consultant, Corporate Governance | Pirelli & C. S.p.A |
| Paul Clark | Head of Stewardship | UBS Asset Management |

Key Takeaways the Review Addressed

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 management or avoidance;
- 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.

1.2 Discussion Items | Introduction

This section provides an overview of the discussions surrounding the items that were most debated during the BPP Review which resulted in the updated 2019 Best Practice Principles.

While the decisions on each of the items were taken by the BPPG members, the Independent Review Chair prioritized the transparency of the process, alignment of interest and a focus on common ground. The Independent Review Chair ensured that all BPPG Members were able to provide input to the decision-making process and asked for detailed reasoning for each decision taken by the BPPG members. This report makes these reasons available to the public. The Independent Review Chair also ensured that the following considerations were taken into account:

- the latest updated stewardship codes globally;
- the requirements of the revised EU Shareholder Rights Directive II;
- the ESMA 2015 Follow-Up Report;
- input of investors, issuers and other stakeholders received through the 2017 consultation;
- feedback from the 2019 BPP Review Stakeholder Advisory Panel.

In this section of the report, the discussion items are structured as follows:

Preamble & Governance

- 1.1 Scope & Definitions
- 1.2 Delineating Responsibilities
- 1.3 Governance of the Best Practice Principles
- 1.4 General Approach, Contents & Application of the Principles

Best Practice Principles & Guidance Updates

- 1.5 Principle One & Guidance: Service Quality
- 1.6 Principle Two & Guidance: Conflicts of interest Management or Avoidance
- 1.7 Principle Three & Guidance: Communications Policy

Concluding Discussion Items

- 1.8 Areas for Future Development

Discussion Items | Preamble & Governance

1.1 Scope & Definitions

The 2019 Principles have been developed to be applied by providers of shareholder voting research and analysis globally, even though the Principles were originally conceived as a soft-regulatory signatory mechanism in the European Union (“EU”). This was the preferred approach of the BPP Review Committee, consistent with the 2017 public consultation feedback. Four fifths of survey respondents indicated it would be beneficial to have a set of Principles that are capable of being applied in all markets ([see Annex 2B Figure 6](#)).

When the Principles were originally published in 2014, there was no legal definition of ‘proxy advice’. The new SRD II Article 1 now refers to a short, relatively narrow definition of “proxy advisor”, as a “legal person that analyses, on a professional and commercial basis, the corporate disclosure and, where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights.”

The Principles have been updated with SRD II compliance in mind for those entities (and current BPPG signatories) which fall under this definition and therefore have a legal obligation to apply a code of conduct. The Committee decided that the Principles should nevertheless retain the original broader Scope beyond this definition, in order for a wider range of potential signatories to consider voluntary adoption of the Principles as a code of conduct.

This approach accommodates the 2017 consultation responses which indicated a preference for retaining a broader Scope ([see Annex 2B Figure 7](#)). The consultation survey results overall were inconclusive, but there was some support for the Principles retaining a Scope which included governance engagement services (40 responses), ESG advisory services and indices (30) and vote processing and confirmation (30). Against that, some consultation respondents felt strongly that the Scope should be limited to proxy advisors and in particular that proxy advisors should not be allowed to provide additional ESG advisory services, seeing them as conflicts of interest. It should also be noted that, none of the service providers that fall into these broader categories responded to the 2017 public consultation, with the exception of one service provider which provides governance engagement services.

The 2015 ESMA Follow-Up Report highlighted that the comply-or-explain principle on which the Principles are based allows for tailored implementation based on each BPP Signatory’s characteristics. Therefore, entities that fall partially under the definition of the Principles should be able to – and are encouraged to – apply the Principles to the appropriate extent. As a corollary, however, and to promote application of the Principles as a global code of conduct, the BPPG has committed to the introduction of a ratification process for BPP Signatories that will be governed by the new BPP Oversight Committee⁴. Irrespective of the type of services used to support ownership and voting activities, these Principles are based on the understanding that the ultimate responsibility to monitor investments and make voting decisions lies with investors, further discussion of which is in the next section 1.2 Delineating Responsibilities.

⁴ See 1.4 Governance of the Best Practice Principles

1.2 Delineating Responsibilities

One of the key areas of focus in the policy discussion related to the Principles 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. These are frequently cited in academic literature as fact and are also evident in some of the 2017 BPP consultation feedback.

Several 2017 consultation respondents provided [qualitative feedback](#) which cited specific examples of sub-optimal investor practice. One respondent suggested that in any revision of the Principles, it "would like to see an acceptance that, where the investor has for all practical purposes delegated the management of engagement and voting to a signatory company, BPP signatories will adhere to the same obligations and responsibilities (as set out for example in the case of the UK, in the FRC's [2012] UK Stewardship Code) that would attach to the underlying investor".

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, which are listed as BPP Review inputs [here](#), 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.

Therefore a key priority for the BPP Review Committee has been to ensure that any 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. The BPP Review Committee does not intend to develop updates to the Principles which try to correct the level of compliance exercised by investors in this regard.

The issue of delineating responsibilities was also discussed with the 2019 Stakeholder Advisory Panel which provided a range of feedback. One advisory panel member suggested that to redress the market perception that too much power rests with proxy advisors, Principle 1: Service Quality could include disclosure requirements for proxy advisers regarding the number of clients (or AUM represented) which follow their vote recommendations versus those that do not. Another advisory panel member strongly disagreed with this suggestion, insisting that it should be investor-level disclosure in line with SRD II rather than a requirement for proxy advisors. On a separate but related point, another advisory panel member suggested better proxy advisor disclosure with regard to how investors' feedback is taken into account in the proxy advisor's policies would help educate issuers that proxy advisors' policies are based on investor views. A further suggestion was for proxy advisors also to disclose the proportion of clients taking custom policies. The BPP Review Committee all strongly agreed with the sentiment that further transparency would help inform the market but felt that highly prescriptive metrics would not accommodate the diversity of proxy advisors' business models and how their investor clients choose to use their services, which SRD II requires investors themselves to disclose. The BPP Review Committee ultimately agreed to update Principle One Guidance: 5b) BPP Signatory Policies with a further requirement for Signatories to explain how and to what extent clients may customize their voting policies using the Signatories' services, without disclosing proprietary or client specific information.

1.3 Governance of the Best Practice Principles

The introduction of new governance arrangements was a key recommendation from the 2015 ESMA Follow-Up Report, which noted in its conclusion that, “... while the process surrounding the drafting of the BPP met ESMA’s governance expectations, the governance to date regarding the ongoing functioning of the Principles after their publication is viewed less positively and constitutes the main area in which ESMA encourages the industry group to take further steps.”

In response, the BPP Review Committee has established three new governance arrangements:

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

The new governance structure is complementary to the requirements set out in SRD II (for example, the new annual reporting arrangements), as well as stewardship developments in other markets globally, since the Principles were introduced.

The introduction of new governance arrangements was also supported by investors, companies and other stakeholders alike in the 2017 Public Consultation, with a high proportion of respondents in favour of an oversight body including members independent of the sector, as well as independent monitoring arrangements ([see Annex 2B Figure 17](#)). The BPP Review Committee also drew on the helpful, constructive suggestions made by both corporate and investor representative bodies highlighted in [Dr Tilba’s qualitative study](#).

The 2019 BPP Review Stakeholder Advisory Panel as well as those market constituents present at the Preview Event were extremely positive regarding the BPPG’s introduction of the new governance structure. The panel particularly liked the representation of both investors as well as issuers plus the independent (academic) members in the BPP Oversight Committee. The panel highlighted that further specification should be provided on which types of representatives should be part of the BPP Oversight Committee to reflect different models of governance and how representative they are across the world. The introduction of independent monitoring of BPP Signatories’ annual Statements of Compliance, was commended as a further positive governance measure.

BPP Oversight Committee Terms of Reference

The BPPG has established the BPP Oversight Committee to provide an annual independent review of the monitoring of the Best Practice Principles and the public reporting of each BPP Signatory. The BPP Oversight Committee’s governance aims to provide:

- confidence in the Principles that underpin the services provided by BPP Signatories;
- guidance and advice to the BPPG with respect to the operation and development of the Principles.

The current BPP Signatories and any potential future BPP Signatories are not eligible for membership of the BPP Oversight Committee. BPP Signatories are expected to co-operate with the BPP Oversight Committee, consistent with applicable contractual and legal requirements.

BPP Oversight Committee Scope & Responsibilities

- Independent, annual reviews of each BPP Signatory's Public Statement of Compliance, in order to identify matters considered to require further BPP Signatory action or clarification.
- 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.
- Oversight of the complaints-management procedure of the BPPG, including monitoring of outcomes of those procedures.
- Management of an annual open forum for investors, companies and other interested stakeholders for education, questions and feedback on the Principles.
- Review and administration of suggested minor updates to the Principles outside of the periodic major reviews and updates.
- Monitoring of progress and impact of the Principles.
- Development and publication of an annual report summarizing the activities and findings of the BPP Oversight Committee, which will be published on the website of the Best Practice Principles Group.

BPP Oversight Committee Structure and Membership

| Role | Description | Time Period |
|-----------------------------|--|---|
| Independent Chair | Chair to be completely independent of BPPG members and BPP Signatories | 2-year term |
| Oversight Committee Members | 11 members in total: 6 institutional investor/representative bodies 3 companies/representative bodies 2 independent (e.g. academic) | 2- or 1-year terms as below 4 x 2-year term; 2 x 1-year term 1 x 2-year term; 2 x 1-year term 1 x 2-year term; 1 x 1-year term |
| Observers | Offer observer status to appropriate interested regulators | Meeting by meeting basis |
| Administration | Support to be provided by the BPPG Members | Ongoing |

The BPP Oversight Committee shall be comprised of an Independent Chair and Committee Members (not the current or future signatories to the Principles) with a diverse mix of skills, backgrounds, knowledge, experience and geographic locations. The 2019 Stakeholder Advisory Panel highlighted that representation of investors is of primary importance and, for this reason, six of the eleven members will be drawn from investor/investor representative bodies. The 2019 Stakeholder Advisory Panel also highlighted the need for representativeness of investor members overall membership should reflect different investment styles (e.g. active vs. passive) and geographic regions (at least one member from each of the Americas, EMEA and AsiaPac). The BPP Review Committee based on both the feedback from the 2017 Public Consultation, as well as the 2019 Stakeholder Advisory Panel, also agreed on the importance of issuer representation on the BPP Oversight Committee.

Individual Signatory Compliance

- The BPP Oversight Committee will write to an individual BPP Signatory when a need for progress is identified. Initially, this communication will be done on a confidential basis to enable the BPP Signatory to address the issue over a specified period of time that may vary in accordance with the severity of the issue but should generally not exceed one year.
- After the prescribed period, if the BPP Signatory has not addressed the issue in a satisfactory manner, the Oversight Committee will discuss appropriate next steps with other BPPG members, up to and including the ultimate sanction of ending the BPP Signatory status and BPPG membership.

Monitoring

- Each BPP Signatory's application and disclosure will be monitored on an annual basis, based on the public Statements of Compliance. Monitoring may be conducted by independent members or third parties assigned by the BPP Oversight Committee; and the results of the monitoring will be reported in an annual report by the BPP Oversight Committee to be published on the BPPG website.

Nomination and Election

- BPP Oversight Committee member vacancies, including the BPP Oversight Committee Independent Chair, shall be advertised on the BPPG website and in other appropriate media. Upon inception of the BPP Oversight Committee, BPPG members will appoint the BPP Oversight Committee Independent Chair in advance of the BPP Oversight Committee members. BPPG members shall consider the nominations received and determine a "long list" of suitable candidates from the nominations. The Independent Chair and existing BPP Oversight Committee members shall then deliberate, taking into account the expertise and other requirements needed, to create a "short list" of candidates for the BPPG members to vote on. For the initial appointments of the BPP Oversight Committee Members upon inception of the BPP Oversight Committee, BPPG members will undertake this process, with input from the BPP Oversight Committee Independent Chair.
- In the case of the initial appointment of the BPP Oversight Committee Independent Chair, BPPG members will put forward a "short list" of up to five independent, qualified candidates, with a minimum of two candidates. Candidates will be voted on individually by BPPG members and must receive unanimous support from BPPG members in order to be elected. In the case of the initial appointments to the BPP Oversight Committee (up to eleven Member vacancies, excluding the Chair), the short list shall be for up to thirty-three short-list candidates. To fill future vacancies, the short list shall comprise up to three candidates for each role to be filled, with a minimum of two candidates per vacancy. Upon inception of the BPP Oversight Committee, short-list candidates proposed by the Independent Review Chair shall be voted on by BPPG members and must receive unanimous support from BPPG members in order to be elected.

These terms of reference will be reviewed and developed by the BPP Oversight Committee, once members have been appointed in 2H 2019 (see Section 1.8 Areas for Future Development).

1.4 General Approach, Contents & Application of the Principles

In terms of general approach, the BPP Review Committee decided to retain the structure of the three original Principles. However, as a corollary, the Committee augmented the contents to update the Principles to be more specific and/or stringent in certain areas, in line with SRD II and in response to other Review guidance and feedback. A discussion of how the contents of the 2019 Principles & Guidance updates have been augmented and the specific rationale for each change is detailed in Sections 1.5 -1.7.

The Committee also took the decision to update the ‘Comply-or-Explain’ disclosure approach, to an ‘Apply-and-Explain’ approach, which means that applying the Principles is assumed and Signatories now need to explain how they have implemented the practices to pursue the Principles and outcomes, in the context of their particular business models. This was deemed a progressive, balanced response in light of somewhat divergent feedback from the 2017 Public Consultation and other Review inputs. Over seventy percent of survey respondents supported the ‘Comply-or-Explain’ framework for the Principles ([see Annex 2B Figure 8](#)). The qualitative responses were split nearly 50/50 where twenty-five references were made about the positive impact of the BPP on proxy advisor practices, with the majority of those respondents supporting the ‘Comply-or-Explain’ framework for the Principles, but also noting that the application of these Principles could still be improved. There were twenty-six references, which heavily criticized the BPP’s effectiveness. Some consultation respondents believed that the ‘Comply-or-Explain’ parts of the Principles were not very demanding, being phrased in a way that nobody would ever need to explain, with the result that the Principles in effect, were just a set of disclosure requirements. Some other consultation respondents went even further and demanded non-discretionary rules of conduct.

However, the 2015 ESMA Follow-Up Report cautioned against a uniform application of the Principles across the industry as being undesirable, as it would limit the diversity of business models and pro-competition approach to the provision of services. The 2019 BPP Review Stakeholder Advisory Panel noted the need for flexibility with regard to business models but highlighted that a stronger “Apply and Explain” model for the Principles themselves should be inferred from SRD II Article 3j and if signatories depart from any of the Principles’ Recommendations, they should properly explain how they do so. Furthermore, the 2019 Stakeholder Advisory Panel noted that the new annual reporting, governance and monitoring structures being introduced would further reinforce the stringency of requirements on Signatories. The key areas of the Principles not subject to Signatory discretion, relevant to Signatories’ core commitments, were retained and updated in line with SRD II:

- Signatories assist investors in exercising their rights and, as such, investor interests must be paramount at all times;
- Proxy solicitation for any specific industry grouping or shareholder proponent is not in line with industry best practice; and,
- Signatories must have public policies regarding their research methodologies; avoidance, disclosure and management of conflicts of interest; and communication with parties other than clients, in which they explain their approach to the Principles and Guidance provided in the Principles.

A detailed discussion of how the contents of the 2019 Principles & Guidance updates have been augmented and the specific rationale for each change is in the following sections 1.5 -1.7.

2019 Best Practice Principles Updates

1.5 Principle One & Guidance: Service Quality

2019 BPP Updates | Principle One: Service Quality

BPP Signatories provide services that are delivered in accordance with agreed-upon investor client specifications. BPP Signatories should have and publicly disclose their research methodology and, if applicable, “house” voting policies. BPP Signatories’ disclosure will include:

- *essential features of the methodologies and models they apply;*
- *main information sources they use;*
- *procedures put in place to ensure the quality of the research, advice and voting;*
- *experience and qualifications of the staff involved;*
- *whether and, if so, how, BPP Signatories take national market, legal, regulatory and company-specific conditions into account; how this relates to global standards of corporate governance and investor stewardship frameworks;*
- *essential features of any house voting policies BPP Signatories apply for each market (client-specific custom policies will not be disclosed);*
- *how BPP Signatories alert clients to any material factual errors or revisions to research, analysis or voting recommendations after research publication.*

This Principle has been updated with verbatim text from SRD II. The final additional bullet has been added in response to corporate feedback from the 2017 Public Consultation which is discussed on page 17.

Overall, the 2017 Public Consultation survey responses showed a difference in view between investors and some companies with regard to perceptions of the quality of proxy advisors’ research. Over four fifths of investor survey respondents considered that the ‘service quality’ principle deals adequately with the various service commitments that they expect ([see Annex 2B Figure 10](#)).

When all market constituents were asked to rate how informative signatories’ descriptions of their research methodologies are, including how they ensure that the research is reliable, investors consistently gave higher ratings than companies, with US investors giving the highest average rating (4.6 out of 5) and French companies giving the lowest average rating of all (0.5 out of 5) ([see Annex 2B Figure 11a-d](#)). [Qualitative consultation feedback](#) suggests this is due to divergence between local standards and the country-specific guidelines of some BPP Signatories which the BPP Review Committee believes is a necessary flexibility. The discretion to recommend votes against local standards forms an integral part of the services Signatories offer to their clients because this is what investors request, whether as part of house or custom policies. The reasons for divergence may reflect the difference between local standards and international corporate governance standards, for example the ICGN guidelines or OECD principles, or may be necessary to protect or enhance investors’ rights in that respective country.

2019 BPP Updates | Principle One Guidance: 3. Quality of Research

- a) *Shareholder voting research and analysis should be relevant, based on accurate information and reviewed by appropriate personnel prior to publication.*
- b) *BPP Signatories should be able to demonstrate to their clients that their reports, analyses, guidance and/or recommendations are prepared to a standard that can be substantiated as reasonable and adequate.*
- c) *BPP Signatories should have systems and controls in place to reasonably ensure the reliability of the information used in the research process. BPP Signatories should disclose to what extent issuers have the opportunity to verify, review or comment on the information used in research reports, analysis or guidance.*

An update has been made to the Principle One Guidance section under 3. *Quality of Research*, specifying that BPP Signatories should disclose to what extent issuers have the opportunity to verify, review or comment on the information used in research reports, analysis or guidance (given that BPP Signatories all have different operating models). This has been added in response to feedback from the 2017 Public Consultation plus input from the 2019 BPP Stakeholder Advisory Panel, which was originally provided in the context of Principle 3: Communications Policy. Many companies strongly advocated that there should be a mandatory requirement for all proxy advisors to allow companies to comment on the accuracy of research reports *before* being finalized, which is the current practice of some proxy advisors, in some markets. Investors responses to the survey were divided on this issue ([see Annex 2B: Figure 15](#)) with the largest number of respondents stating they believed companies had other opportunities to explain their case to investors and they do not need another one. The BPP Review Committee took the decision to include a high-level requirement to accommodate the diversity of proxy advisors' business models with regard to allowing issuers to verify, review or comment on research, either before or after research publication. It supplemented this approach with a further update in the final bullet of Principle One (on page 16) requiring Signatories to disclose how they alert clients to any material factual errors or revisions to research, analysis or voting recommendations after research publication.

2019 BPP Updates | Principle One Guidance: 5b) BPP Signatory Policies

- vii) BPP Signatories should explain how and to what extent clients may customise their voting policies using the Signatories' services, without disclosing proprietary information. BPP Signatories are not responsible for disclosing client corporate governance policies or voting guidelines and may have contractual obligations that preclude them from discussing any aspect of their client relationships, voting guidelines or intentions.

The update above to the Principle One Guidance section under 5b) BPP Signatory Policies vii), requires BPP Signatories to explain how and to what extent investor clients may customize their voting policies. This is in response to 2019 BPP Stakeholder Advisory Panel feedback that transparency would help inform the market discussed in Section 1.2 Delineating Responsibilities. It should also be noted that the 2019 Principles are based on the understanding that the ultimate responsibility to monitor investments and make voting decisions lies with investors, irrespective of the type of voting policies taken. Stakeholders wishing to understand how an institutional investor discharges its stewardship or ownership responsibilities should consult relevant disclosures of the investor to understand its approach.

1.6 Principle Two & Guidance: Conflicts of Interest Avoidance or Management

2019 BPP Updates | Principle Two: Conflicts-of-Interest Avoidance or Management

BPP Signatories' primary mission is to serve investors. BPP Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for avoiding or addressing potential or actual conflicts of interest that may arise in connection with the provision of services.

In addition to disclosing their general policy, BPP Signatories should also have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations and the actions they have undertaken to eliminate, mitigate and manage actual or potential conflicts of interest.

This Principle has 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 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 updated "Apply and Explain" approach for BPP Signatories to follow in light article of SRD II Article 3j in relation to the Principles.

The 2017 Public Consultation showed a big difference in view between companies and investors ([see Annex 2B Figure 12](#)), with the former wanting some specific conflicts eliminated⁵, such as Signatories providing services to both investors and issuers, and the latter content that conflicts should be effectively managed and disclosed, with most being satisfied with the information they receive on this from their service providers ([see Annex 2B Figure 13](#)).

As of July 2019, there is no legal basis on which to prohibit Signatories from providing services to both investors and issuers. The reference from a corporate representative body in the qualitative consultation feedback to the Swiss Stock Exchange concluding there is a need to regulate, is no longer the case. The Exchange ultimately decided against proposing such regulation.

The BPP Review Committee carefully discussed this topic and it was also raised by the 2019 Stakeholder Advisory Panel, noting the importance in SRD II of both preventing and managing conflicts of interest. In order to respect the different business models of the current Signatories whilst acknowledging the importance of this matter, this Principle was changed accordingly.

⁵ [See also Dr. Anna Tilba Report](#)

2019 BPP Updates | Principle Two Guidance: 5. Conflict Disclosure

In addition to disclosing their general policy, in line with SRD II, BPP Signatories also should have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations, as well as the actions they have undertaken to eliminate, mitigate or manage the actual or potential conflict of interest.

a) If a BPP Signatory becomes aware of a material conflict of interest, that is not otherwise addressed in its general policies, the BPP Signatory should:

- Disclose the conflict to the relevant client(s) without undue delay before or at the same time the service is delivered, subject to contractual arrangements;*
- Provide the relevant client(s) with research from an unconflicted proxy advisor for the relevant meeting; or*
- Manage the conflict as further detailed in the BPP Signatory's conflicts-of-interest policy.*

The update above to the Principle Two Guidance section under 5. *Conflict Disclosure* specifies how BPP Signatories should disclose and manage actual conflicts on a case-by-case basis. This responds to SRD II requirements and also to the 2019 Stakeholder Advisory Panel which specifically noted that most BPPG members already provide clients with research from an unconflicted proxy advisor in the event of a conflicted situation occurring, therefore this should formally be included in the Guidance.

1.7 Principle Three & Guidance: Communications Policy

2019 BPP Updates | Principle Three: Communications Policy

BPP Signatories' primary mission is to serve investors. BPP Signatories should provide high-quality research that enables investor clients to review the research and/or analysis sufficiently in advance of the vote deadline ahead of a company meeting. This primary accountability to investors should remain the key priority for BPP Signatories when applying Principle Three.

With regard to the delivery of Services, BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public. BPP Signatories should disclose a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders. BPP Signatories should inform clients about the nature of any dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.

This Principle has been updated with an introductory paragraph to address investor concerns raised in the 2017 Public Consultation. Investors believe they should be in a position to review the research and/or analysis sufficiently in advance of the vote deadline ahead of a general meeting and that this should remain the key priority for BPP Signatories when applying Principle Three ([see Annex 2B Figure 15](#)). The 2019 Stakeholder Panel Advisory Panel agreed with this update in line with delineating responsibilities and empowering investors.

The BPP Review Committee also reviewed the wording in the Principle Three Guidance section 2. in light of feedback from the 2017 Public Consultation and 2019 Stakeholder Advisory Panel. BPP Signatories' policy (or policies) for dialogue should still include dialogue with shareholder proponents ([see Annex B Qualitative Feedback](#)) and BPP Signatories may include informing clients of any changes made to their research or analysis as a result of any dialogue. An addition of the details of any year-round mechanisms for dialogue with relevant parties was an additional update, also in response to the 2017 consultation feedback ([see Annex B Qualitative Feedback](#)).

2019 BPP Updates | Principle Three Guidance: 2. Dialogue with Issuers, Shareholder Proponents & Other Stakeholders

- a) *BPP Signatories should have a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders.*
- b) *BPP Signatories should communicate to clients in their research reports the nature of any dialogue with relevant parties, which may also include informing clients of any changes made to their research or analysis as a result of that dialogue.*
- c) *The policy on dialogue should cover issues including, but not limited to:*
 - *The circumstances under which such dialogue could occur;*
 - *Details of any year-round mechanisms for dialogue with relevant parties;*
 - *[...]*

1.8 Areas for Future Development

There are two main areas for future development which the 2019 BPP Review Committee discussed and decided it would be appropriate for the BPPG members, and/or the new BPP Oversight Committee to consider further, to implement as appropriate.

