

Best Practice Principles for Shareholder Voting Research Structured Questionnaire

July 2021

Information on respondent

1. Name of organisation: **EuropeanIssuers**
2. Type of organisation [select one]:
 - Investor
 - Public Company
 - Governance advisory/voting research service (investor advisors)
 - Public company advisor
 - Representative body**
 - Other (please specify):
3. Main country/region of operation: **European Union**
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:
6. If you would like to be informed of the outcome of this consultation, please provide a contact email:
info@europeanissuers.eu

General questions on the Principles

1. Were you previously aware that proxy advisors had adopted voluntary Best Practice Principles for themselves? **Yes** No
2. If yes, how would you rate the positive impact of the Principles since they were updated in 2019? [Scale: Don't Know; 0-5 where 0 is no impact, 5 is very positive]

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please give a reason for your rating:

Generally, while welcoming the progress made since the BPP's update in 2019, we take the view that the latter's impact on the 3 BPP (services quality, conflicts of interests and communication with issuers) remains unsatisfactory.

We first note that the updated principles only provide the bare minimum referred to in the SRD 2. These principles remain ambiguous, notably in the area of conflicts of interest identification and prevention. One of the major areas of concern is ancillary or overlay services, such as voting platform services provided to Investor clients, ESG services and ratings offered to investor clients and issuers. These services, on which some of the most important proxy advisors on the market seem to capitalize, *de facto* have remained outside the scope of BPP, leading to potential conflicts of interests which are not properly handled

A further concern relates to the accuracy of the information included in the reports to clients which may lead, in some instances, to misleading information to Investor clients. To cope with this fundamental problem of inaccurate and even misleading information, the BPP should improve the possibility for issuers to comment on drafts voting reports and ensure that their comments be passed on to investors in order to help them make informed investment decisions.

3. If you are a customer of one or more voting research services, do you, or will you in future, check whether a service provider has signed up to the Principles as part of due diligence before appointing them or as part of ongoing monitoring of their performance?
- Yes No

Scope and structure of the Principles

1. At present the proxy advisory industry's voluntary [Best Practice 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.

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):

[Click or tap here to enter text.](#)

The content of the Principles

1. Do you appreciate the transition from 'comply or explain' to 'apply and explain' in reporting on the Best Practice Principles? **Yes** No Don't Know

Principle 1: Service quality

1. How satisfied are you that proxy advisors are equipped with sufficient knowledge and resources to deliver accurate and useful information? *[Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]*

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. In your experience, how satisfied are you with the competence of staff analysts at proxy advisors? *[Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]*

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. In your experience, do proxy advisors have sufficient knowledge and resources to understand each market they cover? Yes No **Don't Know**
4. If you are a client of one or more proxy advisory firms that are signatories to the Best Practice Principles, do you consider that their reporting on compliance with this Principle deals adequately with the various service commitments that you expect? Yes **No** Don't Know

If no, how might it be improved?

Our comments remain substantially unchanged from those we reported in an earlier BPP public consultation, with new areas of concern emerging:

- **Lack of transparency of methodology used by proxy advisory firms to formulate their voting policy**

While recent developments point to proxy advisory firms now essentially making their voting policy available ahead of the GM season, the methodology and procedures to formulate the voting policy underlying their voting recommendations still lack transparency.

Not only is the elaboration of the voting policy lacking transparency, but also the procedures put into place to ensure that voting recommendations are of appropriate quality. There is a need for clarity in two aspects: First, how voting recommendations and policies are being developed and reviewed? Has an investor/stakeholder consultation process been established? What are the main features of this process justifying revisions of the voting policy?

Second, how do proxy advisors engage with issuers and other stakeholders? Which source of information do they use to ensure that the proxy advisory firms have complete information about the issuer and each particular matter? How do they take into account the issuer's views and comments in an efficient and timely manner?

The current pandemic situation has generally shown uncertainty about the voting policy and the adjustments made by proxy agencies regarding the measures taken by issuers to deal with this crisis. A number of them indicated that they would consider changes made

by Issuers in their policies (dividends, remuneration...) "on a case-by-case basis". One option could be to have a 'fast track' revision process in place to better react to market disruption events.