Further development of terms of reference

The first area is the development of further formal processes with terms of reference for BPP Signatories, including the terms of reference for the BPP Oversight Committee and the ratification process for both existing and new Signatories, covering mandatory requirements. These will range from structural elements such as the precise annual cycle through which reporting will be completed by a Signatory, to administrative elements such as the payment of the annual Signatory fee to cover governance and monitoring costs. Conversely, the precise criteria and process for the BPP Oversight Committee to ratify or sanction a signatory, ending BPP Signatory status and BPPG membership, also needs to be developed in further detail by the newly established BPP Oversight Committee.

Of note, all current BPP Signatories are also founding members of the BPPG and have hitherto shared executive responsibility for the BPPG. Going forward, particularly if a number of new Signatories wish to join, this arrangement needs to be reviewed and a new structure potentially implemented.

Future Review

The second main area is the timeframe and structure for periodic major Review, beyond the annual review and administration of minor updates to the Principles, which the BPP Oversight Committee is responsible for. Article 3k of SRD II states that, "... the Commission shall, in close cooperation with ESMA, submit a report to the European Parliament and to the Council on the implementation of Article 3j, including the appropriateness of its scope of application and its effectiveness and the assessment of the need for establishing regulatory requirements for proxy advisors, taking into account relevant Union and international market developments. The report shall be published by 10 June 2023 and shall be accompanied, if appropriate, by legislative proposals."

The BPP Oversight Committee therefore needs to decide on the appropriate timeframe and mechanism through which to Review the overall effectiveness of the BPPG as a governance structure, ahead of the Commission and ESMA's 2023 deadline. If the agreed BPPG major Review mechanism is to involve some or all members of the BPP Oversight Committee, further terms of reference will need to be developed by 2021, in order to be incorporated in new 2-year contracts.

Annex 1

Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019

Review and Update of the Best Practice Principles for Providers of Shareholder Voting Research & Analysis

by The Review Committee - Best Practices Principles Group

Publication Date: July 2019

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Acronyms and Definitions Used

BPP or The Principles refer to the Best Practice Principles for Providers of Shareholder Voting Research and Analysis

BPPG refers to Best Practice Principles Group for Providers of Shareholder Voting Research and Analysis

BPP Oversight Committee refers to the governing body providing an annual independent review of the monitoring of the Best Practice Principles and the public reporting of each BPP Signatory

BPP Review Committee comprises the current BPPG members and Independent Review Chair

BPP Signatories refers to all ratified signatories to the Best Practice Principles

ESMA refers to the European Securities and Markets Authority

General Meeting refers to a meeting of a company's shareholders whether an Annual General Meeting or Extraordinary General Meeting

SRD II refers to the EU Shareholder Rights Directive II

Part One: Preamble

Executive Summary

These reviewed *Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019* (“Principles”) are the result of a thorough review process by the Best Practice Principles Group (“BPPG”) which refers to the latest updated stewardship codes globally¹, the requirements of the revised EU Shareholder Rights Directive II (“SRD II”) and 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”). It also refers to the input of investors, issuers and other stakeholders received through a public consultation by the BPPG (completed in December 2017) and a review by the BPP Review Committee chaired by an independent review chair. These 2019 Principles replace the original 2014 Principles.

2019 Best Practice Principles Key Updates

- **New Governance Oversight Arrangements**
- **New Reporting Arrangements**
- **New Monitoring Arrangements**
- **Updated Principles and Guidance**

In an increasingly complicated investment landscape, investors often choose to engage the services of data and analytics providers and other research providers to support their investment-related activities. Providers of shareholder voting research and analysis provide important research and analysis services to support investors in exercising one of their most important stewardship responsibilities and shareholder rights, that of casting informed votes at a company's annual general or special meeting.

The BPPG aims to educate global stakeholders about the role and key features of shareholder voting research and analysis service providers within the investment process; to advocate for the interests of research service users and providers worldwide; and to encourage high industry standards of good practice, independence and transparency. In working with regulators, market participants and other representative bodies, the BPPG promotes sound practices in the shareholder voting research and analysis industry that serve the needs of investors and, as such, strengthen the capital markets.

The standards contained in the Principles not only ensure the availability of high-quality research and the integrity of the business practices of BPPG members, but also to foster improvement, innovation and vigorous competition within the industry. BPPG members are committed to abiding by the antitrust and competition laws of all jurisdictions in which they operate. Nothing in these Principles is a substitute for adherence to relevant laws and market regulations.

¹ See Appendix 5 page 30

Purpose

The purpose of the Principles is to complement applicable legislation, regulation and other soft-law instruments and contribute to a greater understanding among investors, issuers and other stakeholders about:

- the nature and character of shareholder voting research and analysis services;
- the standards of conduct that are required to underpin those services;
- how signatories to the Principles (“BPP Signatories”) interact with other market participants.

Scope

The Principles have been developed to be applied by providers of shareholder voting research and analysis globally, even though the Principles were originally conceived as a soft-regulatory mechanism in the European Union (“EU”). Of note, although the new *SRD II Article 1* refers to a short, relatively narrow definition of “proxy advisor”, the scope of the Principles is broader than this definition. The 2015 ESMA Follow-Up Report highlighted that the comply-or-explain principle on which the Principles are based, allows for tailored implementation based on each BPP Signatory’s characteristics. Therefore, entities that fall partially under the definition of the Principles should be able to – and are encouraged to – apply the Principles to the appropriate extent. As a corollary, however, and to promote application of the Principles as a global code of conduct, the BPPG will put in place a process for ratifying BPP Signatories that is governed by the Principles’ Oversight Committee body (see “Part Four: Governance of the Best Practice Principles”).

The Principles apply to providers of shareholder voting research and analysis. BPP Signatories provide services associated with the provision of shareholder voting research and analysis. In addition to promoting the integrity and efficiency of processes and controls related to the provision of such services, the Principles are intended to foster greater understanding of the role of service providers in facilitating the voting decisions made by institutional investors (i.e., asset owners and fund managers). New BPP Signatories beyond members of the BPPG are encouraged to adopt the Principles.

The Principles are based on the notion that investors have a number of important ownership rights, one of which is the right to vote at general meetings. Voting is a key right of investors, whose effective discharge may also be a fiduciary responsibility. As with many other parts of the investment process, investors need access to information and administration tools that support them in the discharge of their responsibilities. BPP Signatories provide a range of professional services designed to assist investors in the discharge of their rights and responsibilities. In the spirit of the apply-or-explain framework², the Principles set forth here are designed to facilitate transparency and assist BPP Signatories’ conduct in discharging their responsibilities toward their clients.

² See Part Two: Applying the Best Practice Principles page 9

These Principles have been developed with the following considerations in mind:

- The services are an efficient way of managing the logistical complexities associated with analysing and interpreting company disclosures, as well as ensuring and managing the operational aspects of shareholder voting;
- Clients may use one or more services that support and complement their own in-house research and voting activities;
- Clients may, themselves, be subject to a variety of rules and regulations in relation to asset ownership and oversight;
- BPP Signatories' underlying clients are responsible for their own compliance procedures;
- BPP Signatories operate within the framework provided by applicable law, including those governing company law, contract law and client confidentiality and data protection, as well as securities laws associated with market abuse and insider trading;
- Nothing in these Principles is a substitute for adherence to relevant laws and market regulations.

Irrespective of the type of services used to support ownership and voting activities, these Principles are based on the understanding that the ultimate responsibility to monitor investments and make voting decisions lies with investors. The use of third-party services – such as those provided by BPP Signatories that deliver high-quality support, thought-leadership, expertise and insight – does not shift this responsibility or relieve investors from any fiduciary duty owed to their clients. Stakeholders wishing to understand how an institutional investor discharges its stewardship or ownership responsibilities should consult relevant disclosures of the investor to understand its approach. This includes how the investor takes national market, legal, regulatory and company-specific conditions into account and how this relates to global standards of corporate governance and investor stewardship frameworks.

Contents of the Principles

The Principles are not a rigid set of prescriptive rules; rather they consist of a set of Principles and accompanying Guidance. The Principles describe a code of conduct for providers of shareholder voting research and analysis. Not all BPP Signatories offer the same services in the same way. The way in which the Principles are applied should be the central question for each Signatory as it determines how to apply these Principles. The Guidance recommends how the Principles are to be applied (see Appendix 1). The Principles may be regarded as reflecting widely-held and accepted general views on how providers of shareholder voting research and analysis contribute to the roles and responsibilities of investors and issuers in fostering effective stewardship and robust corporate governance and ensuring efficient markets.

BPP Signatories may depart from these Principles and Guidance, provided they give reasons for doing so. The conditions for departures are explained below in the section titled “Compliance with the Principles”³

³ See Part Two: Applying the Best Practice Principles page 9

Definitions

As highlighted in the earlier Scope section (see page 5), SRD II Article 1 applies a relatively narrow definition of the type of service provider. According to SRD II, the term “proxy advisor” refers to a legal person that analyses, on a professional and commercial basis, the corporate disclosure and, where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights.’

Although the Principles include this definition, they also include broader definitions in line with the 2015 ESMA Follow-Up Report⁴.

Services

To better understand the relevance and application of the Principles, it is important to understand the different types of services BPP Signatories provide. The key objective of BPP Signatories is to support institutional investors in the exercise of their ownership rights and responsibilities through the provision of value-added services. Services may be provided on a commercial, not-for-profit or membership basis.

Shareholder Voting Research & Analysis

BPP Signatories analyze the corporate disclosures of listed companies with a view to informing investor voting decisions. Services include the provision of research, advice or voting recommendations that relate specifically to the exercise of voting rights. The services may exhibit one or more of the following characteristics:

- Data and analysis
- Company-specific research, advice or opinions
- ESG Assessment or Ratings⁵
- Policy guidance
- Voting recommendations
- Alerts, bulletins and newsletters

Depending on the services subscribed to, the services may yield different results for different clients. This is because governance and ownership policies and preferences will vary from organisation to organization.

Note: Unless otherwise stated or disclosed, BPP Signatories do not act on behalf of any particular shareholder or group of shareholders that is trying to influence how other shareholders vote. Similarly, BPP Signatories do not act on behalf of an issuer that is trying to secure votes from its shareholders.

Vote agency and/or engagement and governance overlay services

In addition to shareholder voting research and analysis services, BPP Signatories may also provide other services, such as vote agency and/or engagement and governance overlay services.

⁴ ESMA 2015 Follow-Up Report on the Development of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis Page 11

⁵ Per para (20) Regulation (EC) No 1060/2009 “ESG Ratings” do not constitute Credit Ratings

- **Vote Agency:** A voting agent provides shareholder vote execution services, whereby the voting agent is responsible for some or all of the logistical and operational activities associated with transmitting instructions from the institutional investor to the company meeting, as well as record-keeping and reporting activities. Votes may be transmitted to the meeting directly (including personal attendance) or through a chain of operational intermediaries, depending on regulatory or market specificities in each relevant jurisdiction.
- **Engagement & Governance Overlay Services:** Engagement services are defined as undertaking contact and engagement with issuers on behalf of an investor or group of investors with a view to asking the company in question to amend aspects of its governance.

Overlay services are defined as the provision of fully outsourced governance engagement and voting services to institutional investors. Vote agency, engagement and governance overlay service providers may provide shareholder voting research, recommendations and analysis as part of their service. Where this is the case, the provisions of these Principles apply to the shareholder voting research and analysis services they offer, either on a standalone basis or in conjunction with other services. The particularities of vote agency and engagement services are not addressed by these Principles.

Note: Unless otherwise stated, disclosed or addressed by these Principles, BPP Signatories act under the direct instruction of their investor clients and do not cast votes without their authority.

Part Two: Applying the Best Practice Principles

Apply and explain

The new Principles operate on an “apply and explain” basis, in line with SRD II. This enables each Signatory to explain how the Principles relate to their specific circumstances and business model.

Meaningful, relevant and detailed explanations

BPP Signatories that choose not to apply one of the Principles, or choose not to follow the Guidance, should deliver meaningful, relevant and detailed explanations that enable the reader to understand their approach. The explanations should be substantiated and adapted to the Signatory’s particular situation and should convincingly indicate why a specific aspect justifies a departure from a Principle or the Guidance. The explanations provided should state what alternative provisions have been made, if applicable. If a Signatory intends, at a later stage, to apply a Principle from which it has provisionally deviated, it should state when this temporary situation will come to an end.

Public Statement of Compliance

Each BPP Signatory should publish its annual Statement of Compliance with the Principles (“Statement of Compliance”) on its own website, and via a link to the BPPG’s independent website. If they so choose, BPP Signatories may also wish to issue their Statement of Compliance via other publicly-accessible sources. Furthermore, ESMA displays on its website a list of entities that have advised ESMA that they are BPP Signatories together with a link to the independent BPPG website.

The Public Statement of Compliance should:

- Describe in a meaningful way how the BPP Signatory applies the Principles and related Guidance;
- Disclose any specific information set out in the supporting Guidance;
- Where any of the Principles have not been applied or relevant information has not been disclosed, provide a reasoned explanation as to why.

Annual Update of the Statement of Compliance

In line with the requirements of the SRD II, each BPP Signatory is responsible for updating its Statement of Compliance on an annual basis and for ensuring that the statement is publicly available on the Signatory’s corporate website. Access to a BPP Signatory’s Statement of Compliance must remain available, free of charge, for at least three years from its publication date.

Material Non-compliance

The complaints procedure is detailed on the BPPG website here: <https://bppgrp.info/the-principles/complaints-feedback/> and all complaints will be considered as part of the BPP Oversight Committee’s annual review process (see page 14).

Part Three: The Best Practice Principles

The Principles for Providers of Shareholder Voting Research & Analysis were updated in 2019. The Principles are supported by Guidance that also was updated in 2019. Detailed in Appendix 1, the Guidance explains the background, relevance and application of the Principles. The apply-and-explain framework applies to both the Principles and the Guidance. All relevant policies should be clearly disclosed on a Signatory's company website and updated annually. The updated Principles and Guidance are the result of a thorough review process by the BPPG, which refers to the latest updated stewardship codes globally⁶, the requirements of the revised SRD II and the ESMA 2015 Follow-Up Report. The updated Principles and Guidance also reflect the input of investors, issuers and other stakeholders received through a Public Consultation (completed in December 2017); the results of a review by the BPPG Review Committee, a process overseen by an independent review chair; and discussions and feedback from a global, diverse Stakeholder Advisory Panel.

These Principles are based on the understanding that the ultimate responsibility to monitor investments and make voting decisions lies with investors. Use of third-party services such as those provided by BPP Signatories which deliver high-quality voting research and analysis, does not shift this responsibility or relieve investors from any fiduciary duty owed to their clients. Stakeholders wishing to understand how an institutional investor discharges its stewardship or ownership responsibilities should consult relevant disclosures of the investor to understand its approach. This includes how the investor views global standards of corporate governance and investor stewardship frameworks and the extent to which national market, legal, regulatory and company-specific conditions are considered.

Principle One: Service Quality

BPP Signatories provide services that are delivered in accordance with agreed-upon investor client specifications. BPP Signatories should have and publicly disclose their research methodology and, if applicable, "house" voting policies. BPP Signatories' disclosure will include:

- the essential features of the methodologies and models they apply;
- the main information sources they use;
- procedures put in place to ensure the quality of the research, advice and voting;
- experience and qualifications of the staff involved;
- whether and, if so, how, BPP Signatories take national market, legal, regulatory and company-specific conditions into account; how this relates to global standards of corporate governance and investor stewardship frameworks;
- the essential features of any house voting policies BPP Signatories apply for each market (client-specific custom policies will not be disclosed);
- how BPP Signatories alert clients to any material factual errors or revisions to research, analysis or voting recommendations after research publication.

⁶ See Appendix 5, page 30

Principle Two: Conflicts-of-Interest Avoidance or Management

BPP Signatories' primary mission is to serve investors. BPP Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for avoiding or addressing potential or actual conflicts of interest that may arise in connection with the provision of services.

In addition to disclosing their general policy, BPP Signatories should also have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations and the actions they have undertaken to eliminate, mitigate and manage actual or potential conflicts of interest.

Principle Three: Communications Policy

BPP Signatories' primary mission is to serve investors. BPP Signatories should provide high-quality research that enables investor clients to review the research and/or analysis sufficiently in advance of the vote deadline ahead of a general meeting. This primary accountability to investors should remain the key priority for BPP Signatories when applying Principle Three.

With regard to the delivery of Services, BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public. BPP Signatories should disclose a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders. BPP Signatories should inform clients about the nature of any dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.

Part Four: Governance of the Best Practice Principles

BPP Oversight Committee

The BPPG has established a BPP Oversight Committee to provide an annual independent review of the monitoring of the Best Practice Principles and the public reporting of each BPP Signatory.

The BPP Oversight Committee's governance aims to provide:

1. Confidence in the Principles that underpin the services provided by BPP Signatories.
2. Guidance and advice to the BPPG with respect to the operation and development of the Principles.

BPP Signatories are expected to co-operate with the BPP Oversight Committee, consistent with applicable contractual and legal requirements.

Scope and Responsibilities

1. Independent, annual reviews of each BPP Signatory's Public Statement of Compliance, in order to identify matters considered to require further BPP Signatory action or clarification.
2. Ratification of applications by new BPP Signatories that have been approved by BPPG members (see the [BPPG Membership and Governance Guidelines 2016](#) on the BPPG website, which may be updated in due course by the BPP Oversight Committee) and sanction of Signatories that are non-compliant, including the ultimate sanction of the Committee ending BPP Signatory status and BPPG membership⁷.
3. Oversight of the complaints-management procedure⁸ of the BPPG, monitoring of outcomes and responses to the BPPG.
4. Management of an annual open forum for investors, companies and other interested stakeholders for education, questions and feedback on the Principles.
5. Review and administration of suggested minor updates to the Principles outside of the periodic major reviews and updates.
6. Monitoring of progress and impact of the Principles.
7. Development and publication of an annual report summarizing the activities and findings of the BPP Oversight Committee. The annual report will be published on the website of the Best Practice Principles Group <https://bppgrp.info>.

⁷ The ratification and sanctioning terms of reference are to be developed in further detail by the BPP Oversight Committee

⁸ The complaints procedure is detailed on the BPPG website here: <https://bppgrp.info/the-principles/complaints-feedback/> and all complaints will be considered as part of the BPP Oversight Committee's annual review process

Structure

| Role | Description | Time Period |
|-----------------------------|--|---|
| Independent Chair | Chair to be completely independent of BPPG members and BPP Signatories | 2-year term |
| Oversight Committee Members | 11 members in total: 6 institutional investor/representative bodies 3 companies/representative bodies 2 independent (e.g. academic) | 2- or 1-year terms as below 4 x 2-year term; 2 x 1-year term 1 x 2-year term; 2 x 1-year term 1 x 2-year term; 1 x 1-year term |
| Observers | Offer observer status to appropriate interested regulators | Meeting by meeting basis |
| Administration | Support to be provided by the BPPG Members | Ongoing |

Membership

The BPP Oversight Committee shall be comprised of an Independent Chair and Committee Members with a diverse mix of skills, backgrounds, knowledge, experience and geographic locations.

The Principles have been developed to promote understanding of and confidence in the services provided by the BPP Signatories. These services play an important role in supporting investors' exercise of their stewardship rights and responsibilities. The representation of investors is therefore of primary importance and, for this reason, six members will be drawn from investor/investor representative bodies. The representativeness of investor members is also important therefore overall membership should reflect different investment styles (e.g. active vs. passive) and geographic regions (at least one member from each of the Americas, EMEA and AsiaPac). The current signatories to the Principles and any potential future BPP Signatories are not eligible for membership of the BPP Oversight Committee

Nomination and Election

BPP Oversight Committee member vacancies, including the BPP Oversight Committee Independent Chair, shall be advertised on the BPPG website and in other appropriate media. Upon inception of the BPP Oversight Committee, BPPG members will appoint the BPP Oversight Committee Independent Chair in advance of the BPP Oversight Committee members. BPPG members shall consider the nominations received and determine a "long list" of suitable candidates from the nominations. The Independent Chair and existing BPP Oversight Committee members shall then deliberate, taking into account the expertise and other requirements needed, to create a "short list" of candidates for the BPPG members to vote on. For the initial appointments of the BPP Oversight Committee Members upon inception of the BPP Oversight Committee, BPPG members will undertake this process, with input from the BPP Oversight Committee Independent Chair.

In the case of the initial appointment of the BPP Oversight Committee Independent Chair, BPPG members will put forward a "short list" of up to five independent, qualified candidates, with a minimum of two candidates. Candidates will be voted on individually by BPPG members and must receive unanimous support from BPPG members in order to be elected. In the case of the initial appointments to the BPP Oversight Committee (up to eleven Member vacancies, excluding the Chair), the short list shall be for up to thirty-three short-list candidates. To fill future vacancies, the short list shall comprise up to three candidates for each role to be filled, with a minimum of two candidates per vacancy. Upon inception of the BPP Oversight Committee, short-list candidates proposed by the Independent Review Chair shall be voted on by BPPG members and must receive unanimous support from BPPG members in order to be elected.

In accepting their role, BPP Oversight Committee members recognise that:

- Shareholder voting research services play an important role in supporting investors' exercise of their stewardship rights and responsibilities
- The primary responsibility of shareholder voting research service providers is to their investor clients;
- The primary purpose of the Principles and the BPPG is to uphold and protect the responsibilities of BPP Signatories to their investor clients.

Reporting

A report summarising the activities and findings of the BPP Oversight Committee will be published annually on the website of the BPPG. This report will include feedback regarding minor updates to the Principles outside of the periodic major reviews and updates.

Individual Signatory Compliance

The BPP Oversight Committee will write to an individual BPP Signatory when a need for progress is identified. Initially, this communication will be done on a confidential basis to enable the BPP Signatory to address the issue over a specified period of time that may vary in accordance with the severity of the issue but should generally not exceed one year. After the prescribed period, if the BPP Signatory has not addressed the issue in a satisfactory manner, the Oversight Committee will discuss appropriate next steps with other BPPG members, up to and including the ultimate sanction of ending BPP Signatory status and BPPG membership.

Monitoring

- Each BPP Signatory's application and disclosure will be monitored on an annual basis, based on the public Statements of Compliance.
- Monitoring may be conducted by independent members or third parties assigned by the BPP Oversight Committee;
- The results of the monitoring will be reported in the annual report by the BPP Oversight Committee.

Signatory Criteria

A BPP Signatory must ideally be unanimously approved by the BPPG members and then ratified by the BPP Oversight Committee. If a unanimous decision to approve a BPP Signatory by the BPPG members cannot be reached during a meeting, the decision will be postponed until the following meeting. It will then require a qualified majority rule of at least 75% of the present or represented Members⁹. Any new BPPG member must be ratified by the BPP Oversight Committee. Thereafter, a BPP Signatory must maintain adequate annual reporting against the Principles. The BPP Oversight Committee retains discretion to determine whether signatories are compliant. BPPG members are responsible for engaging with the BPP Oversight Committee as needed to support the BPP Oversight Committee in carrying out its duties. BPPG members must actively monitor regulatory developments that could merit an update to the Principles, inform the BPP Oversight Committee as such, and draft any necessary updates to the Principles or its governing documents.

⁹ Please see the [BPPG Membership and Governance Guidelines 2016](#) on the BPPG website, which may be updated in due course by the BPP Oversight Committee

Funding Structure

Funding is needed to cover the governance fees of the BPP Oversight Committee, i.e. for the Independent Chair and the two independent (academic) members. For the independent (academic) members, membership will be honorary, but fees will be paid for work relating to the independent review. The funding structure will be based on the fee band structure for service providers. Appendix 6 details the bands in which current (and future) BPPG Members would sit with the staff numbers they self-report. Staff numbers should be publicly available, either via annual reports, or via other sources.

Appendix 1: Guidance on Applying the Principles

Principle One: Service Quality

BPP Signatories provide services that are delivered in accordance with agreed client specifications. BPP Signatories should have and publicly disclose their research methodology and, if applicable, “house” voting policies. BPP Signatories’ disclosure will include:

- the essential features of the methodologies and models they apply;
- the main information sources they use;
- procedures put in place to ensure quality of the research, advice and voting;
- experience and qualifications of the staff involved;
- whether, and, if so, how BPP Signatories take national market, legal, regulatory and company-specific conditions into account; how this relates to global standards of corporate governance and investor stewardship frameworks;
- the essential features of any house voting policies BPP Signatories apply for each market (client-specific custom policies will not be disclosed);
- how BPP Signatories alert clients to any factual errors or material revisions to research, analysis or voting recommendations after research publication.

Principle One Guidance

1. Introduction

- a) BPP Signatories should explain how they organise their activities to ensure that research is developed in accordance with a stated research methodology and voting policies.
- b) BPP Signatories should describe what reasonable efforts they make to ensure their research and analysis are independent and free from inappropriate bias or undue influence.

2. Responsibilities to Clients

- a) A BPP Signatory’s primary responsibility is to provide services to investor clients in accordance with agreed specifications. Clients are the ultimate and legitimate ‘judges’ of the quality of shareholder voting research and analysis and other services they subscribe to from BPP Signatories and pay for.

3. Quality of Research

- a) Shareholder voting research and analysis should be relevant, based on accurate information and reviewed by appropriate personnel prior to publication.
- b) BPP Signatories should be able to demonstrate to their clients that their reports, analyses, guidance and/or recommendations are prepared to a standard that can be substantiated as reasonable and adequate.
- c) BPP Signatories should have systems and controls in place to reasonably ensure the reliability of the information used in the research process. BPP Signatories should disclose to what

extent issuers have the opportunity to verify, review or comment on the information used in research reports, analysis or guidance.

- d) BPP Signatories cannot be responsible for disclosures published by issuers or shareholder resolution proponents that are the subject of their research.
- e) BPP Signatories should maintain records of the sources of data used for the provision of services to clients (to the extent legally or contractually possible).
- f) BPP Signatories' disclosure should include procedures to reasonably ensure the quality of the research, advice and voting recommendations. BPP Signatories should implement proportionate organisational features to achieve adequate verification or double-checking of the quality of research that is provided. These may include:
 - Issuer fact-checking;
 - IT-based consistency check;
 - Four-eyes principle (i.e., reports reviewed by an appropriate second person);
 - Review by senior analyst;
 - Review by governance committee;
 - Review by senior management and/or executives
- g) BPP Signatories should be transparent regarding the sources used and content included in the research information they provide to their clients, including, when applicable, notations about any dialogue with issuers, shareholder proponents, dissidents or their advisors that may have taken place in accordance with their specific policies and procedures (see Principle 3). To that end, BPP Signatories should ensure that use, inclusion or reproduction of external private information be duly referenced, so clients can assess to what degree third-party input plays a role in the services they use.
- h) BPP Signatories should alert clients to any verified factual errors or material revisions to published research or analysis without delay. Alerts should explain the reasons for any revision in a transparent and understandable way.

4. Research Methodology

- a) BPP Signatories' disclosure will include the essential features of the methodologies and models they apply and the main information sources they use. This will include whether and, if so, how they take national market, legal and regulatory and company-specific conditions into account.

BPP Signatories should have and disclose a written research methodology that comprises the following essential features:

- The general approach that leads to the generation of research;
- The information sources used;
- The extent to which local conditions and customs are taken into account;
- The extent to which custom or house voting policies or guidelines may be applied;

- The systems and controls deployed to reasonably ensure the reliability of the use of information in the research process, and the limitations thereof.
- b) In making such disclosure, BPP Signatories do not need to provide information that could harm the BPP Signatory's legitimate business interests, including, but not limited to, its intellectual property and trade secrets, as well as the intellectual property of any of its clients or third-party content providers.

5. Voting Policies or Guidelines

a) Shareholder Policies

- i. Shareholders may assess investee companies' governance arrangements and make voting decisions based on their own view or "custom" voting policy. In this case, a shareholder may contract with a BPP Signatory to receive services based on the shareholder's own voting policies.
- ii. Shareholders may subscribe to shareholder voting research and analysis services based on a BPP Signatory's proprietary or "house" voting policies and subsequently decide on the extent to which they incorporate that research and analysis into their own assessment and decision-making process.

Whether shareholders adopt a policy that is consistent with a BPP Signatory's "house" voting policy or vote according to a "custom" voting policy that differs from the policy of the BPP Signatory, shareholders are always responsible for and entitled to exercising their own judgement when determining their final voting decisions.

b) BPP Signatory Policies

- iii. BPP Signatories may provide shareholder voting research and analysis services based on "house" voting policies or guidelines. These voting policies typically consist of corporate governance principles against which the governance arrangements and general meeting resolutions of listed companies are assessed.
- iv. BPP Signatories should disclose whether they have developed "house voting policies. If so, they should disclose these policies, including, but not limited to, the extent to which local standards, guidelines and market practices are taken into account, the extent to which issuer explanations on deviations from comply-or-explain corporate governance codes are taken into account and the extent to which peer comparisons are used in formulating analysis and recommendations. BPP Signatories should specify the scope of their research.
- v. Each BPP Signatory will have its own approach to voting policy development and review, which may include one or more of the following approaches:
 - Client review
 - Academic literature review
 - Public consultations
 - Guideline exposure drafts

- One-on-one/face-to-face discussions
 - Group discussions/webinars
 - Expert/regulatory body reports
 - Discussion at industry conferences
- vi. BPP Signatories should explain how their voting policies are developed and updated. They should explain whether and how they incorporate feedback into the development of voting policies. They should disclose the timing of their policy updates and policies should be reviewed at least annually.
- vii. BPP Signatories should explain how and to what extent clients may customize their voting policies using the Signatories' services, without disclosing proprietary information. BPP Signatories are not responsible for disclosing client corporate governance policies or voting guidelines and may have contractual obligations that preclude them from discussing any aspect of their client relationships, voting guidelines or intentions.

A BPP Signatory's voting guidelines do not need to include information that could harm the BPP Signatory's legitimate business interests, including, but not limited to, intellectual property and trade secrets of the BPP Signatory, as well as the intellectual property of any of its clients or third-party content providers.

Whether services are provided on a "custom" or "house" voting policy basis, clients expect BPP Signatories to exercise their independent professional judgment when delivering shareholder voting research and analysis.

6. Employee Qualification & Training

BPP Signatories should disclose the procedures they have in place to ensure staff members are qualified to perform their respective jobs, including:

- a) The procedures they have in place to ensure staff members have the appropriate education, skills, competence and experience.
- b) BPP Signatories should make reasonable efforts to ensure their staff is trained on the relevance and importance of their activities and on how they contribute to service delivery.
- c) Where a BPP Signatory outsources any process that could affect service quality, the BPP Signatory should exercise control over such processes. The type and extent of control applied to these outsourced processes should be clearly explained.
- d) BPP Signatories should disclose their operational arrangements for the provision of services, including, for example, qualifications of staff and organization of production processes, etc.

7. Timeliness

- a) BPP Signatories have a responsibility to provide clients with adequate and timely services, subject to the availability of source information from issuers and shareholder resolution proponents, as well as intermediary constraints (for example, vote deadlines and intermediary cut-offs).

- b) BPP Signatories should make reasonable efforts to use the most up-to-date publicly available information when delivering their services. BPP Signatories should disclose how and to what extent relevant stakeholders can submit supplementary information for consideration in their research or analysis, taking into consideration relevant deadlines.

8. Complaints & Feedback Management

- a) BPP Signatories should have and disclose their policies for managing and responding to complaints, comments or feedback about their services.

9. Client & Supplier Understanding

- a) The operational aspects of service delivery will generally form the basis of the service agreement between BPP Signatories and their clients.
- b) BPP Signatories should notify clients of the scope of the services provided, as well as any known or potential limitations or conditions that should be taken into account in the use of signatory services. Limitations may include:
 - Data availability issues, as not all markets require the same level of detail in disclosure;
 - Missing, inaccurate or incomplete documents or disclosures, such as from issuers or shareholder proponents;
 - Reliance on third parties that are beyond the control of the signatory;
 - Inconsistencies and irregularities of information provided by intermediaries in the ownership chain, such as agenda information, vote deadlines and blocking procedures, etc.
- c) BPP Signatories should provide clients with a framework that enables them to fulfil their due-diligence requirements. The framework could include the following:
 - Site visits;
 - Interaction with research teams;
 - Information on quality controls that govern the research development process;
 - Information on the qualifications and experience of the BPP Signatory's staff;
 - Information on how the research framework has been or will be applied and on which assumptions the research output has been based.

10. Client Disclosure Facilitation

- a) BPP Signatories recognise that institutional investors may be subject to disclosure requirements regarding the investors' use, if any, of shareholder voting research and analysis services.
- b) BPP Signatories should assist clients, upon reasonable request, with disclosure relating to the clients' discharge of stewardship responsibilities. This disclosure could include information on how an institutional investor client uses a BPP Signatory's services; the public identification of a BPP Signatory; conflict avoidance and management by the BPP Signatory; and information on the scope of services offered by a BPP Signatory, among other relevant issues.

Principle Two: Conflicts-of-Interest Avoidance or Management

BPP Signatories' primary mission is to serve investors. BPP Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for avoiding or addressing potential or actual conflicts of interest that may arise in connection with the provision of services.

In addition to disclosing their general policy, BPP Signatories should also have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations and the actions they have undertaken to eliminate, mitigate and manage actual or potential conflicts of interest.

Principle Two Guidance**1. Introduction**

- a) The possibility for conflicts of interest can arise in all businesses. While conflicts cannot always be eliminated, they can be managed and mitigated.
- b) The overriding objective of this Principle is to ensure, as far as reasonably possible, that research and business conduct are independent, fair, clear, not misleading and free from possible bias or undue influence.
- c) With this in mind, BPP Signatories should make full and timely disclosure of potential conflicts that could reasonably be expected to impair their independence or interfere with their duty to clients.

2. Conflicts of Interest Policy

BPP Signatories should publicly disclose their policy regarding the prevention and management of potential conflicts of interest.

- a) A BPP Signatory's conflicts-of-interest policy should explain:
 - The existence of potential material conflicts;
 - How and when potential material conflicts will be disclosed to clients (for example on a website, within the applicable research report and in email bulletins, etc.);
 - How BPP Signatories communicate their conflicts-of-interest policy and train their employees in the operation of that policy;
 - How conflicts will be managed.

3. Possible Conflicts for Consideration

- a) BPP Signatories should consider how the following non-exhaustive list of potential conflicts may materially impact their operations and how these potential conflicts may be addressed:
 - A BPP Signatory's ownership or shareholder base/structure, such as when a BPP 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 BPP Signatory's employee activities, such as board memberships and stock ownership, etc.;

- Investor-client influence on the BPP 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 BPP Signatories, such as when BPP Signatories provide consulting services to companies under coverage for research;
- Influence of other investor clients.

4. Conflict Management & Mitigation

a) Conflict management and mitigation procedures should include the following approaches to the extent that they are relevant to potential conflicts faced by the Signatory:

- Transparent policies and procedures
- Code of ethics
- Division of labour
- Employee recusal
- Fire walls/IT systems and controls
- Information barriers and ring-fencing
- Independent oversight committees
- Physical employee separation
- Separate reporting streams

5. Conflict Disclosure

In addition to disclosing their general policy, in line with SRD II, BPP Signatories also should have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations, as well as the actions they have undertaken to eliminate, mitigate or manage the actual or potential conflict of interest.

If a BPP Signatory becomes aware of a material conflict of interest, that is not otherwise addressed in its general policies, the BPP Signatory should:

- disclose the conflict to the relevant client(s) without undue delay before or at the same time the service is delivered, subject to contractual arrangements;
- provide the relevant client(s) with research from an unconflicted proxy advisor for the relevant meeting; or
- manage the conflict as further detailed in the BPP Signatory's conflicts-of-interest policy.

Principle Three: Communications Policy

BPP Signatories' primary mission is to serve investors. BPP Signatories should provide high-quality research in a timely fashion that enables investor clients to review the research and/or analysis prior to the vote deadline ahead of a company meeting. This primary accountability to investors should remain the key priority for BPP Signatories when applying Principle Three.

With regard to their delivery of Services, BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public. BPP Signatories should disclose a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders. If issuer communication has taken place, BPP Signatories should inform clients about the nature of the dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.

Principle Three Guidance

1. Introduction

Shareholders are always responsible for and entitled to exercising their own judgment when determining their final voting decisions, according to their own investment and governance philosophy and company engagement activities in any particular situation.

- a) BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public.
- b) It is up to BPP Signatories to choose whether or not to engage in dialogue and in what format. If a BPP Signatory chooses to have such a dialogue, it is up to the Signatory to determine the objectives, timing, frequency and format of this dialogue.
- c) Comments and statements in the press or public forums may have a significant impact and, as such, should be properly managed.

2. Dialogue with Issuers, Shareholder Proponents & Other Stakeholders

- a) BPP Signatories should have a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders.
- b) BPP Signatories should communicate to clients in their research reports the nature of any dialogue with relevant parties, which may also include informing clients of any changes made to their research or analysis as a result of that dialogue.
- c) The policy on dialogue should cover issues including, but not limited to:
 - The circumstances under which such dialogue could occur;
 - Details of any year-round mechanisms for dialogue with relevant parties;

- Whether BPP Signatories provide engagement services to investors and how these relate to shareholder voting research provision;
- How BPP Signatories verify the information used in their analysis;
- Whether and how issuers are provided with a mechanism to review research reports or data used to develop research reports prior to publication to clients;
- Procedures for avoiding receipt of privileged, non-public information and, in cases where such information is received, procedures for managing such information;
- If/how BPP Signatories communicate during the voting period (defined as the period from release of the agenda until the general meeting);
- What steps are taken to protect BPP Signatories and their employees from undue pressure or retaliatory actions arising from the delivery of services.

3. Dialogue with Media & the Public

- a) BPP Signatories reserve the right to respond to general media enquiries about the nature of their services and about the companies or issues they cover. However, BPP Signatories should have and disclose a policy (or policies) for communication with the media and the public. This policy should include, at minimum, the following considerations:
 - Which of the BPP Signatory's employees are permitted to make comments to the media;
 - The BPP Signatory's policy toward the publication of house recommendations (if made) on any particular resolution prior to the publication of their reports to clients. Exceptions to this policy should be explained.
- b) It should be noted that BPP Signatories cannot be held responsible for the unauthorized use or re-use of their materials.
- c) At all times, BPP Signatories should observe applicable laws or regulations regarding libel, slander, market abuse, insider trading and distribution of confidential or material non-public information, etc.

Appendix 2 BPPG Signatories

At the launch date of the 2019 BPP, the BPPG comprises of the following members:

- Glass, Lewis & Co., LLC
- Institutional Shareholder Services Inc.
- Minerva Analytics Ltd (The Manifest Voting Agency Ltd)
- PIRC Ltd
- Proxies

The BPPG operates an independent website: <https://bppgrp.info> which is a central location for BPPG documents.

Appendix 3 BPP Review Committee & Review Chair

2014 Best Practice Principles Chair

Following the publication of the ESMA Final Report and Feedback Statement on the Consultation Regarding the Role of the Proxy Advisory Industry in February 2013, a number of industry members formed a committee under the ESMA endorsed independent chairmanship of Prof. Dr. Dirk Andreas Zetzsche, LL.M. (Toronto), to develop an industry code of conduct. The “Best Practice Principles for Providers of Shareholder Voting Research & Analysis” were published in April 2014. With this report, the Chair’s aim was to make the committee’s work and discussions transparent to facilitate the application of the provisions and enhance understanding of the reasoning behind their adoption. The report also aims to enhance transparency and understanding on the functioning of Providers of Shareholder Voting Research & Analysis and their role in corporate governance and assist in creating a more informed discussion.

2019 Best Practice Principles Review Chair

Terms of Reference

In April 2017, the BPPG Steering Group announced its intention to launch a Review of the operation of the Best Practice Principles for Shareholder Voting Research (the Principles). In order to gather the views of stakeholders, a public consultation was held at the end of 2017, and an advisory stakeholder panel was established to provide input to the preparation of the consultation document and any subsequent revisions to the Principles. The Review was overseen by the BPPG Steering Group comprising representatives from the current signatories to the Principles and the independent chair.

Nomination of Review Chair

BPPG members put forward a long list of 5 independent, qualified candidates. Candidates were voted on individually by BPPG members and needed to receive at least 50% of the valid votes to be elected.

In April 2017 the BPPG appointed BPPG independent Review Chair, Chris Hodge, who served in the role until June 2018 and completed the public consultation phase.

In October 2018, the BPPG appointed Dr. Danielle A.M. Melis MBA, to succeed Chris Hodge as the new Review Chair of the BPPG. The main task of the new Chair was to oversee the BPPG Steering Group and coordinate and facilitate the finalization the Review process as outlined below leading to the 2019 update of the Principles and updated governance structure of BPPG.

The purpose of the Review was to:

- assess the implementation and content of the Best Practice Principles;
- ensure that they achieved the original objectives;
- identify where there was scope to improve practice and transparency;
- ensure that the Principles would be capable of being applied in all markets for which voting research and analysis is provided, and by all providers of such services.

The Review referred to the original objectives of the Principles to:

- promote a greater understanding of the role of shareholder voting research providers in the voting decisions made by institutional investors;
- promote the integrity and efficiency of processes and controls related to the provision of these research services;
- foster a robust management of any conflicts of interest.

The assessment involved consideration of:

- the structure and content of the Principles;
- the form and frequency of reporting against the Principles;
- the process and criteria for providers to become signatories;
- the oversight arrangements for monitoring and reviewing the Principles.

The Review was informed by:

- the views of investors, companies and other stakeholders through a Public Consultation;
- experience of implementing the Principles since they were introduced in 2014;
- the December 2015 report on the development and implementation of the Principles by the European Securities and Markets Authority;
- the revised EU Shareholder Rights Directive and regulatory developments in other markets since the Principles were introduced.

The Review Process was completed by June 2019 and resulted in:

1. updated set of Principles (and guidance to the Principles)
2. updated governance structure of BPPG (oversight and monitoring process)
3. review Report of the Chairman and all BPPG members

BPP Review Committee

| Independent Review Chairs | | |
|-------------------------------------|--|--|
| Dr. Danielle A.M. Melis (2018-2019) | Director | Aequinova |
| Chris Hodge (2017-2018) | Director | Governance Perspectives |
| Members | | |
| Loïc Dessaint | CEO | Proxinvest |
| Lorraine Kelly | Managing Director, Head of Governance Business | Institutional Shareholder Services Inc (ISS) |
| Alan MacDougall | CEO | PIRC |
| KT Rabin | CEO | Glass Lewis |
| Sarah Wilson | CEO | Minerva |

| | | |
|----------------------|------------------------|-------------|
| Support Staff | | |
| Sarah Ball | Drafting support | ISS |
| Jennifer Thompson | Administrative support | Glass Lewis |

Appendix 4 BPP Review Stakeholder Advisory Panel

Terms of Reference

The BPP Review Stakeholder Advisory Panel consisted of members with the mix of skills, backgrounds, knowledge, experience, geographic locations and diversity appropriate to achieve oversight of updates to the Principles in light of the transparency requirements for proxy advisors outlined in the amendments to the revised EU Shareholder Rights Directive 2007/36/EC, adopted on 3 April 2017 and due for implementation in 2019. Members should represent the following stakeholder groups – companies/representative bodies, asset owners/representative bodies and asset managers/representative bodies.

Given that the Principles exist to promote the integrity and efficiency of shareholder voting research services, which play an important role in investors exercising their stewardship rights and responsibilities, it is recognised that investor representation on the BPP Review Stakeholder Advisory Panel is, therefore, of major importance.

Nominations

Each BPPG member put forward a list of up to 30 candidates. The Chair then deliberated, taking into account the incumbent BPP Review Stakeholder Advisory Panel members and potential expertise needed to update the Principles to create a short list of 15. Candidates were voted on individually by BPPG members and had to receive unanimous support to be elected, with a view to the Stakeholder Advisory Panel being comprised of at least 10 members in total.

In accepting their role, BPP Review Stakeholder Advisory Panel members recognised, as much as possible, that:

- The BPPG's mission is to promote greater understanding of the corporate governance and ESG research and support services provided to professional investors and other capital markets participants.
- Shareholder voting research services play an important role in investors exercising their stewardship rights and responsibilities, that the primary responsibility of shareholder voting research service providers is to their investor clients, and that one primary purpose of the BPP is to uphold and protect this responsibility.
- The BPP Stakeholder Advisory Panel should be diverse regarding geographic balance and experience.

2019 BPP Stakeholder Advisory Panel Members

| | | |
|------------------------|------------------------------------|------------------------------------|
| Richard Gröttheim | CEO | AP7 |
| Jakob Skafte | Senior Analyst, ESG | ATP |
| Mirza Baig | Global Head of Governance | Aviva Investors |
| Geof Stapledon | Vice President Governance | BHP |
| Michael Herskovich | Head of Corporate Governance | BNP Paribas Asset Management |
| Matt Orsagh | Director, Capital Markets Policy | CFA Institute |
| Ken Bertsch | Executive Director | Council of Institutional Investors |
| Rients Abma | Executive Director | Eumedion |
| Lutgart Van den Berghe | Professor of Corporate Governance | Vlerick Business School |
| Carine Smith Ihenacho | Chief Corporate Governance Officer | NBIM |
| Francesco Chiappetta | Consultant, Corporate Governance | Pirelli & C. S.p.A |
| Paul Clark | Head of Stewardship | UBS Asset Management |

Appendix 5 BPP Review Process

The Review Process was completed by June 2019 and resulted in:

1. updated set of Principles (and guidance to the Principles);
2. updated governance structure of BPPG (oversight and monitoring process);
3. review Report of the Chairman and all BPPG members.

Prior to publication of the Principles, in Q1 2019 the BPPG provided a series of intermediate process updates and, in Q2 2019, organised a preview event for issuers, investors and regulators to validate the amendments.

In April 2017, the BPPG appointed BPP Review Chair Chris Hodge, who served in the role until June 2018 and completed the public consultation phase.

In October 2018, the BPPG appointed Dr. Danielle A.M. Melis MBA, to succeed Chris Hodge as the new Review Chair. The main task of the new Chair was to oversee the BPPG Steering Group and coordinate and facilitate the finalization of the Review process as outlined below.

The assessment involved consideration of:

- structure and content of the Principles;
- form and frequency of reporting against the Principles;
- process and criteria for providers to become signatories;
- oversight arrangements for monitoring and reviewing the Principles.

The Review was informed by:

- views of investors, companies and other stakeholders received through the Public Consultation by BPPG completed in December 2017;
- experience of implementing the Principles since they were introduced in 2014;
- December 2015 report on the development and implementation of the Principles by the European Securities and Markets Authority;
- revised EU Shareholder Rights Directive and regulatory developments in other markets since the Principles were introduced.
- the following Investor Codes:
 - AFG: Recommendations de l'Association Française de Gestion (FR)
 - BVI: Bundesverband Investment and Asset Management Rules of Good Conduct (DE)
 - The Committee On Corporate Governance Denmark: Stewardship Code (D)
 - The Council of Experts on the Stewardship Code: Japan's Stewardship Code (JP)
 - EFAMA: Stewardship Code Principles for asset managers' monitoring of, voting in, engagement with investee companies (EU)
 - Eumedion: The Dutch Stewardship Code (NL)
 - FRC: The UK Stewardship Code (UK)
 - G20/OECD: Organisation for Economic and Co-operation and Development Principles of Corporate Governance; OECD Corporate Governance Factbook (Global)

- ICGN: International Corporate Governance Network Statement of Principles on Institutional Shareholder Responsibilities; ICGN Model Stewardship Disclosures (Global))
- PRI: Principles for Responsible Investment (Global)
- Singapore Stewardship Principles for Responsible Investors Working Group: Singapore Stewardship Principles for Responsible Investors (SG)
- The following financial markets participants:
 - AMF: Recommendation No 2011-06 of 18 March 2011 in respect of proxy voting agencies issued by the Autorité des Marchés Financiers (FR)
 - CFA: Code of Ethics and Standards of Professional Conduct and Research Objectivity Standards (Global)

This list is not comprehensive in covering all relevant Investor Codes or regulatory instruments/guidance globally. There are additional (local) codes that were reviewed by specific members that contributed to the Principles, up to the BPP Review's completion date in June 2019.

Appendix 6 BPP Oversight Committee

Minimum Terms of Reference

Below are the minimum terms of reference for the BPP Oversight Committee upon inception, which may be augmented after the BPP Oversight Committee has been established in 2H 2019, in light of their further feedback.

Confidentiality

The BPP Oversight Committee members agree to treat as confidential and to not at any time disclose or permit to be disclosed to any person any Confidential Information (whether during or after a member's term expires), or otherwise make use of or permit to be made use of any Confidential Information. This restriction shall cease to apply to information or knowledge that has come into the public domain other than by breach of this clause.

Meetings

Meetings shall be held no less than three times per year. Provision shall be made for members to attend either in person or virtually by web or teleconference.

Quorum

Quorum shall normally be satisfied when the Chair and at least eight of the eleven members of the Committee are present. A quorum change must be clearly stated on the agenda for any meeting, circulated to all members at least 72 hours in advance of the meeting.

Funding Structure

This is based on the BPP Oversight Committee consisting of:

- 1 independent chair
- 6 institutional investor/representative bodies (to be appointed free of charge)
- 3 companies/representative bodies (to be appointed free of charge)
- 2 independents (e.g. academics)
- Observers are allowed and support is to be provided by the Members

It is also based on the following key responsibilities of the BPP Oversight Committee:

- 1) Execute an independent, annual review of each BPP Signatory's Public Statement of Compliance
- 2) Ratification of applications by new Signatories and sanctioning
- 3) Oversight of the compliance management procedure
- 4) Management of an annual open forum
- 5) Review and implementation of minor updates to the Principles
- 6) Monitoring of progress and impact of the Principles
- 7) Development and publication of an annual report summarising the Oversight Committee's activities.

Funding is needed to cover the fees of the Independent Chair and the two independent (academic) members. For the independent (academic) members, membership will be honorary but fees will be paid for work relating to the independent annual review.

The six representatives from the investor community and the three representatives from the issuer community will be appointed to be honorary members of the BPP Oversight Committee, free of charge.

All Signatories should be willing and able to pay their fair share of the required BPPG budget in any year (which will be agreed upon between the members annually).

The 2019 BPP Oversight Committee funding structure will be based on the fee bands in the table below based on staff numbers they self-report. Staff numbers should be publicly available, either via annual reports, or via other sources. Each year, after ratification of new Signatories, the BPP Oversight Committee will adjust the percentages of fee bands in the table to match the new number of Signatories to the Principles.

The table below indicates the bands in which the current 2019 BPPG Members sit and the percentage of the total payment for the BPP Oversight Committee to which they are committed. The right-hand column provides a future example of how the allocation could change, should a new Member join the BPPG.

| 2019 BPPG Member Fee Band by Number of Staff | BPP Oversight Committee % of Total Payment per 2019 BPPG Member Fee Band | Future Example: additional new Member with 51-200 staff |
|---|---|--|
| Staff 1- 10 | 10% (1 x 2019 BPPG Member) | 10% |
| Staff 11 - 50 | 15% (2 x 2019 BPPG Members) | 12.5% |
| Staff 51 -200 | n/a (0 x 2019 BPPG Members) | 20% |
| Staff > 200 | 30% (2 x 2019 BPPG Members) | 22.5% |

The fee split will be formalised in a contract, to be amended upon acceptance of any new Members/new Signatories.