- **Errors or misleading information in the voting reports**

Many issuers periodically observe errors or sometimes more seriously misleading information appearing in the voting reports. These errors affect the quality of the reports and in some more serious cases this can lead to misleading information communicated to the investor client. Hence the importance (i) of a prior dialogue with the issuer, (ii) of them accessing the voting report ahead of its distribution to investors with a couple of days to comment and (iii) of an alert procedure intended for the investor client allowing the issuer to correct the errors observed and to present its point of view before the date of the votes casting.

- **Insufficient accounting for local / national market, legal, regulatory and company-specific conditions**

Despite some improvement, each European company's unique set of local and legal conditions (regarding notably corporate governance) are not always adequately taken into account and weighted by certain proxy advisory firms. Moreover, the same governance practice (e.g. the combination or separation of the Chairman and CEO offices) gives rise to a diverging voting policy in Europe and in the US. While merging both offices triggers in all instances a negative voting recommendation in Europe, it leads to a more nuanced and fine-tuned appreciation when it concerns US-based companies. This is all the more difficult to understand since institutional investors operate on a global basis

Generally, there is a strong trend by some proxy advisory firms to recommend sanctioning directors, when their office is up for renewal, who have assumed or approved a company-specific policy (e.g. on executive remuneration) differing from the proxy voting policy.

We therefore urge proxy advisory firms to better explain in their reports to investors how they consider local and legal regulatory conditions or circumstances in their voting recommendations and how the same subject may lead to diverging recommendations on both sides of the Atlantic.

5. 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 reporting on the process used by signatories to develop their house voting

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

policies? [Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]

6. How might the reporting process be improved?

Increase transparency on quality of services (see comments above under question 4) and extensive and timely consultation of stakeholders , including issuers (see comments below under Principle 3).

7. How informative are signatories' descriptions of their research methodologies, including how they ensure that the research is reliable? [Scale: Don't Know; 0-5 where 0 is very uninformative, 5 is very informative]

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. While recognising the need for signatories to protect their intellectual property, how might reporting on compliance with the principles in the statements be made more informative?

[Click or tap here to enter text.](#)

Principle 2: Conflicts of interest management

1. The Principle does not attempt to eliminate potential conflicts, but to ensure that the signatories disclose the procedures by which they are managed. Has reporting on this been carried out adequately? Yes No Don't Know

If no, how might reporting on this be strengthened?

See below comments under question 4 below of this principle.

2. The Principle identifies a number of potential conflicts, including:
- 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.

Are there others that should be included in this list? Yes No Don't Know

If yes, please identify them:

- **Ancillary services, including ESG consulting services provided both to investors and issuers;**
- **Platform voting services offered by ISS and Glass Lewis to their investor clients: these platforms automatically allow proxy advisors (unless a default option is disabled by**

their clients) to pre-tabulate the investors' votes in accordance with their own voting recommendations and policies. This de facto enables proxy advisors to exert substantial influence over corporate shareholder voting outcomes and may promote a box ticking behaviour by investors. Academic studies show that a negative ISS recommendation can lead up to a 25 percentage points decrease in voting support. Such platforms should remain neutral, which entails deactivating the default option.

3. 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? How satisfied are you with reporting on this? [Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. How might the procedures be improved?

Conflicts of interest within the terms of the shareholder rights directive need to be identified and disclosed to clients, together with the actions undertaken to eliminate, mitigate or manage them. The first stage is to properly identify potential conflict of interest.

- Identification of conflicts of interests

One of the major potential or existing conflict of interest may arise when a proxy advisory firm provides voting recommendations to investors on corporate governance matters for which the same firm offers consulting services to issuers. This is not even mentioned in the updated BPP and cannot be inferred from the description of the proposed services. It is simply not the case that proxy advisors may provide "engagement and governance overlay services" as described in the BPP to issuers based on a mandate given by investors. As termed by SEC itself, ISS's services create the need for issuers to be advised to obtain more favourable voting recommendations or improve their ESG ratings or their Pay for Performance evaluation. Particularly relevant in this respect, are the two services marketed by ICS, a subsidiary of ISS, who, despite claiming it has set up appropriate Chinese walls, is still systematically offering services to issuers aimed at improving their "QualityScore" or "Pay For Performance". A further case is the voting platform made available by ISS and Glass Lewis to their investor clients and mentioned above.