Annex 1

Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019

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The Review Committee - Best Practices Principles Group

Web: www.bppgrp.info

Email: committee@bppgrp.info

Annex 2A

2017 Structured Consultation Questionnaire Best Practice Principles for Shareholder Voting Research & Analysis

2017 BPP CONSULTATION: BEST PRACTICE PRINCIPLES FOR SHAREHOLDER VOTING RESEARCH**OCTOBER 2017 STRUCTURED QUESTIONNAIRE****Information on respondent**

1. Name of organisation:
2. Type of organisation [select one]:
 - Investor
 - Company
 - Governance advisory/voting research service (investor advisors)
 - Company advisor
 - Representative body
3. Main country/ region of operation [text]:
4. Are you currently a client of a voting research provider? [Yes/ No]
5. All responses will be posted on the Review website unless requested otherwise. Please tick this box if you wish your comments to be treated as confidential. [Tick]
6. If you would like to be informed of the outcome of this consultation please provide a contact email. [Text]

General questions on the Principles

7. Were you previously aware of the Best Practice Principles? [Yes/No]
8. If yes, how would you rate the positive impact of the Principles since they were introduced in 2014? [Scale 0-5 where 0 is no impact, 5 is very positive]

Please give a reason for your rating [text]
9. 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]
10. Would it be beneficial to have a set of principles that are capable of being applied in all markets? [Yes/No]

Scope and Structure of the Principles

11. 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 [*add link to website*]. Are there other issues or activities that should also be covered by the Principles? [tick each that applies]

- Intermediary vote processing and confirmation
- ESG advisory services and indices
- Governance engagement services
- Other [please specify] [text]

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

13. If no, how might it be improved? [text]

The Content of the Principles**Principle 1: Service quality**

14. 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]

15. If no, how might it be improved? [text]

16. 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]

17. How might the process be improved? [text]

18. 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
- Other (please specify) [text]

19. How informative are signatories’ descriptions of their research methodologies, [*add link to website*] including how they ensure that the research is reliable? [Scale 0 to 5, where 0 is uninformative and 5 is very informative]

20. While recognising the need for signatories to protect their intellectual property, how might the statements be made more informative? [text]

Principle 2: Conflicts of Interest Management

21. 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]
22. If no, how might it be strengthened? [text]
23. The Principle identifies a number of potential conflicts [*add list*]. Are there others that should be included in this list? [Yes/No]
24. If yes, please identify them [text]
25. If you are a client of a signatory, how satisfied are you with the timeliness and appropriateness of the information you receive on specific potential conflicts and how they are being managed? [Scale 0 to 5, where 0 is dissatisfied and 5 is very satisfied]
26. How might the procedures be improved? [text]

Principle 3: Communications policy

27. How satisfied are companies with their communication with signatories? [Scale 0 to 5, where 0 is completely dissatisfied, 5 is very satisfied]
28. How might communication be improved? [text]
29. 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? [Yes/No]
30. If yes, how satisfied were you with how your complaint or feedback was handled? [Scale 0-5 where 0 is not at all satisfied, 5 is very satisfied]

Please give a reason for your rating [text]

31. 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]
 - I find it helpful to know the company's views on the research report before deciding how to vote
 - I have no objection in principle to this practice, as long as it does not reduce the amount of time I have to make voting decisions or impact on costs
 - Companies already have opportunities to explain their case in their annual reports, the papers for the general meeting and direct engagement with their shareholders. They do not need another one
 - It is not appropriate for companies to have a right to review or comment on draft research reports of which they are the subject
 - Other (please specify): [text]

Reporting on the Principles

32. 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 [*add link to website page*]. Do the statements adequately cover all the matters that signatories are supposed to report on under the Principles? [Yes/No]
33. If no, please identify which matters you consider are not adequately reported on [text]
34. How informative and useful are the statements? [Scale 0-5 where 0 is uninformative, 5 is very informative]
35. How might the statements be made more useful? [text]

Monitoring the Application of the Principles

36. 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
 - Other [please specify] [text]
37. If you have specific suggestions for how the Principles should be monitored, please provide details [text]
38. Have you ever used the complaints procedure set up by the Best Practice Principles Group to complain about a breach of the Principles? [Yes/No]
39. 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]
- Please give a reason for your rating [text]

Signing-up Process

40. 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]

41. If yes, please specify [text]

Other comments

42. If there are any additional comments you would like to make as part of this consultation, please do so here: [text]

Annex 2B

Feedback Summary 2017 Public Consultation

Feedback Summary

Results of 2017 Public Consultation on Best Practice Principles for Governance Research Providers

Introduction

The first stage of the review, which included the 2017 public consultation, was overseen by the Steering Group comprising representatives from the current signatories to the Principles, the 2017 Independent Review Chair, Chris Hodge and the 2017 Stakeholder Advisory Panel, which provided input to the preparation of the consultation document.

The purpose of the 2017 public consultation was to gather evidence from market participants on the implementation of the Principles to date and to hear views on how the Principles should be developed.

The consultation was held between October and December 2017. A structured consultation questionnaire was sent by the Independent Review Chair to a representative range of stakeholders including investors, companies, investor and corporate representative bodies, regulatory bodies, professional bodies, academics, investor and corporate consultants and non-BPPG signatory providers of voting research and related services. All stakeholders were also informed they were welcome to submit qualitative responses via letter to the independent Review Chair. The current BPPG signatories, in agreement with the Independent Review Chair, did not submit 2017 consultation responses.

Seventy-seven organisations in total responded to the 2017 Public Consultation. Twenty-nine were happy for their responses to be published publicly ([see Annex 2B Appendix 1](#)) and forty-eight requested confidentiality.

Overall, seventy-one organisations responded either fully or partially to the structured questionnaire ([see Annex 2A](#) for the full document). The structured questionnaire elicited a range of yes/no, multiple choice, numerical rating and/or free-form qualitative responses. Six organisations did not respond to the structured questionnaire and instead provided purely free-form qualitative responses in letters to the 2017 Independent Review Chair.

All free-form qualitative responses (48 comments in total) relating to both the structured questionnaire and letters to the 2017 Independent Review Chair, were summarised in [a report by Dr. Anna Tilba](#), Associate Professor in Governance, Northumbria University School of Law.

In the Discussion Items sections 1.1-1.8 of this overall Report of the 2019 Independent Review Chair, elements of the qualitative data analysis in Dr. Tilba's study are taken into consideration alongside findings from the analysis of the quantitative survey data from the 2017 public consultation, feedback from the 2019 Stakeholder Advisory Panel, the ESMA 2015 Follow-Up Report, requirements of SRD II and updated stewardship codes globally.

The charts on the next page 61 give a breakdown of the total 77 overall responses, in [Figure 1](#): by market constituent type and in [Figure 2](#): by market and market constituent type.

Figure 1: 2017 Public Consultation 77 Total Responses Breakdown by Market Constituent Type

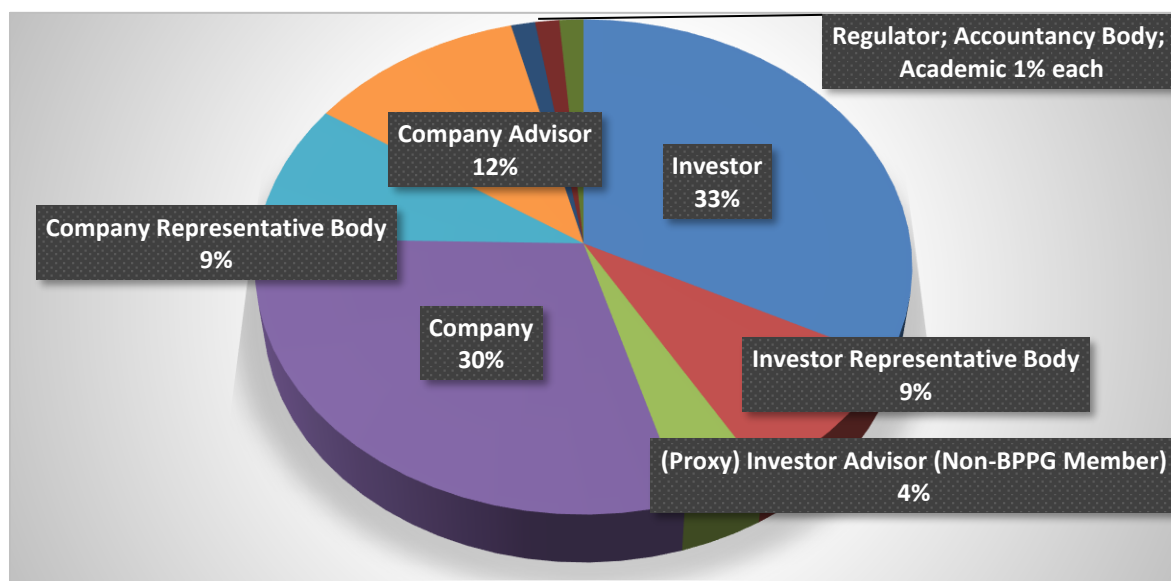


Figure 2: 2017 Public Consultation 77 Total Responses Breakdown by Market & Market Constituent Type

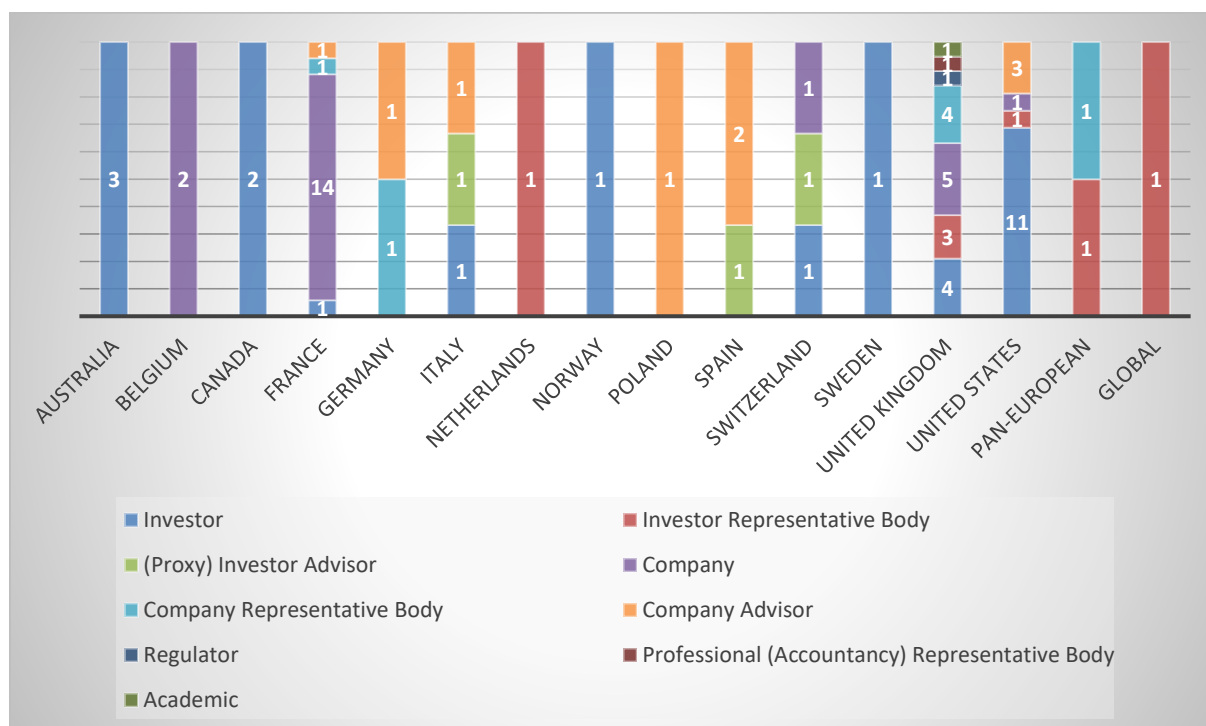


Figure 1 summarises how a similar proportion of investors (33%; 25 respondents) and corporates (30%; 23 respondents) participated in the 2017 public consultation. There was also a balanced proportion of responses from investor representative bodies (9%; 7 respondents) to company representative bodies (9%; 7 responses). It is important to note the breakdown by market as well as by market constituent type detailed in Figure 2, which highlights the proportionately high number of consultation responses from French companies – over sixty percent of the total corporate response. While French companies’ feedback was broadly congruent with feedback from investors and other stakeholders in certain key areas, in particular with regard to improving governance, oversight and

monitoring arrangements, in certain other areas, it was an outlier. Of particular note, a very low average rating of BPP Signatories' research methodology disclosure was given by French companies ([see Annex 2B Figures 11a-d](#)) relative to the ratings given by most other consultation respondents, in particular investor clients of the research providers. It should also be noted that French companies and their representative body provided a high proportion of the qualitative comments (23 out of the total 48) in [Dr. Anna Tilba's qualitative study](#).

The charts and graphs immediately below summarise key feedback provided to the structured survey questions to the 2017 public consultation which elicited yes/no, multiple choice and numerical rating responses, primarily broken down by market constituent type.

Summary of Key Feedback to 2017 Public Consultation Structured Questionnaire

Figure 3: (Survey Question 7)

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

61 Total Responses Breakdown by Market Constituent Type

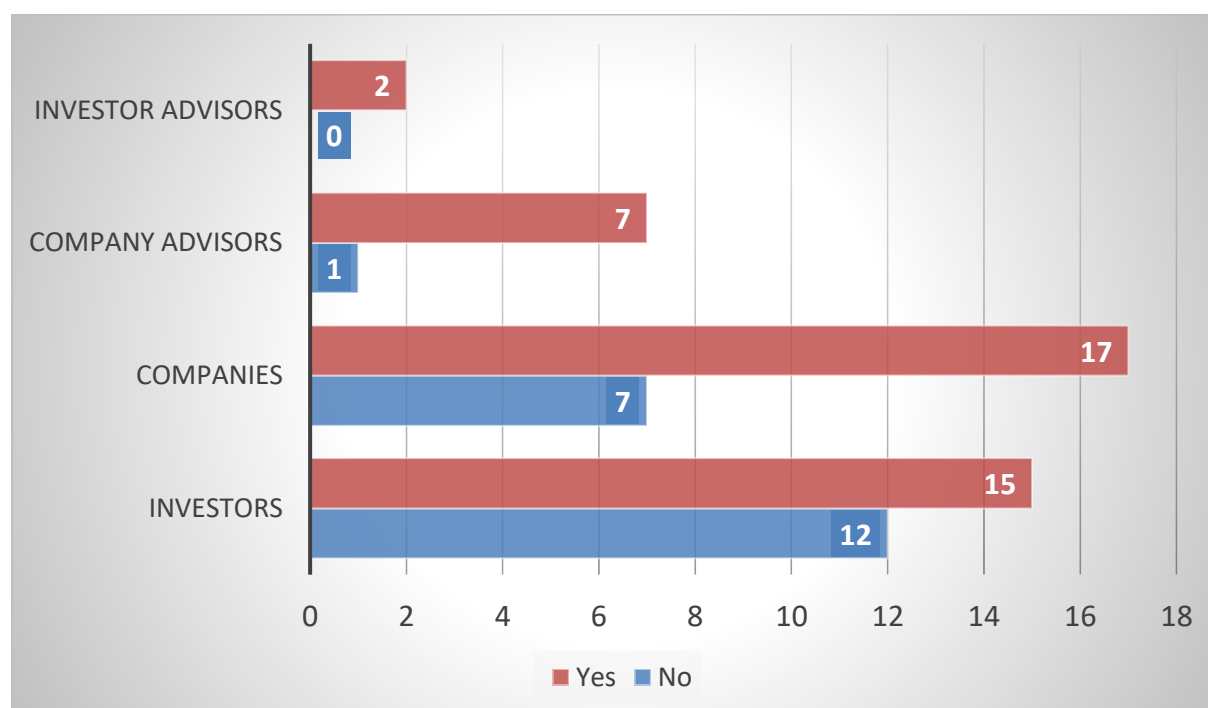


Figure 4: (Survey Question 8)

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

43 Total Responses Breakdown by Market Constituent Type

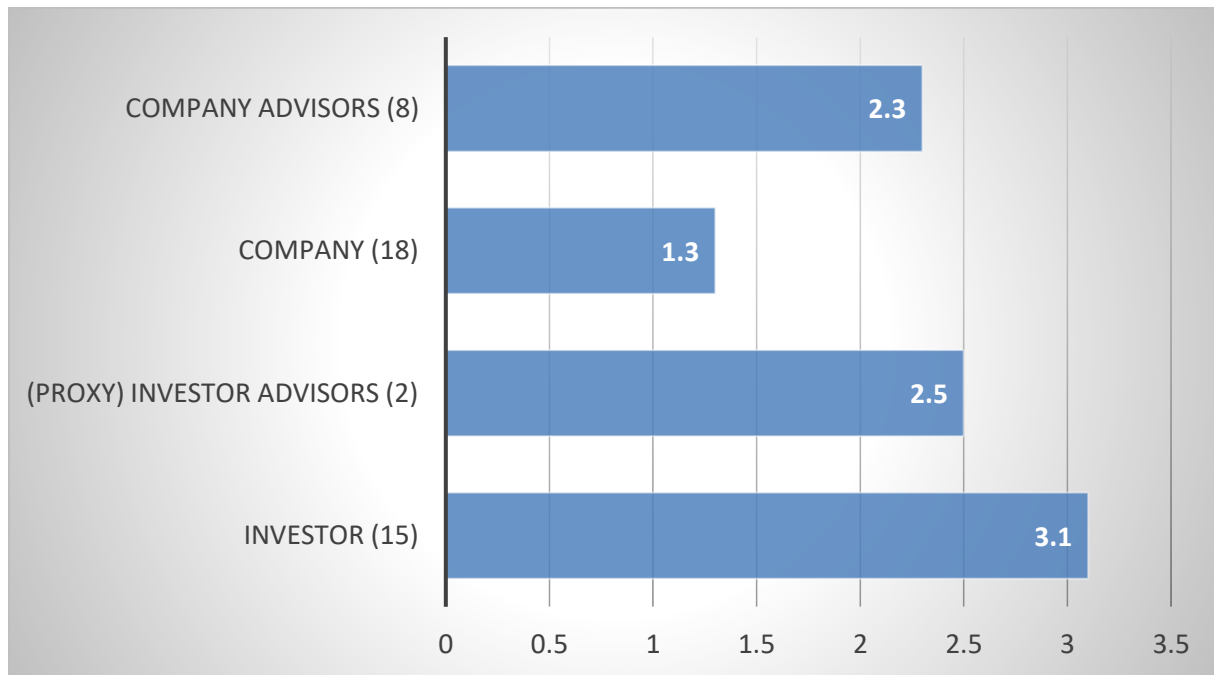


Figure 5: (Survey Question 9 to Investors Only)

Will you check if a service provider is a BPP signatory, before appointing them [Yes/No]

25 Total Responses

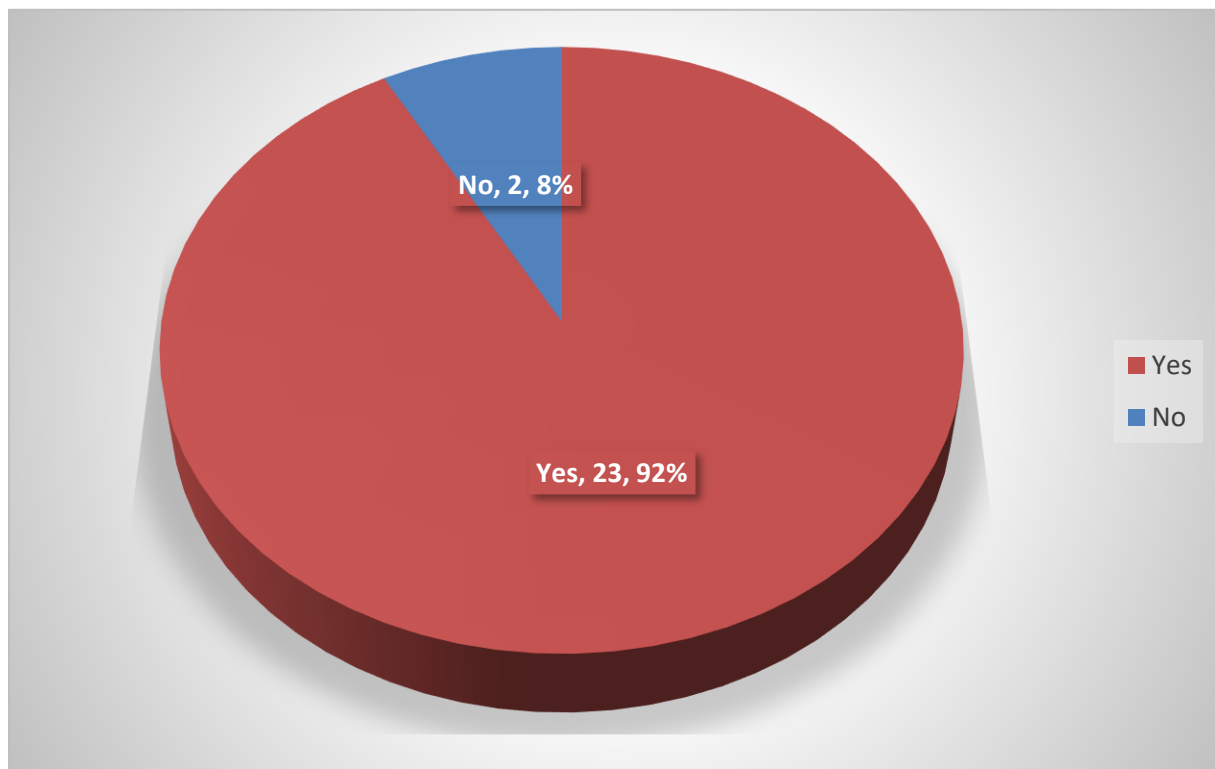


Figure 6: (Survey Question 10)

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

70 Total Responses Breakdown By Market Constituent Type

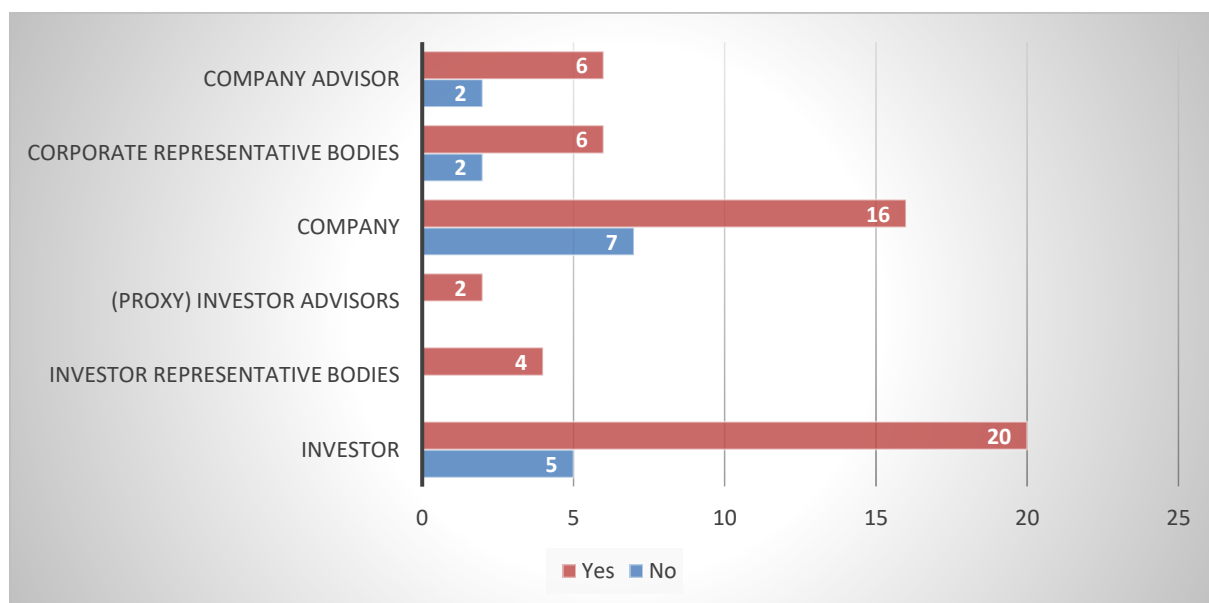


Figure 7: (Survey Question 11)

At present the Principles address three areas: service quality; managing conflicts of interest, and communication with issuers, the media and other stakeholders. Are there other issues or activities that should also be covered by the Principles?

Multiple Answers from 63 Respondents

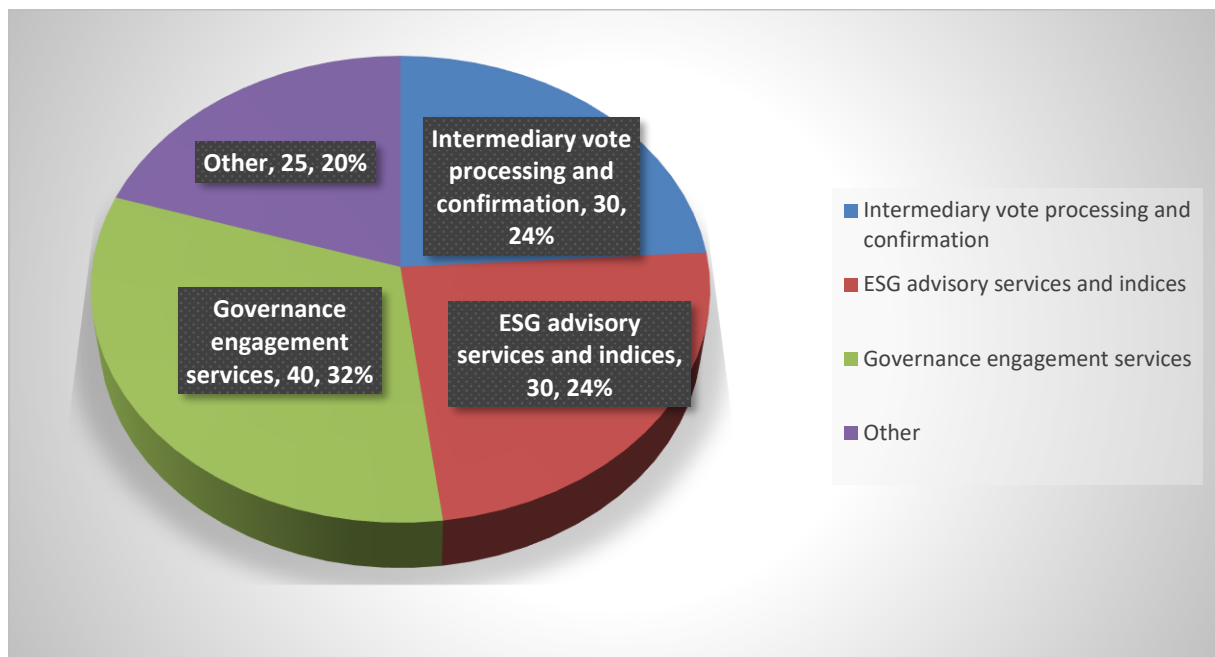


Figure 8: (Survey Question 12)

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

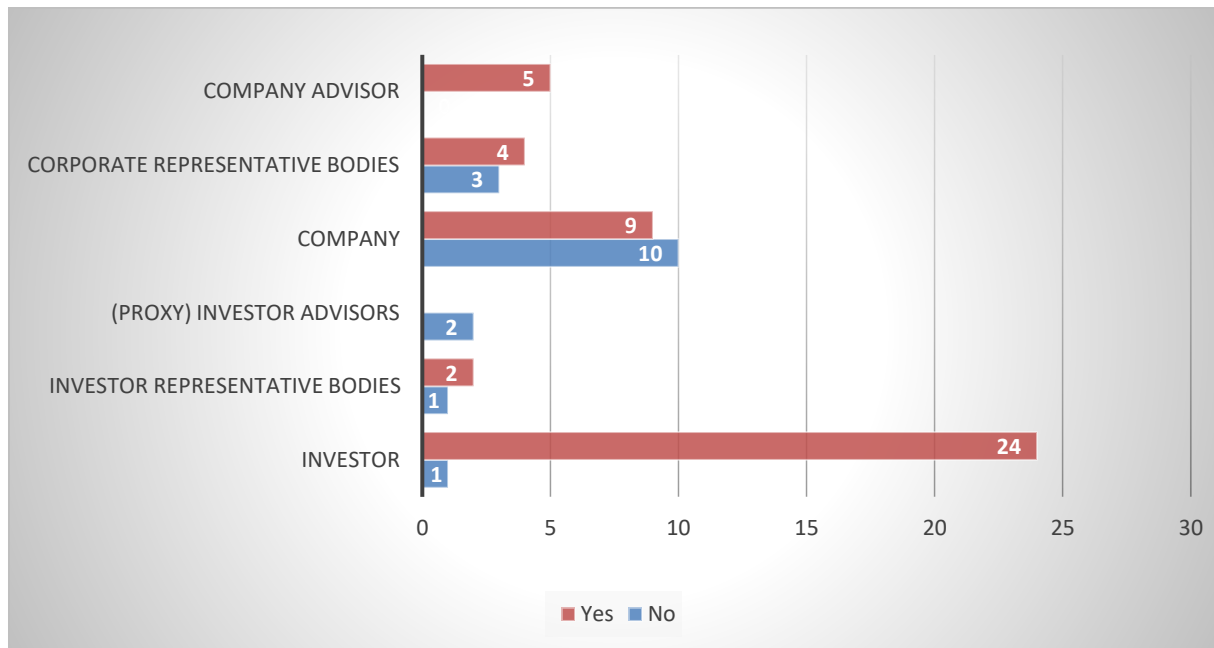
61 Total Responses by Market Constituent Type

Figure 9: (Survey Question 14 to Investors Only)

Do you consider the 'service quality' principle deals adequately with the various service commitments that you expect?

19 Total Responses

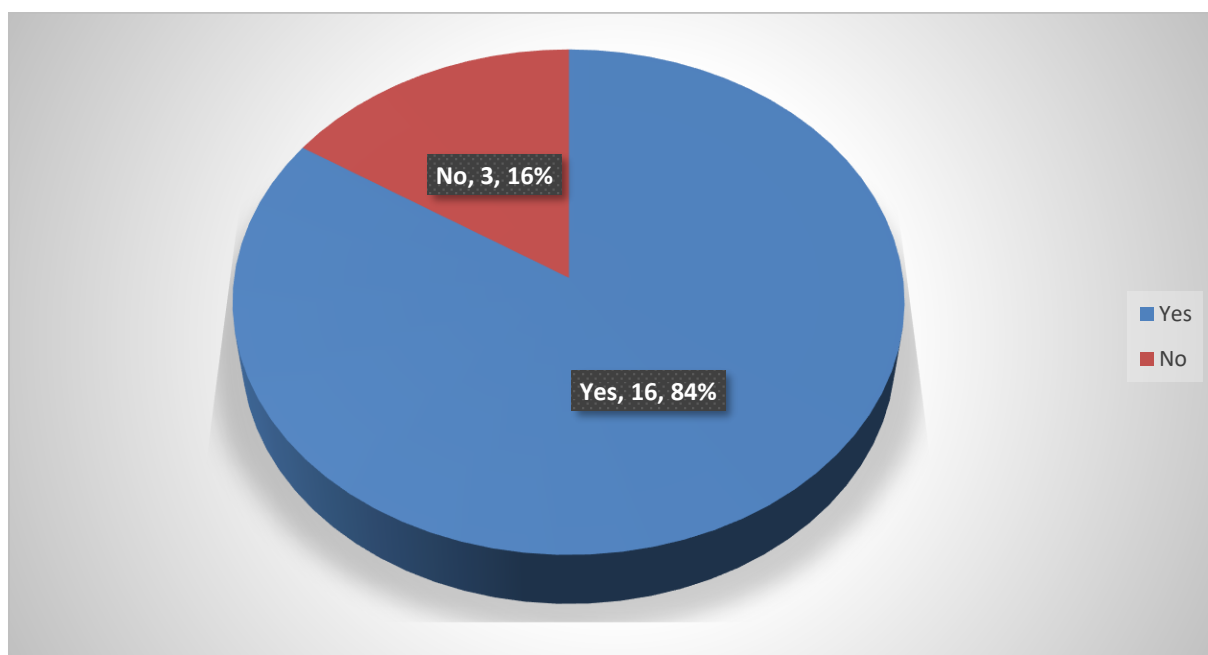


Figure 10: (Survey Question 16)

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]

Average ratings by market constituent type and no. of respondents (out of 41 total)

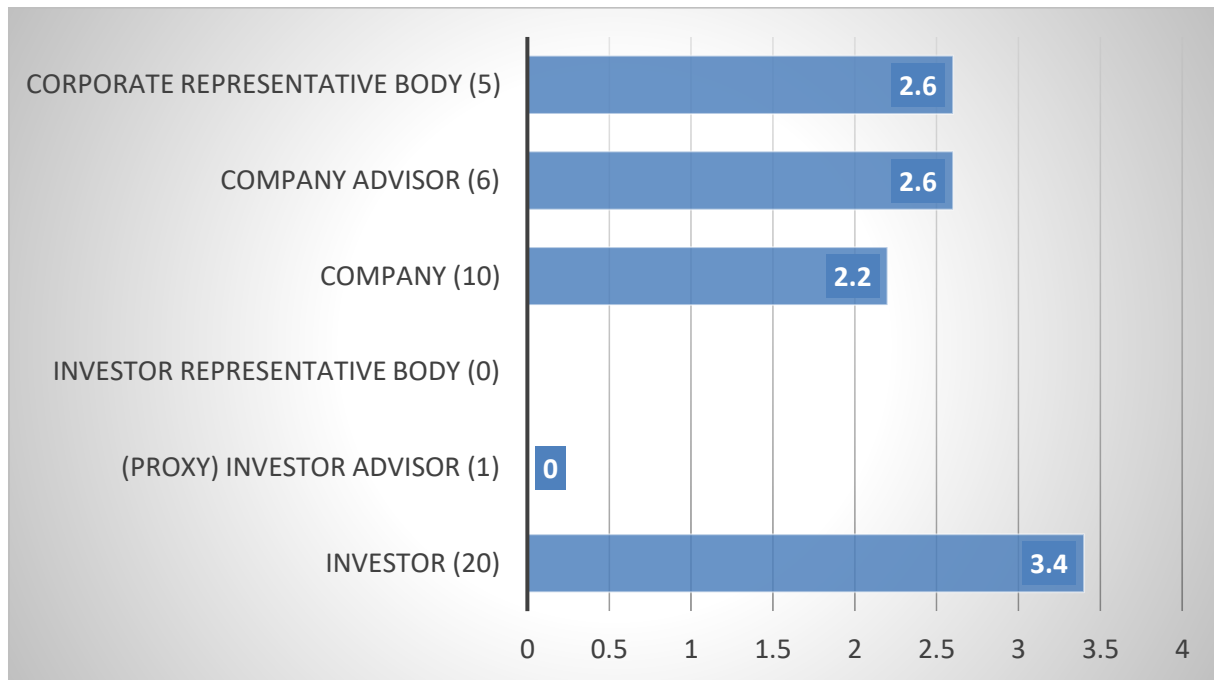
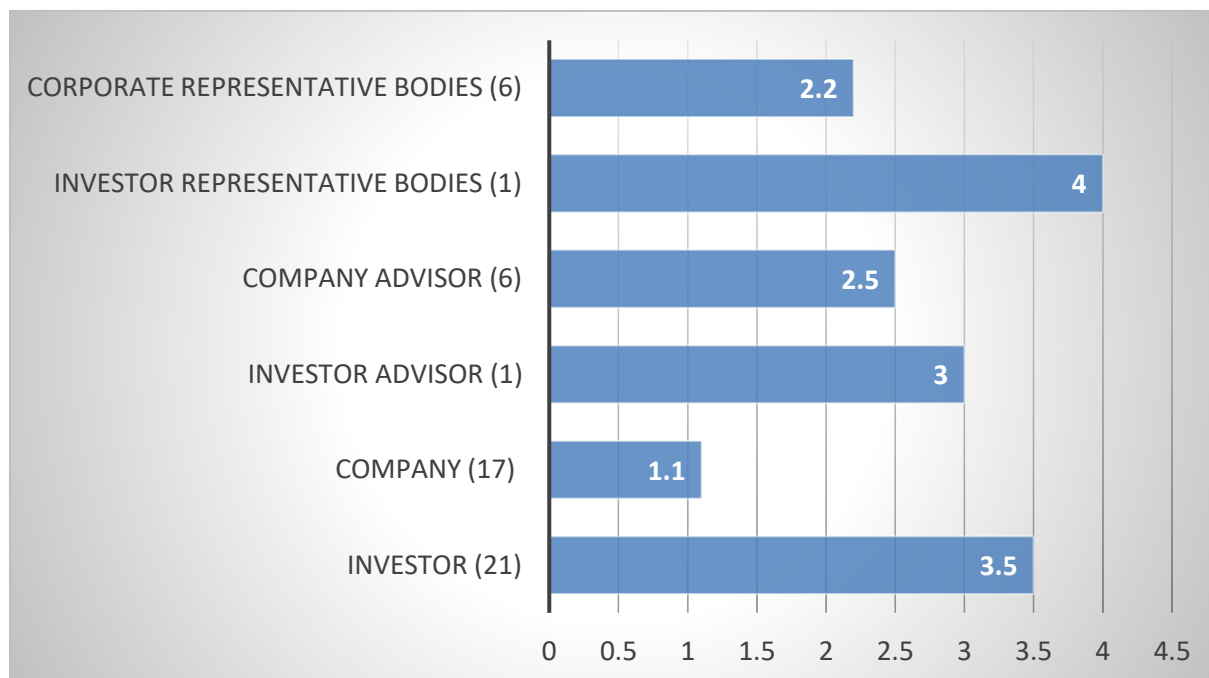


Figure 11a: (Survey Question 19)

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

52 Total Responses Average Ratings by Market Constituent Type

**Figure 11b: (Survey Question 19)**

How informative are signatories' descriptions of their research methodologies, including how they ensure that the research is reliable?

[Scale 0 to 5, where 0 is uninformative and 5 is very informative]

52 Total Responses Average Ratings by Market

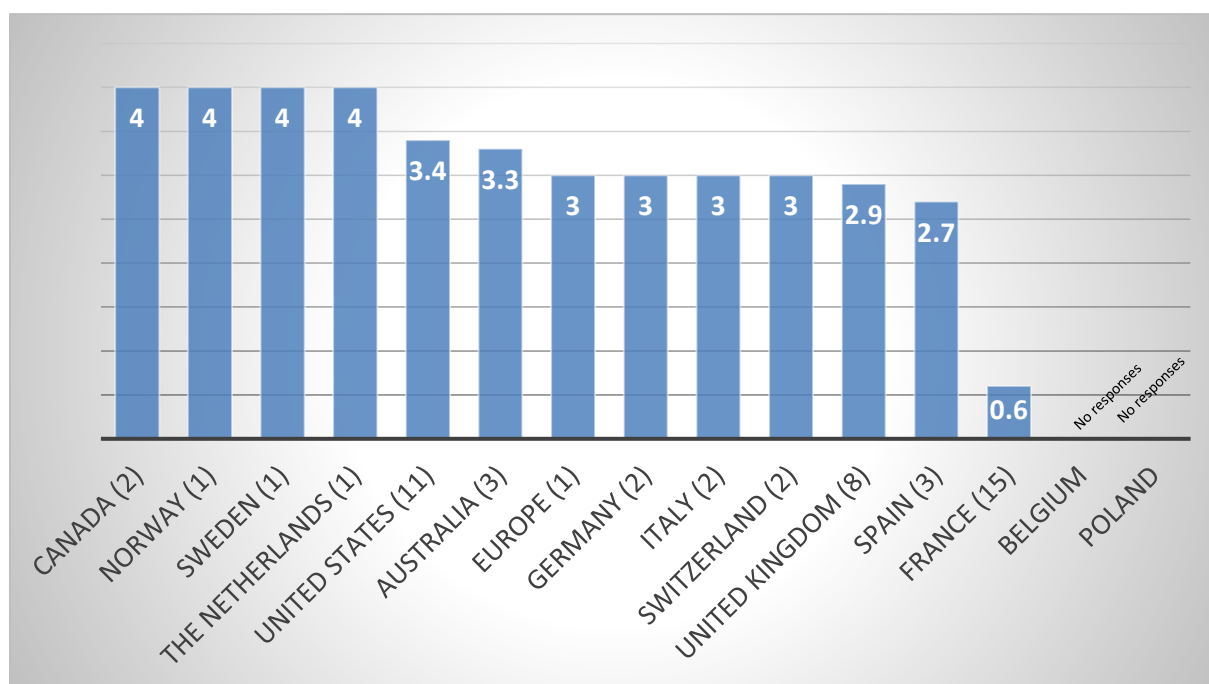
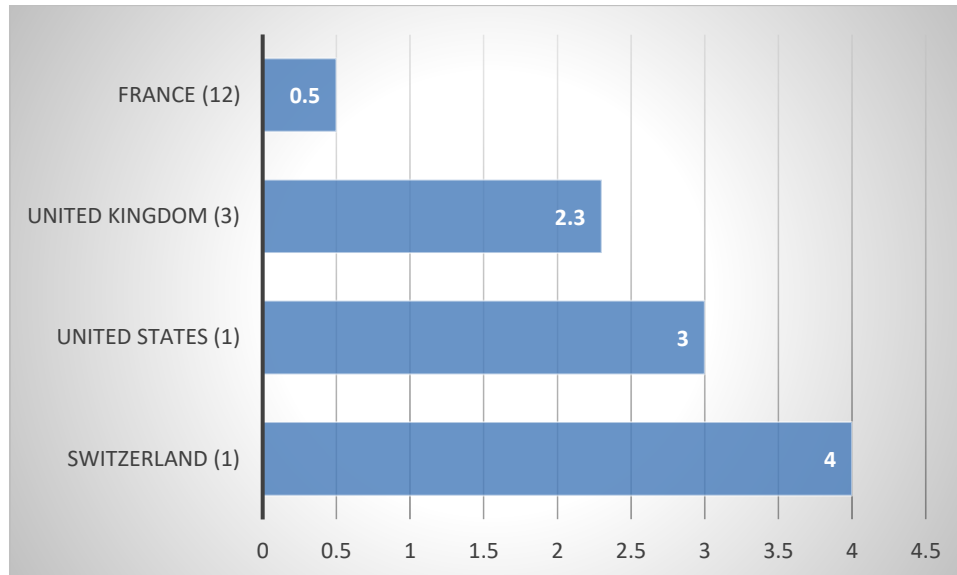


Figure 11c: (Survey Question 19)

How informative are signatories' descriptions of their research methodologies, including how they ensure that the research is reliable?

[Scale 0 to 5, where 0 is uninformative and 5 is very informative]

17 Company Responses Average Ratings by Market

**Figure 11d: (Survey Question 19)**

How informative are signatories' descriptions of their research methodologies, including how they ensure that the research is reliable?

[Scale 0 to 5, where 0 is uninformative and 5 is very informative]

21 Investor Responses Average Ratings by Market

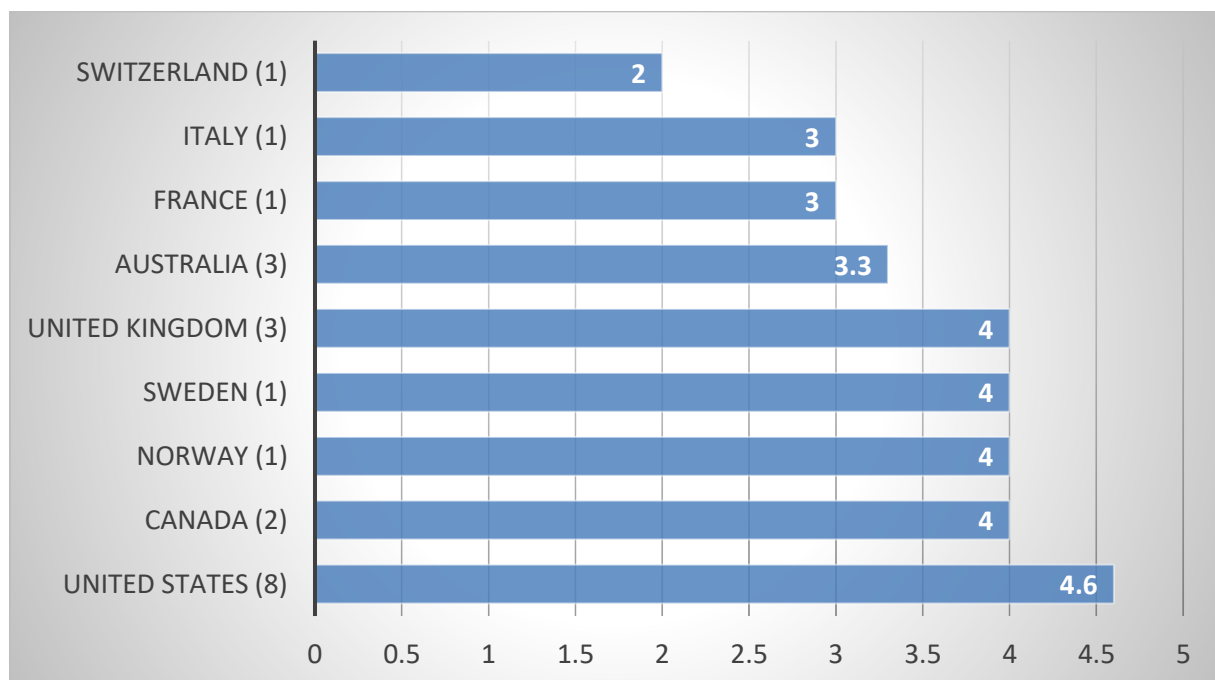


Figure 12: (Survey Question 21)

Principle 2 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]

46 Total Responses

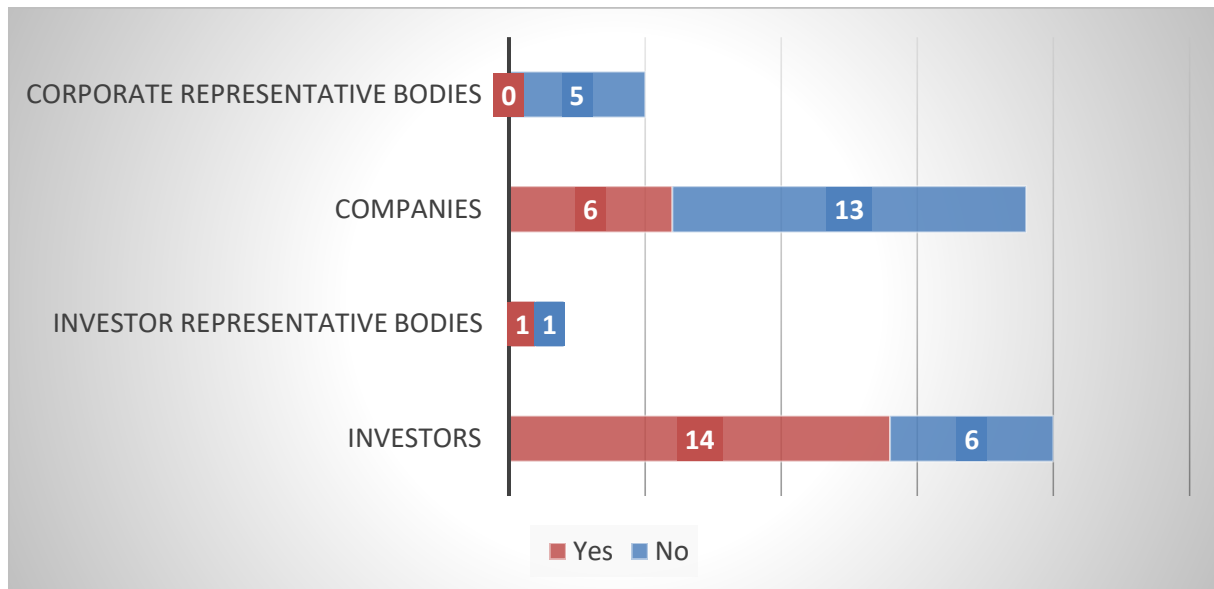


Figure 13: (Survey Question 25 to Investors Only)

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]

19 Total Responses

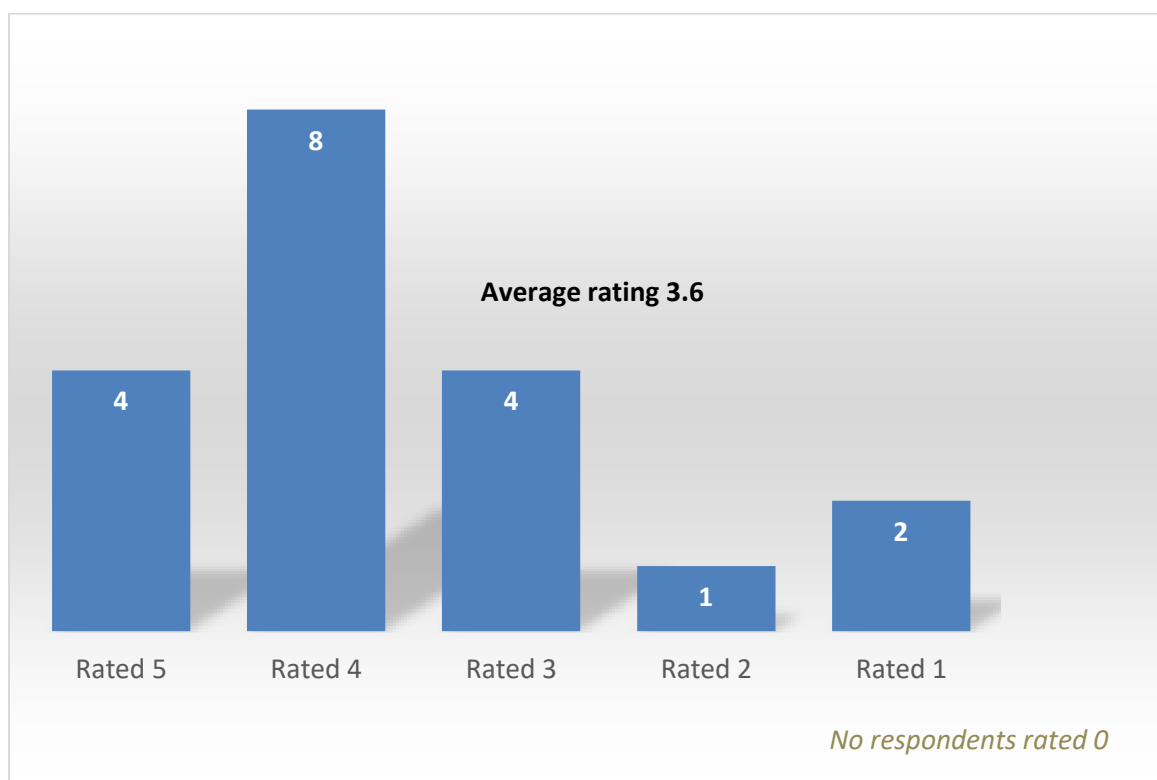


Figure 14: (Survey Question 27 to Companies, their Representatives and Advisors Only)

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

25 respondents average ratings by market constituent type

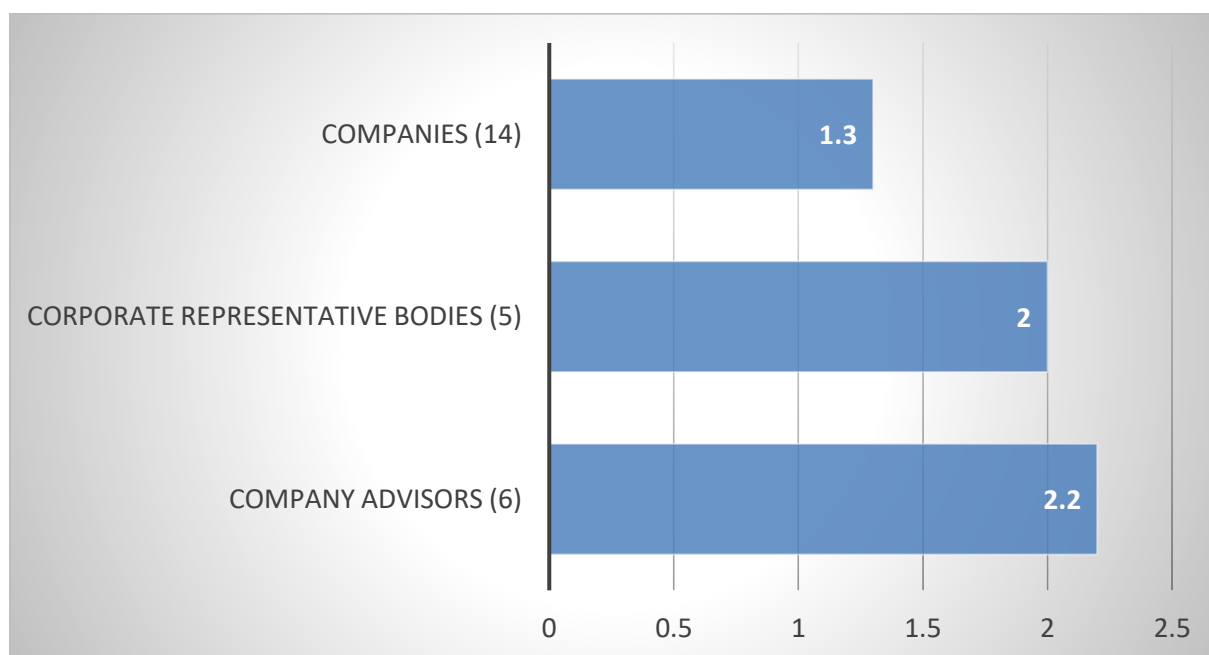


Figure 15: (Survey Question 31 to Investors Only)

Many companies consider they should have the opportunity to comment on the analysis & recommendations in research reports before they are finalized. Investors, which of these statements most closely reflects your view?

19 Total Responses

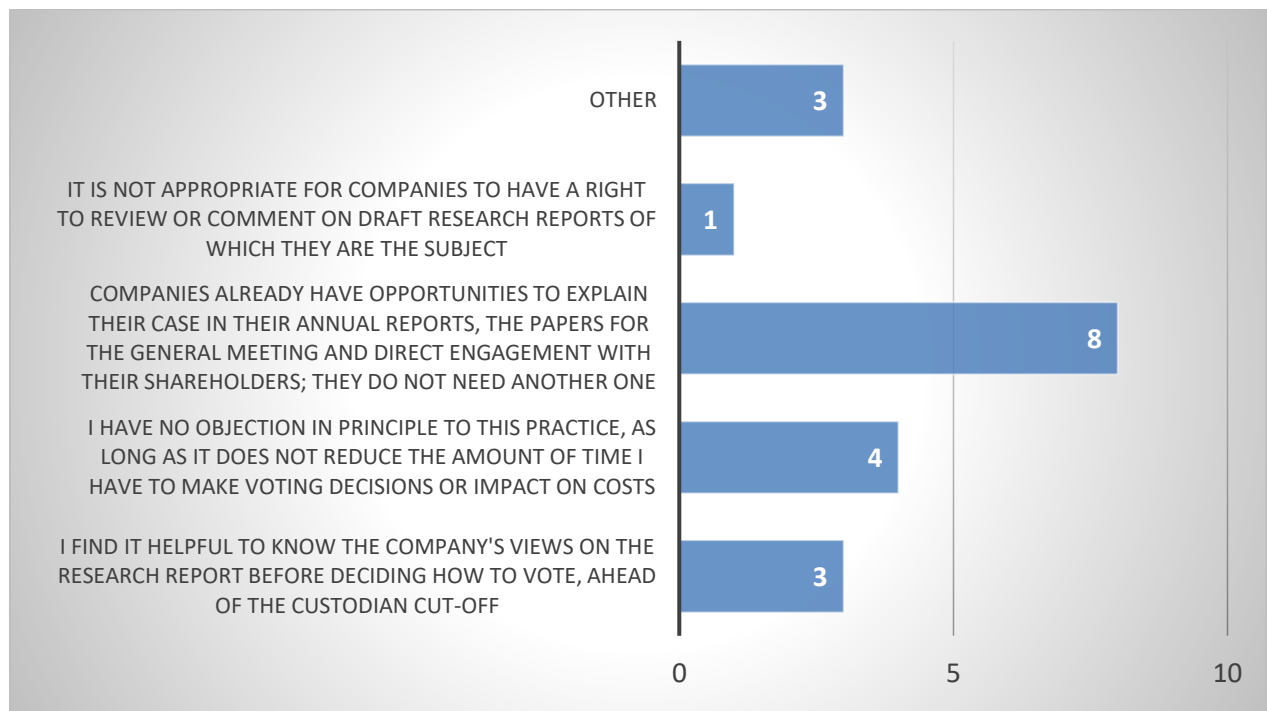


Figure 16: (Survey Question 34)

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

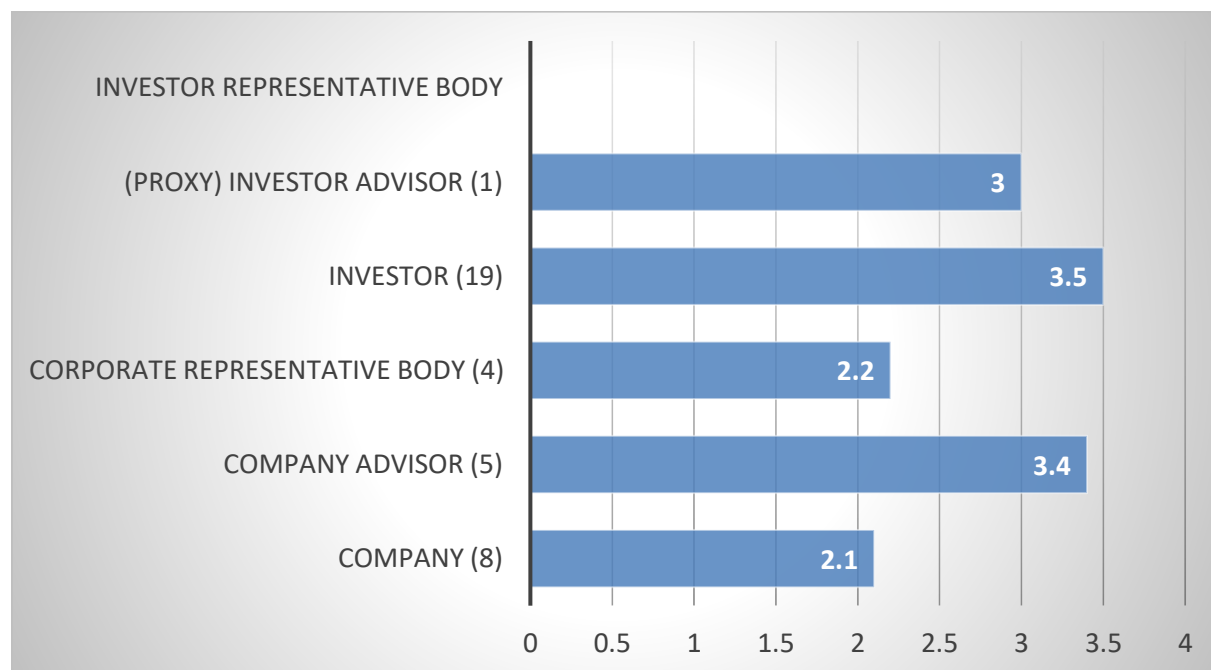
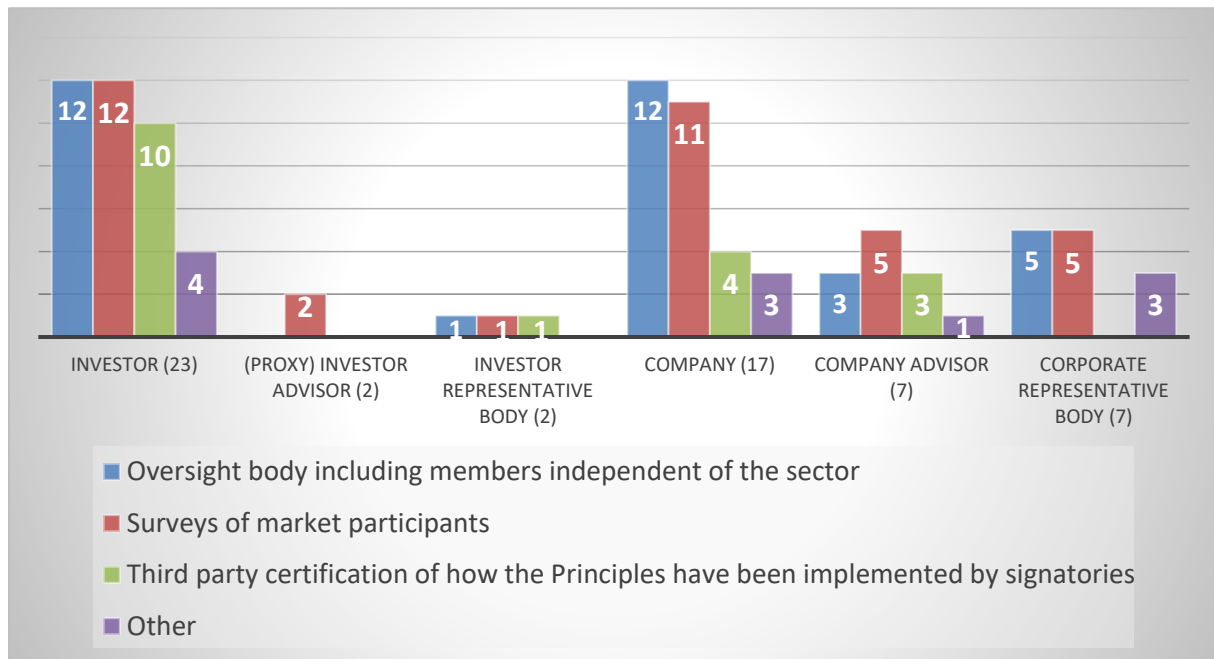
37 Total Responses Average Ratings by Respondent Type

Figure 17: (Survey Question 36)

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.

58 Total Respondents with Multiple Responses



In the Discussion Items sections 1.1-1.8 of the overall Report of the 2019 Independent Review Chair, elements of the qualitative data analysis in Dr. Anna Tilba's study below, written in 2018, are taken into consideration alongside findings from the analysis of the quantitative survey data from the 2017 public consultation, feedback from the 2019 Stakeholder Advisory Panel, the ESMA 2015 Follow-Up Report, requirements of SRD II and updated stewardship codes globally (as of July 2019). Dr. Anna Tilba drafted the 2018 qualitative study under the instruction of Chris Hodge, the 2017 Independent Review Chair, who led the public consultation phase. Any references made to specific respondents, as well as the selection of quotes in this qualitative study, are the responsibility of Dr. Anna Tilba. Consultation respondents who agreed for their full responses to be published on the BPPG website are listed in [Appendix 1](#).

A. Tilba, January 2018

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2017 BPP Consultation Qualitative Survey Responses Analysis Report

By:

Dr. Anna Tilba

Associate Professor in Governance

Northumbria University School of Law

'ESMA considers that the role of proxy advisors is to be understood as facilitators for institutional investors to help them to discharge a specific part of the investors' stewardship responsibilities more efficiently, namely where these responsibilities relate to the investors' ownership rights and voting activities. Overall, ESMA finds that the industry is "moving in the right direction" although its assessment is only preliminary given that ESMA reviewed the 2015 proxy season only, the first following the adoption of the Principles by signatories.

(ESMA Report, 18 December 2015)

EXECUTIVE SUMMARY

This Report presents the findings of the analysis of the qualitative responses that were provided in the context of the Best Practice Principles 2017 Public Consultation. It is an input to the Report of the Independent Review Chair of the Best Practice Principles for Providers of Shareholder Voting Research & Analysis, which follows up on the 2015 ESMA Report on the development and implementation of the Principles. This Qualitative Survey Responses Analysis Report begins with a brief description of the research data and data analysis method. Subsequent sections of the Report introduce the broad opinions of the respondents about the effectiveness of the BPP and progress made to date in the implementation of these principles across the EU. The Report summarises respondents' views on the content and scope of the BPP, and the related communication, monitoring, compliance and methodologies issues. The Report highlights that nearly half of qualitative responses perceive the BPP as lacking in its effectiveness. The concluding section of this report summarizes respondents' views on ways of improving the BPP in terms of its scope and structure, mitigation of conflicts of interest, communication, monitoring and compliance. Appendix A summarizes additional stand-alone comments.

DATA ANALYSIS METHOD

The analysis of this report is based on 48 qualitative comments within responses to the 2017 BPP Consultation Questionnaire. Survey respondents comprised of Investors (33% of respondents), Companies (31%), Company Advisors (12%), Corporate Representative Bodies (12%), Investor Representative Bodies (6%), (Proxy) Investor Advisors (4%) from fifteen countries. The most number of responses came from France, the United States and the United Kingdom. Sixty six percent of respondents were from the EU and 34% from Non-EU countries. All but one of the investors were currently clients of a voting research provider.

To analyse the qualitative data within survey responses, NVivo 11, which is qualitative data analysis software, was used. In the first step of the analysis, responses were entered in NVivo as text files and coded on the basis of *in vivo* key words. These comprised on the answers to the qualitative questions within the survey. This initial coding resulted in 13 broad themes, such as ‘Communication’, ‘Monitoring’, ‘Best Practice Principles Content’ and so on.

In the second step and where necessary, these themes were further distinguished into additional themes. For example, ‘Additional Comments’ node or theme was further split into comments relating to the ‘Composition of the monitoring body’, ‘Trends in Equity Markets’, ‘ISS Dependence’, ‘Complaints Procedure’ and ‘Critique of the BPP effectiveness’. Similarly, respondents’ comments about ‘Communication’ could further be split into ‘Companies involvement’ and the ‘Quality of statements’. All in all, 23 such themes/categories were identified with 402 references to those themes and 86 pages of NVivo content. There were 3 additional responses that had to be analysed separately, as the file format was not supported by NVivo software.

MAIN FINDINGS

The findings of the qualitative data should be taken into consideration alongside the analysis of the quantitative survey data. The analysis of the qualitative responses suggests that whilst there has been overall an increase in awareness around BPP and the duty for proxy advisors to sign up to those principles, the application of BPP is still a long way from being effective. Respondents’ opinions seem to split nearly 50/50 where twenty five references were made about the positive impact of the BPP on proxy advisor practices, and the majority of respondents supported the ‘comply or explain’ framework for the principles, but also noting that the application of these principles can still be improved. There were twenty six references, which heavily criticized the BPP’s effectiveness. The following sections of this report will summarise in more detail the comments made about the positive aspects of the Principles, followed by the description of challenges and areas for improvement. Report concludes by highlighting suggested ways forward and other relevant general comments.

Progress made

Data analysis suggests that the Best Practice Principles (BPP) have had a positive impact because there has been more engagement with proxy advisors and it was also possible to provide comments on proxy analysis. Increased transparency helped in developing a constructive dialogue with proxy advisors and improvements on the reciprocal understanding have been reached. Some respondents have characterised the BPP as ‘*insightful and detailed*’. A respondent from Germany noted that the BPP have increased awareness about proxy advisors’ role and influence within capital markets.

A UK regulatory body welcomes the consultation on the Best Practice Principles for Shareholder Voting Research and Analysis (‘the Principles’). In their response there was the following commentary:

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‘...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 respondent 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 respondent 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’.

A US global asset manager, has also commented that: *‘The Principles provide an expectation and assurance of a baseline for consistency of service provided’* The respondent added that it also conducts its own due diligence with its service providers. Another respondent, an Italian corporate representative body, has commented that there has been more engagement with proxy advisors:

‘Our Association, whose membership is composed of around 500 companies from all sectors (industry, finance, services and public utilities) including around 110 listed companies (this represents about 90% of the market capitalization of the Italian stock exchange), has regular contacts with the main proxy advisors operating in the Italian market (ISS, GlassLewis, Frontis Governance). In the past years, we organized collective meetings between our members and proxy advisors, well before the AGM season, in order to facilitate a constructive dialogue and enhance proxy advisors’ knowledge of the specificity of the national legal system and corporate governance practices, with good results in terms of debate and reciprocal understanding’

Respondents also noted that proxy advisors have been more aware of the necessity to be more transparent about their business practices and the way they operate. One respondent noted that the websites have been substantially improved and it was easier to find relevant information for instance about voting policy updates, the UK company representative body expressed a sentiment that BPP captures the shared goal of *‘effective stewardship and robust corporate governance to ensure efficient markets’*. Furthermore, a UK investment manager and engagement overlay provider highlighted that the Principles are broadly informative and strike a good balance. The improvement in professional standards was also the general impression of a global investor representative body.

A UK corporate representative body has acknowledged that the communication of proxy advisors has improved, particularly in the case with Glass Lewis who is said to achieve significant progress in terms of their willingness to engage with companies. A French company has also observed that Glass Lewis for the first time in 2017 has decided to engage in a dialogue with the companies prior to issuing its report. In addition, a French corporate representative body, noted that Glass Lewis statements bring clarity about conflicts of interest. GL discloses statistics about its conflicts of interests and fosters transparency to ensure the accuracy and reliability of the advice they provide.

Respondents also broadly agreed with the ‘comply or explain’ nature of applying the BPP, pointing out that the adherence to these principles is likely to reduce the need for additional or new regulation.

‘The basic assumption underlying the governance guidelines for listed companies is that governance practices should be tailored to the specific challenges the governance model poses. To this end, the guidelines offer sufficient flexibility through the principle of ‘comply or explain’. Over the years, most European countries have opted for a ‘comply or explain approach’ in relation to governance matters (for more information see the [/Mazars study](#)). Although there is still quite some room for improvement, the market regulators as well as the European Commission, find the comply or explain approach the route for the future regulation of most governance matters, even beyond the mere respect of governance codes. It is therefore certainly defensible that also the organization of proxy advisors opts for this type of self-regulation. It will hopefully lead them to reconsider their reluctance to accept this approach, when judging the governance of listed companies.’ (A combined response from a number of European Company Director Associations).

BPP Scope and Structure

There were sixteen references made to the content, scope and the structure of the BPP. Two themes emerged more prominently from these comments. Firstly, of the BPP being too broad in its scope; and, secondly, that ESG should not be included in that scope. More specifically, there were four responses, a Dutch investor representative body, a French corporate representative body, a UK investment manager that provides overlay services and a UK academic, which suggested that the current scope and structure of the BPP is too broad and in need of narrowing down. For example, a UK investment manager which provides overlay services commented that:

‘[We] believe that the scope of the Principles should be narrowed down to avoid duplicating or encroaching on existing Stewardship and Governance codes; enhance the impact of the Principles and focus improvements on those areas of most concern for the proxy advisory industry. We believe vote processing and confirmation should form part of service quality’.

In addition, a Dutch investor representative body suggested that the current broad scope of the BPP should:

‘...be narrowed down to proxy vote advisory services only. This could be achieved by aligning the current definition of Shareholder Voting Research and Analysis with the definition of proxy advisor from the revised shareholder rights directive. That directive (art. 2 (g)) defines proxy advisor as follows: “a legal person that analyses, on a professional and commercial basis, the corporate disclosure and, where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights”. More generally we believe that the BPP should be coherent with the minimum requirements stemming from the revised shareholder rights directive.’ (Dutch Investor Representative Body).

Similarly, a French issuer representative body notes that the three key principles (“Service quality”, “Conflicts of interest management” and “Communication policy”) are still too broad. It was suggested that the principles must be compatible with the article 3j of the revised Shareholder Rights Directive (2007/36/EC) and include the following: the essential features of the methodologies and models applied; the main information sources used; the procedures put in place to ensure the quality of the research, advice and voting recommendations and qualifications of the staff involved; whether and if so, how they take national market, legal, regulatory and company specific conditions into account; the essential features of the voting policies applied for each market; whether they have dialogues with companies which are the object of their research, advice or voting recommendations and with the stakeholders of the company and, if so, the extent and nature thereof.

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With particular reference to ESG, respondents including two French companies, a French corporate consultant and a Dutch investor representative body expressed a view that ESG advisory services should not be included in the scope of the Principles as they may involve potential conflicts of interest, including governance rating services. For example, Eumedion explained that:

‘...ESG advisory services, indices and governance engagement services may threaten independent voting advice by proxy advisors. In case it is decided to broaden the scope of the BPP to ESG advisory services and indices and governance engagement services we believe that safeguards should be included in the BPP to preserve independent voting advice by proxy advisors who offer those services (e.g. with respect to the prevention and management of potential conflicts of interest)’ (Dutch investor representative body).

A French corporate consultant also added that:

‘ESG advisory services should be banned as a potential source of conflict of interest (as well as governance rating services). The main issues not addressed by the questionnaire is the concentration of the “proxy market” with only 4 big players and the lack of means to provide quality.’

However, it should be noted that overall survey responses suggest that 24% of respondents considered that the BPP should address ESG and 32% of respondents suggested that Governance and Engagement Services should also be included. A UK investment manager also suggested that the BPP should be focused on research over other parts of the voting chain, which face a number of bespoke issues. This respondent also suggested a creation of separate principles as a possible way forward. This echoes a Swiss asset manager’s suggestion to have specific ‘principles for consulting businesses besides the voting research activities’.

The Significance of Context

Respondents’ qualitative comments emphasized the significance of context (national markets, legal, regulatory and company specific) when considering the application of the BPP. There were twenty respondents and thirty references to this particular area of consultation. According to a global investor representative body, the Principles are capable of being applied in all markets and that its Global Stewardship Principles commentary on proxy voting can help put these issues into a global context. Notwithstanding the global investor representative’s point of view, the majority of other primarily corporate respondents’ qualitative comments agreed that whether it is a dialogue with the company or the voting policies and recommendations, these policies need to be tailored to each country, taking into account local legislation, regulation and practices. Particular attention should be paid to identifying companies’ peers, company sizes and sectors. A UK corporate representative body, noted that some signatories have implemented their own voting policies that consist of highly detailed and technical provisions, which go beyond existing law, regulation and guidance. These voting policies are applied mechanistically, often on a quasi-box-ticking basis and with no qualitative assessment.

This respondent urged the Steering Group to reflect on, *‘whether these developments should be acknowledged in the revision of the BPP, and if so whether it has further implications for how signatories discharge their duties or create new responsibilities.’*

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According to a French corporate representative body, most of the time, the above criteria are ignored by proxy advisors. For instance, French law lets companies choose between combining and separating the functions of CEO and Chairman of the board whilst ISS systematically opposes uniting the functions. EuropeanIssuers, the European association of corporate representative bodies added that Proxy advisors tend to consider that the position of Chairman of the board and CEO should be separated and perceive it as the only acceptable governance practice for the Board of Directors. This dogmatic position is not in line with the French commercial code, which offers the possibility to choose between three equally acceptable options: in the one-tier system, there is a possibility to either combine or to split the function of chairman and CEO; a two-tier system including the management board and the supervisory board.

Similarly in Italy, according to an Italian corporate representative body, it sometimes happens that proxy advisors do not pay adequate attention to the national legal framework and corporate governance culture. While the voting policy of a certain proxy advisor recognises the Italian “voto di lista” mechanism (slate system) for the election of the board of directors, its quality score considers this a bad market practice. This seems to fail to take into consideration that Italian legislation for listed companies requires boards of directors to be elected based on the lists of candidates. Moreover, the quality score of this proxy advisor considers requiring super-majority votes to amend the articles of association as bad market practice, while a resolution of the General Meeting taken by a simple majority would be against the law. As a result, the competent Commercial Registry would not allow registering the new articles of association. It would also be important to have full transparency on the criteria followed by proxy advisors when they assess and negatively evaluate the independence of members of the board of directors of a company, especially when the relevant requirements of independence are set forth in the by-laws or in the law.

In Spain, according to a European issuer representative body, one of the proxy advisors consulted on a new policy for the delegation of the corporate power, by the General shareholders meeting, to the Board of Directors, for shares issuance without pre-emptive rights. Consideration was given to whether, in this case, a maximum limit of 10 percent of the issued share capital was appropriate for the general share issuances without pre-emptive rights. They suggest that companies felt the limit of 20% would be more appropriate than the 10% proposed, which was reflected in responses to this consultation, explaining the regulatory and market practices background. Nevertheless, the proxy advisor decided to change the policy disregarding the explanations provided by companies and the recommendations of the local market body.

In Germany, a corporate representative body, also sees certain problems for companies with a dual listing and argues that it is important that proxy advisors apply the right national legal frame for the company they issue recommendations on. This respondent adds that there is still: ‘a certain lack of understanding for German legal forms of stock listed companies. Here, stock listed companies do not only take the legal form of a public limited company (Aktiengesellschaft; AG) or the Societas Europaea (SE) but can be also be a partnership limited by shares/silent partnership (Kommanditgesellschaft auf Aktien, KGaA). The KGaA is mixture of the public limited company and the partnership; not all recommendations of the German corporate governance code e.g. fit for it. As a consequence, it is important that proxy advisors consider the structure and legal background of such companies when preparing vote recommendations.’ The German corporate representative body added that:

‘National Corporate Governance Codes cannot be ignored by proxy advisors. In addition, Proxy Advisors should be more country sensitive, otherwise their advices might be pointless. In fact, governance structures and processes can hardly be (completely) harmonized across countries. The best example is the statement of the former European High Level Expert Group on corporate law and corporate governance, stating that governance should be tailored to the specific legal and socio-economic context of the countries, rather than striving for a harmonized European governance code. If the differences across Europe are already considerable, proxy advisors, should acknowledge that it is no option striving to harmonize the ‘world’, let alone align their principles of good governance with the US governance model, that is drastically different e.g. than the continental European or Asian ones. In fact, governance guidelines and recommendations try to cure the challenges, specific governance models face. For each governance disease, an appropriate remedy is/should be foreseen. For example, the definition of independent directors mainly highlights the independence towards powerful managers in a US company with dispersed shareholders. On the contrary, the governance recipe of continental European or Asian countries will mainly focus on the independence towards powerful shareholders in the listed companies that have controlling shareholders. Independence should mainly be defined in relation to those ‘in power’, those that can influence decision-making in their own interest.

Particular criticism was directed towards ISS. Some respondents, a UK corporate representative body and a French corporate representative body have suggested that ISS claims to take into account local regulation and soft regulation, but the reality is different (e.g. separation of the functions of Chair and CEO is a choice of the Board and not of the AGM). It was also said that Glass Lewis was better able to take into account local regulation and soft regulation, claiming not to apply the guidelines in a “one-size-fits all” manner, but with respect to the unique characteristics of each company.

All in all, corporate and corporate representative body respondents agree that voting policies should be tailored to each country, taking into account local legislation, regulation and practices. The concrete vote recommendation for a general meeting of a specific company should consider its individual situation. There should be no box ticking, i.e. voting policies should be applied with some flexibility. One of the key factors for a high quality of the house voting policies is the number and qualification of the analysts/staff of the proxy advisor. Otherwise, box ticking is quite likely.

The BPP’s (lack of) Effectiveness

Notwithstanding all the positive comments that were made about the progress of the BPP, there was a substantial amount of critical comments from corporate and corporate representative body respondents: 26 sources and 32 references to the lack of effectiveness of the BPP. According to survey responses to the question about the BPP’s effectiveness, EU respondents give it a rating of 1.9 out of 5 and Non-EU respondents have given the rating of 2.7 out of 5 on the positive impact of the Principles since they were introduced in 2014. There was an overarching corporate view that the current set of principles doesn’t seem to be relevant because the BPP is not ‘respected’; that the proxy advisors do not take into account domestic practices; and that there are many conflicts of interest such as ESG advisory and governance rating services. One French company suggested that proxy advisors do not respect:

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'basic transparency guidelines (e.g. sending their draft report to the companies at least two days before making it available to investors (which leaves a limited time to companies to provide feedback) and often do not take into account feedback from companies (factual comments notably).'

This view was echoed by a French corporate consultant which stated that proxy advisors:

'Don't respect elementary transparency rules such as sending their report to the issuers at least 2 days before publication (which is already very short notice), and don't take into account factual comments/corrections from issuers. No supporting evidence of the mitigation of the conflict of interest (nothing more than virtuous intentions) due to unclear mix of tasks: governance rating advice proposed to issuers in parallel of voting recommendations to investors.'

Another French company also added that the Principles do not guarantee the mitigation of potential conflicts of interest because some proxies provide both advisory services to companies and voting recommendations to investors). The proxy collection and automatic vote under a certain threshold is also said to be an issue.

One of the French companies and a French corporate consultant also suggested that the 'proxy market' is very concentrated with only four big players who have *'no means to provide good service'*. A further French company added that proxy services are often reluctant to spend time on small cap businesses and that the proxy advisors are not open to dialogue, refusing to send their reports before publication, asking feedback at the last minute and not including the answers in the published reports. According to this French company:

'The absence of conflict of interest is not demonstrated, especially in two cases: 1) when signatories also provide consulting services to issuers, as well as voting collection services; 2) when signatories publish articles on their website reflecting the position and arguments of a dissident shareholder but not the position of the issuer'.

A UK Trustee Representative Body has commented that since the publication of the BBP, it hasn't seen any change in how proxy voting agencies operate. Although some respondents noted some improvements in the disclosure of conflicts of interests and the need for greater transparency around these issues, not much change has happened in practice. One investor respondent has added that although principles have helped identify the parameters, the proxy advisors are too inhibited by financial and resource constraints of their business and market competition to be able to meaningfully address concerns like conflicts of interest and calls for improved staffing. A Swiss shareholder voting research provider, has commented that the Principles should aim at *'preventing conflict of interest rather than just documenting them'* and so far, the principles have not proven to be effective in achieving this. A French corporate representative body also raised concerns around the lack of resources and hence the quality of ISS analysis as it:

'...covered in 2016 40,000 AGMs in over 117 developed and emerging markets with a team of 370 researchers. This represents an average of 108 meetings per researcher. One may wonder how this team is able to provide an accurate and reliable analysis of each resolution tabled by each issuer. Controls designed to ensure the quality of the advice are listed but no statistics are provided.'

Another French company respondent noted that there is no enforcement to incite proxy advisors to apply the principles and that the principles are not very demanding in terms of governance. A UK corporate representative body concluded that *‘Codes are often less effective when their requirements are set by those who will be subject to them rather than by other market participants’*. This view was also shared by a US global asset manager who argued that the introduction of the BPP *‘seems like an attempt to pre-empt and defuse regulatory restrictions on the proxy advisory industry’*.

Conflicts of Interest

Twenty six respondents made 48 reference/comments about conflicts of interests. According to a German corporate representative body and an Italian shareholder voting research provider, potential conflict of interest may arise when some proxy advisors offer different services such as consulting services, voting platforms, etc to different clients. Therefore, proxy advisors should have the duty to disclose any relationship with the issuer, who is subject to voting recommendations and/or with shareholders who have tabled resolutions as well as with any persons who control directly or indirectly the issuer of the shareholder. Similarly, a French company noted that conflicts of interest can arise when providing both governance advisory and proxy collection services to the same issuer. This view was echoed by another French company which stated that the conflicts of interest can be avoided by a clear separation of duties where a proxy advisor cannot be a governance advisor or a governance rating agency, nor a proxy collector. These respondents argue that a “comply or explain” rule is not enough, and urge the adoption of a specific principle preventing research companies (or any other intermediary in the proxy voting process) from offering advisory services to both shareholders and listed companies that are included in their research universe.

One of the frequently mentioned conflict of interest related to the practices of ISS. According to a French corporate representative body there are obvious cases of conflicts of interest that are not yet tackled. The following extract from their response lists and elaborates on these areas:

‘...some proxy advisors actually do not comply with the current BPPs even if they are signatories. In particular, ISS, in its compliance statement, considers that it fully complies with the three principles of the code whereas it is public knowledge that conflicts of interests arise when its fully owned subsidiary ICS provides corporate governance advice to issuers whilst ISS provides governance research about the same issuers. ICS is putting a lot of pressure on issuers to sell them their services, sometimes close to harassment. The way it works overall is that ISS implies they will vote against a resolution whilst ICS tells the issuer they can help get a positive vote. These practices are well known and it must be noted that a recent consultation of the Swiss Stock Exchange concluded that there is a need to regulate to avoid conflicts of interests stemming from the exercise of two different activities by certain proxy advisors which are governance consulting activities for issuers and the voting advisory activities for investors’.

Some respondents believe that there is no ‘Chinese Walls’ between ISS and ICS activities. A French issuer representative body considers that the solution cannot be reached by strengthening the procedure but by a clear separation of duties: a proxy cannot be a governance advisor or a governance rating agency. The response from a French company notes that the managing of conflict of interest does not avoid conflicts of interest. The respondent went on to explain that:

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'Proxy advisors should not be allowed to offer ESG advisory services and indices and Governance rating services. All proxy advisors' activities should be reviewed according to the revised shareholder rights directive (2007/36/EC). The principles should ban all conflicts of interest starting from the ownership of proxy advisors thorough the services provided. For example ISS' main shareholder is a Genstar Capital a firm specialized in LBO. This link with investors (active or institutional) create a doubt on the independence of ISS. The existence in ISS of two activities which are said to be independent is a conflict of interest. ISS offers both governance advice and rating. In order to have access to the method used by The Pay for Performance screening a company has to pay for the service before its general meeting. Furthermore, no reference to the Quality Score given by ISS Corporate Solutions should appear on the ISS Research analysis since the two teams are said to work behind a Chinese wall. Issuers should have access to an independent board'.

Furthermore, respondents such as a Swiss shareholder voting research provider and an Italian shareholder voting research provider explained that they have not subscribed to the BPP because:

'The Principles did not prevent one of the signatory from developing consulting services to issuers in parallel to its proxy voting activities. Such development is negatively perceived by the market and may push further regulations on proxy advisor, which is exactly the opposite goal initially pursued by the Principles. The development of consulting services for issuers by proxy advisors significantly impairs the credibility of the profession... Other professional activities such as the audit profession have been regulated to avoid incompatible mandate. Indeed, an audit firm cannot keep the books of its audited client. [We] consider[] that the same should apply in the proxy voting field where proxy advisor should not offer consulting advice to analysed companies in particular on topics that are part of the General Meetings agenda.' Swiss shareholder voting research provider

The respondent went on to say that:

'While some type of conflicts of interest cannot be avoided and should be clearly documented (clients that are controlled by a listed company, or clients proposing resolutions), the possibility to offer advisory services to both shareholders and issuers is absolutely avoidable, and almost all proxy advisers have eliminated such conflict of interest by self-regulation. However, we strongly regret that the same principles are not adopted by all advisers. In our opinion, the so-called "Chinese wall" between proxy voting teams and consulting teams are not an effective response to distortions caused by conflicts of interest. Furthermore, we believe that "comply or explain" rules are not strong enough to solve all the problems generated by conflicts of interest. Despite any "Chinese wall", analysts can easily identify the listed companies using the researcher's advisory services. On the other hand, listed companies may decide to purchase the advisory services of the researcher to increase the possibilities of a favourable voting recommendation. We even have been informed by some issuers that one proxy firm strongly recommended an analysed company to use the consulting services proposed by its firm in order to gain a "yes" vote.

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In light of these negative developments, we urge the BPP Group Review Committee to review the Principles which should prompt signatories to avoid conflict of interest. The Principles should also include a list of services that are incompatible with proxy voting activities as it is the case in other profession such as auditing. This concerns in particular providing consultancy services to issuers on executive remuneration and corporate governance while simultaneously providing voting advice to investors on the same issuers’.

Similarly, an Italian shareholder voting research provider added that:

“Chinese walls” are not an effective solution to distortions caused by conflicts of interest. We believe that “comply or explain” rules are not strong enough to solve all the problems generated by conflicts of interest. Despite any “Chinese walls”, analysts can easily identify those listed companies that hire the proxy advisor’s corporate services. On the other hand, listed companies may decide to purchase the corporate advisory services of the researcher to increase the possibilities of a favourable voting recommendation... allowing the possibility to provide advisory services to listed companies represents a clear distortion of competition, especially taking into account that almost all the competitors have voluntarily eliminated such possibility, renouncing to potentially significant revenues generated by providing advisory services to issuers’.

A French issuer representative body concluded that to manage conflicts of interest proxy advisors should ‘disclose any relationship (i) with the issuer who is subject to voting recommendations, (ii) with shareholders who have tabled resolutions, (iii) and with any persons who control directly or indirectly the issuer or the shareholders mentioned previously. Proxy advisors should disclose precisely how they prevent conflicts of interest when they offer different services (consulting services, voting platform).’ This view was echoed by an Italian issuer representative body which also added that:

While it is important to disclose how conflicts of interest are managed, it may be not sufficient for instance when a proxy advisor offers consulting service to companies in which it provides governance research to investor. Conflicts of interests should be properly addressed and resolved. We believe that, in line with ESMA findings in the Follow-up Report of 2015 (p. 16), BPPs need to make clear that signatories should seek to avoid conflicts of interests with their clients. We also remind that SHRD II requires Member States to ensure that proxy advisors identify and disclose without delay to their clients 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.’

All in all, respondents emphasised that signatories should provide more meaningful disclosure on the process of managing conflicts, either within their statements or directly to clients, or both. To avoid conflicts of interest it is advised to separate roles – i.e. a proxy must not be allowed to act in the same time as a proxy and a governance advisor and a governance advisor and propose governance rating services as well as acting as proxy solicitor. Proxy advisors should have the duty to disclose any relationship they have with the issuer who is subject to voting recommendations; with shareholders who have tabled resolutions; with any persons who control directly or indirectly the issuer or the shareholders.

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With particular reference to ESG, a Dutch investor representative body added that ‘signatories who provide ESG advisory services to companies and/or issue ESG ratings on companies should create separate subsidiaries to provide the consultancy services to companies and should install ‘Chinese walls’ between the ESG advice and ESG ratings businesses’. Furthermore they strongly advocate an evaluation of the effectiveness of the procedures and policies for addressing potential or actual conflicts of interest to be carried out on a regular basis by the signatories. Any issues arising from these evaluations should be immediately addressed by the signatories.

Echoing these views, a European association of corporate representative bodies have commented that:

‘Given the “power” of proxy advisors, issuers may feel “forced” to pay for the consultancy services to gain a better understanding of governance scores or the evaluation of remuneration criteria. Such conflicts of interests should be properly addressed and resolved. We believe that, ideally, consultancy services should not be offered and / or provided to companies covered by research by the same industry participant to its clients (i.e. investors). Otherwise, more transparency should be ensured, by e.g. allowing companies free of charge access to the relevant data and methodology used. Some proxy advisors have their own method of calculation to assess the remuneration of the management. To receive information on such a, assessment, issuers need to pay high fees. Another service provided by some proxy advisors, or their subsidiary, is a quality rating of the issuers allowing access to a part of the recommendation prepared for investors. Subscribing to advice provided within such service allows to improve company rating or to assess whether company resolutions are in line with the proxy advisor’s voting policy.’

There is also some anecdotal evidence presented about major concerns over the market of voting research providers (VRP) and the propensity of some investors particularly some overseas investors to blindly follow the recommendations that they receive from their chosen VRP. A UK corporate representative body describes this problem and offers solutions for it in a vignette below:

‘...the anecdotal evidence from companies who have been told by an investor that they have voted against a resolution because “that is what [the VRP] told us to do” – in some cases, allegedly, after the investor has agreed to support the resolution in its engagement meeting with the company. We have also heard reports that some investors choose to follow VRP recommendations in order to avoid charges of conflict of interest where shareholdings are held both for clients and for the investors own account.

It is to address this issue, and to mitigate any potential for conflict of interest, that we believe that the Principles should require that: a VRP should pro-actively engage with an company where they are recommending an abstention or a vote against the company or, where they do not offer recommendations, where their research contains significant criticism of the company’s position, in the same way that the Stewardship Code recommends that investors inform the company in advance of their intention to abstain or vote against a resolution and the reasons why such engagement should take place in good time to allow the company at least two business days to consider and respond to the VRP before circulation of the report. VRPs should not offer consultancy services to companies on whom they may report – including the

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sale to companies of voting research reports owing to the significant potential for conflict of interest that this creates.

Finally, all parties involved in the voting chain should do whatever they can to address the issue of blind voting by a minority of investors. As also noted above response to question 28), companies see VRPs as distinct from investment analysts in that the reports of the latter are presented to a relatively small pool of investors who have the opportunity to compare that report with those of other analysts and market consensus which will be in the public domain. The quality of the analyst report is, at least in the UK, assured by regulation and the oversight of the regulator. The same does not apply to the work of VRPs, and it might be worth considering whether it should’.

Finally, a Canadian global asset manager noted that influences of regulators, advocacy groups, industry associations and non-profit organizations in the signatories' countries of operation and coverage should be captured as a potential source of conflict. Also, the analysts' personal biases, political/advocacy group involvement and geographic biases could be included and monitored. An anonymous investor also noted that ‘*Signatories should avoid significant conflicts, such as serving investors and issuers at the same time, even if done by different parts of the businesses’.*

Communication

Alongside conflicts of interest, ‘communication’ was another significant area where respondents provided most comments – 24 respondents and 36 references in total. Respondents have noted that communication between proxy advisors and companies/issuers has improved in the last few years. However, there are still challenges and the BPP provisions concerning dialogue with issuers should be improved. Several respondents noted that some proxy advisors, including BPP signatories, are increasingly unwilling to engage with issuers. Furthermore, while some companies report a positive experience of communication with proxy advisers, others are disappointed with the process. According to a French company advisor’s feedback, of the proxy’s ‘research’ is not transparent. For example, the choice of the basis of comparison: the panel of peers for P4P remuneration assessment is very often irrelevant. Assessment of governance is not clear, especially when proxy has different rules from one company to the next. In addition, a UK corporate representative body observed that:

‘...issuers find it confusing that service providers do not wish to have discussions about their behaviour (e.g. independence of investors) when this has already happened with the relevant investor. Incorrect research is not always acknowledged on a timely basis. There is often little time for an issuer to respond. A minimum standard time should be allowed for issuers to respond. Access to investors (where the service provider will not discuss an issue) should be facilitated by the service provider’.

Most respondents have noted that the following key areas for improvements in communication are needed: [1] more engagement and dialogue with issuers; [2] at least 2 to 3 day timeframe to analyse proxy reports and provide feedback; [3] providing more information about methodologies; and [4] more transparency about proxy research, assessment and governance. When it comes to dialogue, a Canadian asset manager and a French company noted that the immediacy and openness of communication could be improved with signatories, especially during high proxy season where answers are needed quickly on order to get through the high volume of ballots. An anonymous investor has added that the language used in the

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reports must be clearer; of particular value would be information on ‘on human capital management by the signatories, including size and experience of research teams, turnover rates, working conditions, etc. There are concerns about high turnover rates and insufficient experience of staff producing research reports, as well as lack of financial and investment backgrounds’.

A French company representative body provided extensive commentary on the challenges of communication and ways of addressing those challenges, which is presented in a vignette below:

‘Proxy advisors should publish at the latest in November an update of their voting policies on their website. It is also important that the updates be published in a consolidated format, otherwise there are ambiguities whether some provisions are still valid or not. The methodology used to update the voting policies should be disclosed together with a synthesis of the responses received when a consultation process is launched.

Voting policies, guidelines (e.g. ISS P4P methodology) and Q&As should be written in a plain and clear language so that they are understandable both for issuers and investors.

We believe that the BPPs should not leave it to proxy advisors to choose whether or not to engage in dialogue with issuers but should require that proxy advisors have an engagement policy with issuers and disclose its main features in their compliance statement. This is the only solution to prevent proxies from sending inaccurate reports to their clients and to avoid factual errors and misunderstandings about facts and law used in the draft resolutions, which are unfortunately extremely frequent and may lead to serious consequences. In case of factual errors and misunderstandings the proxy advisor should commit to inform its customers about them as soon as possible.

More precisely, the engagement policy should state that companies should have sufficient time to analyse the draft recommendation report (a minimum of 2 days) provided that the company has disclosed its AGM agenda with the draft resolutions at least 35 days before the AGM. Proxy advisors should insert companies’ quotes in their recommendation report provided that these quotes are concise enough and can enlighten shareholders on the draft resolutions submitted to the vote. The proxies should correct all factual errors in due time and in any case, before the report is sent to their clients. Engagement policies with issuers should be correctly applied when they exist.

Proxy advisors should clearly disclose in their report the following information, as it must be brought to the attention of its customers: conflict of interests, whether or not the pre-report is communicated to the issuer (if so, on what date, and if not, why), the outcome of the discussion with the issuer (companies quotes accepted or not), the documents of the issuer studied by ISS to form its analysis.

According to our members, theoretically ISS establishes dialogue with companies before AGMs and commits to handling its preliminary report for comments. Several issuers praise the benefits of these exchanges since sometimes they lead to changes in voting recommendations. However, complaining about a non-demonstrable lack of time, ISS occasionally does not transmit any preliminary report; or does but only accepts issuers’ comments within a very limited period of time. Usually ISS accepts written comments but refuses conference calls in most cases. This method cannot efficiently replace in-depth dialogue, especially regarding complex topics that require an extensive understanding of companies. Moreover, one may

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question ISS' recent rule of procedure which provides that the preliminary report should not be transmitted when a dissenting resolution is tabled. The need for dialogue and understanding remains the same here. This matter should be reassessed by ISS.

Glass Lewis is changing its policy with regards to communication: Glass Lewis accepts to dialogue with issuers ahead of the proxy season. In addition, Glass Lewis has given access to an 'Issuer Data Report'. In this report, GL collects data regarding the main corporate governance issues such as composition of the board, related-party transactions, directors' remuneration, say on pay... At this stage, GL gives issuers the opportunity to check (partially) the accuracy of certain data but does not indicate its voting recommendations and is not willing to engage with issuers during the solicitation period. The report must be bought by the issuer ex post only (around 4500€).

Companies regret Proxinvest's decision to stop consulting companies prior to the publication of its report. The only potentially available document is a one-page-summary of voting recommendations (yes or no) that is not argued. Therefore their advisory letter is sent directly to their investing clients without any prior dialogue with issuers. The only way for companies to obtain this advisory letter is to pay a bill. Consequently Proxinvest may be brought to publish warnings based upon inaccurate information. Issuers can only refute or correct that information retrospectively, which is too late.

Similarly, a UK company representative body recommends that the BPP are revised to establish best practice principles addressing the way in which proxy advisors communicate with issuers they report on. Specifically, the BPP should require proxy advisers to:

- Spend sufficient time and devote sufficient resources to understand companies, particularly those with unusual or different market characteristics;
- Engage with issuers on a timely basis, ensuring sufficient time to allow issuers to respond appropriately to any issues raised before reports are circulated to investors;
- Commit, as a matter of best practice, to considering explanations provided by companies when proxy advisors have approached companies and passing these explanations on to clients;
- Appropriately train their staff to ensure they have the expertise required to understand the companies they research and provide voting recommendations on;
- Put in place procedures to prevent and detect factual inaccuracies in reports and amend their reports and voting recommendations where factual inaccuracies are identified;
- Engage with issuers both during and outside of reporting season; and
- Provide issuers with a point of contact to discuss any issues if they arise.

In addition, an Italian corporate representative body believes that the BPP should recommend that proxy advisers have an engagement policy with issuers and disclose its key features in their compliance statement. It commented that if Signatories choose to have such a dialogue, it is up to them to determine the objectives, timing, frequency and format of this dialogue. In any case, they should disclose and explain their approach to communication with issuers. Furthermore, it is important for issuers to know the reasoning behind the voting recommendations, to engage constructively with their shareholder base. This is especially important where the recommendation is not expressed in terms of "vote against" or "vote for" a resolution, but it is a choice between alternatives, as it is the case in Italy with the slate voting, where the

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recommendation of proxy advisors is to vote for one of the slates submitted for the appointment of members of the board of directors or of the board of statutory auditor. This may be even more important in case of a recommendation for voting against a resolution proposed in the agenda.

Engagement and dialogue with companies should also be encouraged during the entire year, not only during the proxy season. A European association of company directors' representative bodies recommended that communication should be more explicit about voting policies and relationships developed with investors and corporations, explaining attendance of governance road shows, contacts with executives and boards. It also notes that:

'Too often proxy advisors don't give issuers the chance to explain and argue with proxy advisors, and do this in a timely manner. Some issuers feel that their comments are insufficiently listened. It is therefore preferable that the Principles also express the obligation for proxy advisors to engage in consultations with companies before distributing their final advice to their clients (institutional investors and their asset managers). Such consultation would facilitate that proxy advisors make a much more nuanced and tailored report, that fully takes into consideration the governance challenges and remedies of a specific listed company. However this type of dialogue should not be leading to close relationships with issuers. Proxy advisors should keep their scrutiny and independence. They should not start negotiating with companies.'

Significantly, a UK corporate representative body noted that they have widespread experience of 'seeing factual errors in proxy advisors' reports. This was echoed by a recent report from the Australasian Investor Relations Association (AIRA), where one-third of ASX200 respondents reported one or more significant mistakes in reports written on them by proxy advisors. Having an appropriate opportunity to review the draft report for factual accuracy would greatly assist issuers, investors, and the development of an efficient market. AIRA suggested that they would like to see an explicit acknowledgement in the revised BPP that engagement in pro-active dialogue with issuers is a necessary and expected precursor to any recommendation to abstain or vote against a resolution on any material item of business.'

Similarly, a US global corporate consultant noted that companies are frustrated with the occasional unwillingness of proxy advisors to discuss specific issues of concern. The respondent continued by stating that:

'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

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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’.

A Dutch investor representative body also believes in providing companies with the possibility to comment on the analysis and recommendations within research reports before they are finalised in order to prevent material misstatements. However, this should not lead to a shortening of the period of institutional investors to analyse the proxy advisor’s reports and voting recommendations. This view was also shared by a UK Investment Manager, a global investor representative body, a French company advisor, a Spanish shareholder voting research provider and a French company.

More broadly, some respondents have indicated that a more transparent and engaged communication during the whole proxy cycle process is desirable with no blackout periods when companies cannot talk to agencies.

Quality of Statements

Fourteen responded providing 21 references to the quality of Statements, noting that the quality of Signatories Statements varies among different proxy advisers and that these statements are not always easily comparable. Although a UK investment manager suggests that the Statements are broadly informative and strike a good balance, other respondents felt that the Statements need a simpler language and ‘*more meat on the bone*’ with annual updates in order to take account of the evolution in best practices and market developments together with a more harmonised approach producing the statements for easier comparison.

For example, an Italian corporate representative body suggested that ‘It would be useful if the statements were published at the same time of the year and possibly ex-novo on an annual basis or, as an alternative, highlighting the changes. This response also suggests that special consideration should be given to the quality of the explanation from deviation, considering that information on the compliance to principles of best practice and on deviations from its recommendations is the core of the comply or explain approach. It also believes that meaningful and specific disclosures, together with reasoned explanations of the no application of the Principles, will be important to promote a better understanding among companies of how the Signatories operate, and thus to promote a better understanding among companies of when and how to engage with proxy advisers and when and how to engage with their clients. The explanation provided should also state what alternative provisions have been made, if applicable, as requested by the BPPs and recommended by ESMA Follow-up Report of 2015 (p.28). They also suggest that proxy advisers take inspiration from the Commission Recommendation (2014/208/EU)¹ on the quality of corporate governance reporting (‘comply or explain’) regarding usefulness of explanations.

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A Canadian global asset manager noted that some statements in the descriptions of research methodology are vague, such as the use of "transfer agents and other forms of direct procurement" for sourcing information. While clients do not want to put signatories in a position of exposing their intellectual property, broad examples of who and what is defined as a "transfer agent" or "direct procurement" would further enhance transparency.

A US global asset manager has also commented that it would be useful to have greater disclosure on resources (i.e., full time employees) dedicated to data gathering, research report writing and client support. Greater transparency could have been provided on the process by which information is dissected for analysis, e.g., which materials are most relevant, when a company would be contacted, when stakeholders would be contacted and how would information from these discussions be used and weighted for analysis, etc. the US global asset manager exemplifies this in the following quote:

'The signatory scoring a 4 provided comprehensive details of its methodology including certifications and audit processes. The signatory scoring a 1 mentioned using information from its own database, in addition to public disclosures, but did not provide more detail on what information is contained in its own database, how it would/could be used, and how the private information is weighed against the data from public disclosures. The information provided on its research methodology was otherwise limited to listing the sources of materials used. As a suggestion for all signatories, consideration should be given to the requirements for proxy advisors under Article 3j of the revised EU Shareholder Rights Directive. The article requires greater transparency on precisely the points we highlighted in our response to this question.'

Similarly, a Dutch investor representative body and a corporate representative body, support the provisions in Article 3(i) of the Shareholder Rights Directive, which requires more clarity and transparency around the methodology used by different proxy advisors; their main information sources and procedures that are put in place to ensure quality of research. In addition, statements could explain whether and, if so, how they take nation market conditions into account; and the extent to which custom or house voting policies or guidelines may be applied. For example, a Dutch investor representative body also stated that:

'The statements could elaborate more on the staff that performed the research, including reliance on junior support staff. This will enable clients of proxy advisors to assess the adequacy of the resources used. According to the revised shareholder rights directive (art. 3j) proxy advisors should among other things publicly disclose: a) the essential features of the methodologies and models they apply, b) the main information sources they use, c) the procedures put in place to ensure quality of the research, advice and voting recommendations and qualifications of the staff involved and d) whether and, if so, how they take national market, legal, regulatory and company-specific conditions into account. This gives rise to the question how coherent the BPP and article 3j of the revised shareholder rights directive are. We believe that the BPP should be coherent with the minimum requirements stemming from the revised shareholder rights directive.'

A US global corporate consultant also recommended that additional information could be provided about 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. A French company reflected that there is always a potential for a conflict of interest and the question still remains about how can one actually believe on those statements. An

Italian corporate representative body believes that, in line with ESMA's findings in the Follow-up Report of 2015 (p. 19), BPPs should recommend disclosing, where appropriate in each context, both publicly and to client investors, how their voting policies and guidelines are applied to produce voting recommendations.

BPP Monitoring

Respondents noted that the BPP Group promised to perform an ongoing monitoring of the implementation of the Principles and review the Principles and the Guidance no later than two years following the launch. At present, there is no feedback on the activity carried out. A German corporate representative body, suggests that it could be useful to have a survey/study to collect data about the way the BPPs are applied and explanations given in case of deviation from the principles. They continue to say that:

'As a minimum, it would be useful to know if the members of the group meet, how many times, if the independent chairman plays a special role, etc. It would also be useful if the Group engages to publish a (annual) report on its activity where it expresses its view on the application of the Principles and the room for improvements, etc. It should also be possible to submit issues that relate to their relations with the signatories (e.g. dialogue, erroneous data, content of voting policies, conflicts of interest).

As there is already a procedure for feedback and complaints installed by the BPP Group it would be helpful to have some transparency on the experiences of the BPP Group with the handling of complaints. It would also be helpful when a more independent committee with also various stakeholders like investors and issuers would handle these topics. This committee could do some monitoring on an annual basis and could disclose the outcome. This would contribute to the effectiveness of the Principles'.

A UK corporate representative body added that it would be helpful to have at least an annual public review of the monitoring process, identifying examples of good practice and cases where there is room for improvement and an analysis of complaints received, which might helpfully include examples of those that are valid and those which are not.

A Dutch investor representative body believes that an independent body should be established that monitors the application of BPP on a regular basis and publicly reports on the monitoring outcomes. This is similar to the UK Financial Reporting Council and the Dutch Corporate Governance Code Monitoring Committee. The view of an 'independent', separate or 'third party' monitoring body was also expressed by a French corporate representative body, an Italian corporate representative body and an Australian global asset manager, a US investor representative body and a European association of company directors' representative bodies. A French issuer added that various stakeholders (including market regulators, issuers, and investors) should also play an active role in their monitoring and be represented in the oversight body. Another French issuer suggested that market regulators - such as ESMA - should be involved more actively in checking the compliance with the Principles to avoid that any conflict of interest threatens the quality of the recommendations made by proxies when publishing reports on draft resolutions.

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There was also one academic response to which offered a ‘Dialogue Framework’ for the activities of the monitoring Review Panel. The following vignette presents some ideas:

‘...a soft monitoring process exercised by a Review Panel would provide a ‘dialogue framework’ amongst market participants and proxy advisors and would also include in its role the receipt and management of complaints (similar to the ‘complaints’ procedure that is currently provided by the BPPG).

Composition of the Panel: For the Review Panel’s activity to be efficient and legitimate, its composition and the spectrum of its authority must be clearly identified and delineated. The composition of the Panel should be as diverse as possible in order to gain acceptance by all market participants as well as to spark interest in participating in its activities. Company directors (executive and non-executive), institutional investors and proxy advisors should be eligible to be elected members of the Panel, for a maximum period of 3 years. Membership should also be open to other stakeholder groups under the condition that they have developed considerable experience in interacting with market participants. The “considerable experience” criterion would further strengthen the useful character of the discussions taking place in this framework as well as the quality of the dialogue developed in these discussions. The members’ mandate should not be renewable to avoid increased familiarity with recurrent cases and, more generally, to maintain the merits of rotation in terms of independence and diversity of Panel composition, allowing more representatives from the same sector a chance to serve on the Panel. Role of the Panel: with regard to potential cases being launched under this scheme, an interested party could ask for the Panel’s intervention due to a proxy advisor statement that does not – in its view – comply with the application and implementation of BPP.

It would also be necessary to define clear criteria for a Review Panel to be able to allow a request to be put forward and trigger a more active dialogue with the proxy advisor whose disclosure practices are questioned. Generally speaking, these criteria could be:

- a) a detailed explanation of the disclosure-related issue, as well as the implications of the supposed informational deficiency for the claimant party’s affairs*
- b) Moreover, the claimant party should provide proof that communication had already been sought, as well as a reasonable explanation as to why the party considers that the outcome of this initiative did not prove fruitful, namely in the case that the party concerned did not cooperate or its cooperation did not meet the expectations of the claimant party.*
- c) Provided that the request for further examination is well argued and sound, the Review Panel would be in a position to invite the party concerned to attend a meeting for further discussion of the subject, which could entail failure to update the “compliance” statement or the disclosure of perfunctory “non-compliance” explanations. The invited party would be given the chance to express its views on the disputed matter, present its own version of the alleged facts as presented by the claimant party, and possibly show that steps have been taken to remediate this situation or even improve the informational context in the future. Under this assumption, the Review Panel would be expected to provide guidance on further actions to ensure that improvement will occur. Guidance should remain always neutral and should focus on general recommendations that could correspond to already existing guidance notes of*

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various soft law texts currently applicable at the national level. Maintaining the Panel's neutrality is the key to the success of such a proposed monitoring mechanism, since the Panel will only offer the chance to the concerned parties to express their views and explain their respective arguments further. The Panel will provide the necessary guidance to ensure that the context BPP is broadly respected given the individual circumstances of the examined case'.

The UK-based academic concluded that he firmly believes that:

'...BPP should maintain its current operational mode and informational framework (with some minor amendments, as suggested at Question 11 above). Guidance notes are undoubtedly a very useful tool to enable proxy advisory firms to continue to provide their clients and the public at large with a wider spectrum of information. This flexibility offers important educational advantages to all market actors interested in proxy advisory services since it allows for a wider engagement platform amongst actors. Confining BPP to the new provisions of the revised Shareholder Rights Directive only would compromise such educational and dialogue potential and would transform disclosure in this area into a simplistic compliance exercise. BPP can therefore work as a preparatory exercise for all proxy advisory firms as to their compliance with the Shareholder Rights Directive, while giving them the opportunity to disclose information related to additional matters.'

A French company, as well as US asset owner also noted that the monitoring should be done according to the 'name and shame' principle, exemplifying best practice with oversight including perspectives from investors and issuers with the strengthening of outside monitoring for compliance.

Complaints Procedure

There were eight comments made about complaints procedure. These respondents were unsatisfied with this procedure and stated that it is difficult to issue complaints as issuers do not receive reports; it is rated by one department of a proxy advisory firm and voting recommendations on its resolutions are issued by another department of the same firm. Issuers are in a weak position to complain except if an oversight body is in charge of regulation. A French company noted that issuers have no possibility to react and provide feedback on reports because the *'the issuer is obliged to pay for getting the report and there is a lack of time in order to react!'*.

An Italian investment manager added that the complaints procedure should be simplified. EuropeanIssuers, the European association of corporate representative bodies also added that it would be helpful to have some transparency around the complaints feedback and feedback on the experiences of the BPP Group with the companies handling. A UK investment manager stated that they: *'don't necessarily feel that the BPP group is best placed to resolve complaints from investor clients with regard to voting recommendations. Where appropriate individual proxy advisors can include dispute resolution mechanisms in contracts with their clients.'* Whilst a Spanish corporate consultant added that a whistleblowing channel for internal and external parties, should be available and directed to the independent parties of the oversight group.

Conclusions and Implications for BPP

The analysis of the qualitative feedback on the BPP consultation suggests that the BPP scope should be narrowed down to avoid duplication or encroachment on existing Stewardship and Governance Codes as well as be coherent with the minimum requirements stemming from the revised Shareholder Rights Directive. Some respondents also argued against ESG advisory services being included in the scope of the principles for the fear of threatening the independence of voting advice. Respondents warned against having too much detail within the BPP, which could potentially lead to a box-ticking. At the same time, BPP should also focus on research of other parts of the voting chain and possibly creating separate set of principles.

Although a global investor representative body believes that BPP are capable of being applied in all markets within the global context, the majority of respondents (particularly from companies and corporate representative bodies from France, Italy, Spain and Germany) argued that the BPP should also acknowledge the significance of context (national markets, legal, regulatory and company specific contexts) when considering the application of the BPP. It was argued that if the differences across Europe are already considerable, proxy advisors should acknowledge that it is not an option to strive for a harmonized European governance model, let alone align their principles of good governance with the US governance model or the Asian model.

Voting policies should be tailored to each country, taking into account local legislation, regulation and practices. The concrete vote recommendation for a general meeting of a specific company should consider its individual situation then. There should be no box ticking, i.e. voting policies should be applied with some flexibility. Best Practice Principles should be adopted by all the intermediaries involved in the proxy voting process, such as custodians, proxy agents, voting platforms and proxy solicitors. In some cases, the same actor plays several roles in the voting process, providing services to listed companies, investors and/or custodian banks, generating significant conflicts of interest.

One of the major critiques of the BPP was its lack of effectiveness. The majority of corporate respondents have expressed scepticism about the value and the relevance of the Principles because BPP is said not to be ‘respected’ by their intended users. Furthermore, there are conflicts of interest such as ESG advisory and governance rating services. There were calls for improved transparency guidelines (e.g sending draft reports to the issuers at least 2-3 days before publication and then taking into account the factual comments and corrections from issuers. Respondents also expressed concerns over the concentration of the proxy market with only four big players having a monopoly on services. In this situation, these providers have too much power and are able to ignore small cap business, not engaging in dialogue, not asking for timely feedback and refusing to send reports prior to publication.

Respondents also worried that the BPP do not guarantee the mitigation of potential conflicts of interest because some proxies provide both advisory services to companies and voting recommendations to investors. Furthermore, several respondents expressed concerns over the ineffectiveness of ‘Chinese Walls’ between proxy voting teams and consulting teams in addressing their conflict of interest. Commentators urged the BPP Review Group to review the Principles which should prompt signatories to avoid conflict of interest and include the list of services, which are incompatible with proxy voting activities as it is the case with other professions such as auditing. This also concerns providing consultancy services to issuers on executive remuneration and corporate governance while simultaneously providing voting advice to investors on the same issues.

Respondents particularly noted conflicts of interest relating to ISS practices and methodologies. It was argued that ISS is not compliant with the BPP principles in practice because its fully owned subsidiary ICS provides corporate governance advice to issuers whilst ISS provides governance research about the same issuers. Anecdotal evidence suggests that ISS is putting a lot of pressure on issuers to sell them their services, which is sometimes close to harassment. The confusion between the roles of ISS and ICS suggests that the users of these services are faced with complex and overpriced rating systems that stack on top of each other and are similar. This arrangement is said to be unacceptable as it seeks to induce a person to take on paid services to avoid or reduce a risk that ISS has control over.

A suggested way forward is to have a clear separation of duties: i.e. a proxy cannot be a governance advisor or a governance rating agency. Another suggestion was for proxy advisors to disclose any relationship (i) with the issuer who is subject to voting recommendations, (ii) with shareholders who have tabled resolutions, (iii) and with any persons who control directly or indirectly the issuer of the shareholders previously mentioned. A UK Trustee Representative Body advised that Principles need to address monopoly issues which affect quality of service and slows product innovation. For example other than one provider, no firms provide a service to externally managed funds whereby they can determine how their external fund manager voted in alignment with their own in-house voting policy.

There are also challenges and a need for improvement when it comes to communication between companies, proxy advisors and issuers. There is a need for greater transparency and a more meaningful and timely dialogue between these parties. Four specific areas for improvement were noted: [1] more engagement and dialogue with issuers; [2] at least 2 to 3 day timeline to analyse proxy reports and provide feedback; [3] providing more information about methodologies; and [4] more transparency about proxy research, assessment and governance, particularly around clarity in methodologies and language used in reports. Companies also requested sending draft reports ahead of the publication, providing the ability to feedback on the draft report and actually include that feedback in the published reports. Respondents agreed that quality of signatories' statements should be consistent with the Article 3j of the revised EU Shareholder Rights Directive.

Respondents suggested having annual monitoring feedback by the BPP Group on how the Principles are applied with some examples of good and bad practices. Respondents also suggested establishing an independent body to monitor the application of BPP. Survey results suggest that a self-commitment form signatories would improve the situation on a 'comply or explain' basis. Self-regulation and compliance on a voluntary basis seems to be a preferred solution. A French corporate representative body recommends that proxy advisors should report in detail on the implementation of these principles and, if applicable, provide an explanation of the reasons why they have deviated from any of them. The explanation to be provided when a provision has not been applied must be comprehensible, relevant and detailed. It must be substantiated and adapted to the proxy advisor's particular situation and must convincingly indicate why this specific aspect justifies an exemption. It must state the alternative measures that have been taken, if applicable, and must describe the actions that allow the advisor to comply with the aims of the relevant provision of BPPs. If a proxy advisor intends to implement a provision in the future from which it has provisionally deviated, it must state when this temporary situation will come to an end. Proxy advisors must indicate in a specific section or table the provisions that they have not implemented and the respective explanations. Statements of compliance should be published on a regular annual basis as well as the explanations of non-compliance with more detailed explanations provided.

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Finally, a UK regulatory body, acknowledges the BPPG's efforts to improve its governance, including its publication of membership and governance guidelines in 2016. The UK regulatory body reiterates the need to strengthen mechanisms for ongoing monitoring and adherence to the principles. However, the UK regulatory body is not seeking any role in monitoring the Principles, suggesting that it would inappropriate for the UK regulatory body to monitor a code it has not produced, or has no power to do so effectively.

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APPENDIX A

Additional Comments

Market Concentration

‘An additional point of attention might be that the market for proxy advisers is very concentrated and as such, more attention should be paid to the fairness of the market for proxy advice. Proxy advisers play an increasing and critical role in CG, as some investors tend to rely entirely on their advice especially when they own a small % of shares. In a world where institutional investors become more important in many countries, the voting advice of proxy advisers might therefore create a concentrated voting block and even allow a powerful, controlling position without being subject to the rules of take-over bids (a European association of company director representative bodies).

More disclosure

‘Investors should disclose if they give a proxy to a proxy advisor. As it is now compulsory in the Shareholders Rights Directive to disclose share-holding, proxy advisers should disclose the total % of shares that they are representing on behalf of institutional investors. This information would also be valuable to get more useful insights and to better understand the market concentration. (Multiple EU Advisors)

‘It would be helpful if signatories disclosed the percentage of companies that they reach out to in order to gather feedback on the analysis and recommendations. For certain metrics, greater clarification of processes to gather these metrics and the percentage of companies the metrics apply to would be welcomed’ (Canadian global asset manager)

On Shareholder Activism

‘Given the evolution of shareholder activism (i.e., activist shareholders agitating for change, rather than long-term shareholders exercising stewardship), it could be relevant to consider in the Principles how signatories’ research processes incorporate, if at all, the views provided by activist shareholders. For example, we understand that some signatories have an open door policy, by which any and all stakeholders can provide information to feed into the analytical process. This includes sell-side analysts who could benefit from giving counsel, as well as activist shareholders and their agents. As clients, we would welcome more clarity on what control processes are in place for the consumption of this information. Related to this is a greater focus on providing transparency on staff training on the application of the voting policy. We are also concerned that some recommendations on business management issues bear costs both for the company and the shareholders. We would be interested to have a cost benefit analysis of the outcome of the recommendation provided by the proxy research firm’ (US global asset manager)

On Governance

‘Governance is a one way street right now. Proxy advisers decide the rules, companies must apply them. There is no discussion, no possibility of adjusting the rules in light of the history of a company or its structure. Proxy advisers have too much power and they are not even shareholders themselves. Dialogue with proxy advisers is useless. At the end of the day, companies make fund managers successful, rich, and companies should be treated with more respect’ (French company)

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‘Of relevance to this response and the BPP is the UK Financial Reporting Council’s recently published consultation on the UK Corporate Governance Code which also sets out a number of initial, high-level questions about the future direction of the UK Stewardship Code. The full consultation, expected in mid2018, will introduce revisions to increase the quantity and quality of investor engagement. The implementation of the Shareholder Rights Directive in the UK will also introduce a requirement to publicly disclose, on an annual basis, information relating to the preparation of the research, advice and voting recommendations.

Our members’ companies seek to work closely with their investors to promote the success of the company over the long term for the benefit of their members as a whole. Given the changes to the investment landscape we have observed and outlined in this response, we feel that the signatories to the BPP need to acknowledge that the valuable role they perform for their clients has also changed and carries additional responsibilities.

In any revision of the BPP, we would like to see an acceptance that, where the investor has for all practical purposes delegated the management of engagement and voting to a signatory company, BPP signatories will adhere to the same obligations and responsibilities (as set out for example in the case of the UK, in the FRC’s UK Stewardship Code) that would attach to the underlying investor. To return to ESMA’s words, we believe that acceptance of this would “foster effective stewardship and robust corporate governance and ensure efficient markets” for the benefit of all’ (a UK corporate representative body)

Trends in Equity Markets

A UK corporate representative body has commented: ‘we have observed a number of changes over recent years, which we sense to be accelerating and which are important context for this consultation. There has been a marked rise in the use of low-cost funds for the management of pension and other investments; as a result of this, we have seen growth in the use of index-tracking and other passive investment funds, where the management of sizeable investment portfolios at minimal cost is easiest to deliver; the decline of defined benefit (DB) pension funds has exacerbated these trends where the DB fund is closed, a move of future pension accrual into defined contribution (DC) schemes comprising investments in low-cost funds in order to maximise the potential growth of the investment ‘pot’; and where a DB fund remains open for future accrual, greater reliance is now being placed on property and fixed-return investments, with a decline in the amount allocated to equity investment (often accompanied by a move from active to passive asset management);

At the same time, the body of corporate governance law and regulation is increasing, as are the expectations on shareholders and investors to scrutinise companies and hold them to account. In consequence, asset managers are being expected to do more in terms of their stewardship responsibilities, but at the same time are seeing a decrease in their income from investment fees. Accordingly, the time and cost to the asset manager of fulfilling this role of higher scrutiny and stewardship has become exceedingly burdensome and expensive. The natural response to this pressure, and a trend we see in practice, is for asset managers increasingly to outsource some or all aspects of their stewardship obligations to proxy advisory firms, including those who are signatories to the 2014 BPP.

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We are aware of cases where portfolio managers are not permitted to vote other than in line with the proxy advisors' recommendations, or are required to present an alternative case to an in-house committee who will decide whether to permit a deviation from the proxy advisors' recommendations; and the influence that the proxy advisory firms wield is therefore considerable and growing.

This situation is addressed in the UK Stewardship Code, which states (in the section titled 'Application of the Code'): "Institutional investors may choose to outsource to external service providers some of the activities associated with stewardship. However, they cannot delegate their responsibility for stewardship. They remain responsible for ensuring those activities are carried out in a manner consistent with their own approach to stewardship. Accordingly, the Code also applies, by extension, to service providers, such as proxy advisors and investment consultants." While our membership has experienced increasingly positive engagement and proactive dialogue with some signatories, others have not operated in a manner consistent with the Stewardship Code's aspiration' (a UK corporate representative body)

Appendix 1

A total of seventy-seven consultation responses were received, of which twenty-nine agreed to their responses being published publicly (below) and forty-eight requested confidentiality.

| Organisation | Type |
|---|---------------------------|
| <u>Akka Technologies</u> | Quoted Company |
| <u>Association française des entreprises privées (AFEP)</u> | Association – Issuer |
| <u>Association of Investment Companies (AIC)</u> | Association – Issuer |
| <u>ASSONIME</u> | Association – Issuer |
| <u>Bell Asset Management</u> | Investor |
| <u>Blackrock</u> | Investor |
| <u>Council of Institutional Investors</u> | Association – Investor |
| <u>Data Imperium</u> | Service Provider |
| <u>Deutsche Aktieninstitut</u> | Association – Issuer |
| <u>Ethos</u> | Service Provider |
| <u>Eumedion</u> | Association – Investor |
| <u>EuropeanIssuers</u> | Association – Issuer |
| <u>Financial Reporting Council</u> | Regulator |
| <u>Florida State Board of Administration</u> | Investor |
| <u>Frontis Governance</u> | Service Provider |
| <u>GC100</u> | Association – Issuer |
| <u>Hermes Investment Management & EOS</u> | Investor/Service Provider |

| | |
|---|--|
| <u>ICAEW</u> | Association – Professional (Accountancy) |
| <u>ICSA</u> | Association – Issuer |
| <u>INC SA</u> | Quoted Company |
| <u>International Corporate Governance Network</u> | Association – Mixed |
| <u>Korn Ferry Hay Group</u> | Service Provider – Issuer |
| <u>Labrador</u> | Service Provider – Issuer |
| <u>Natixis</u> | Investor |
| <u>Quoted Companies Alliance</u> | Association – Issuer |
| <u>Konstantinos Sergakis</u> | Academic |
| <u>Schroders</u> | Investor |
| <u>UK Shareholders' Association</u> | Association – Investor |
| <u>Washington State Investment Board</u> | Investor |