- Avoiding, managing and mitigating conflicts of interests

The next question is to determine whether such conflicts need to be eliminated or simply managed and mitigated. Ideally, proxy advisory should not offer consultancy services to issuers when being already mandated by investors to carry out research on the same companies, especially where services offered amount to compulsory sales (e.g. *Quality score* and *PayforPerformance*). Alternatively, where proxy advisors provide such services both to issuers and investors, the latter should at least be kept informed, which is presently not the case. where proxy advisors provide such services both to issuers and investors, Additionally, the proxy advisory firms should confirm the non-material

character of the ancillary services offered to the relevant issuers from a revenue standpoint.

- Conflicts of interest policy

Proxy advisors should disclose a policy that describes their approach to addressing potential and existing conflicts of interests. The policy should explain which conflict exist or may arise, how and when these conflicts are disclosed to clients, how these conflicts are avoided, managed or mitigated and how their staff are trained on operating the policy. However, measures of avoidance, including the separation of activities and the establishment of information barriers, proved insufficient to prevent subsidiaries of proxy advisors from generating significant conflicts of interests.

- Individual information about conflicts of interests

In addition to the obligation to publish a conflicts of interest policy, proxy advisors have to inform their clients individually about any actual or potential conflicts. This information needs to be provided before or at the same time as the voting recommendations are made available to them. In this respect, information already released in the conflicts of interest policy does not replace individual disclosure of conflicts that have appeared during the preparation of the voting recommendation. In particular, the general reference to a relationship with issuers in the policy does not exempt from the obligation to indicate in the voting recommendation that the issuer covered in the report is also a client of the proxy advisor, which currently is far from being the case.

Principle 3: Communications policy

1. If you are a company, how satisfied are you with communication with proxy advisors?
[Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. How satisfied are you with reporting on this Principle? *[Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]*

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

How might the procedures be improved?

While making progress, there is still substantial room for improving dialogue with issuers. Proxy advisor engagement policy with issuer often lacks transparency More specific BPP guidance should be made available along the following lines.

First, proxy advisors should disclose the main features of their engagement policy, which is currently not always the case.

Second, as recalled by ESMA, they need to inform investors about their dialogue with issuers and the nature of that dialogue. This dialogue and its extent should be mentioned in the voting report provided to the investor client. When they do not engage with issuers, they should explain why. However, opening up such a dialogue should become compulsory, if so requested by the issuer, especially where contentious issues are at stake.

Third, engagement should be encouraged the whole year and not only during the proxy season.

Fourth, proxy advisors should promptly provide issuers with the draft voting recommendations (at least two weeks ahead of the GM and before the draft is circulated to Investor clients) and give them sufficient time to comment (minimum two days, preferably three).

Fifth, proxies should formally acknowledge issuers right to have factual errors rectified, which requires proxy advisors to correct them in due course and at the latest before releasing their voting recommendations to their clients. In cases where proxies disagree with the issuer, they will pass on the issuer's comments to their clients.

Sixth, where GM draft resolutions are being tabled closer to the meeting date, for instance, at the behest of shareholders and according to deadline and conditions set forth by national company law, it often happens that proxy advisors recommend voting against or abstain to any new items on the agenda, because of lack of information. This happens, for instance, where the board of directors is to be integrated and shareholders are expected to propose a candidate, and they do it after the publication of voting report by proxy advisors. A possible solution could be to recommend proxy advisors to update their voting recommendation with reference to such new items and proposals.

Seventh, the role proxy advisors play in mergers & acquisitions, proxy contests and other litigious matters appears problematic in several respects. First, even in cases where proxy advisors accept to provide issuers with an advance copy of their draft report for verification purposes, we note they don't make it available if it concerns M & A or any other issue they deem contentious. Second, the draft voting recommendations prepared in such a context should be communicated to the issuer ahead of their disclosure to investors, so that issuers can make their position known to investors, and the issuers' position which may influence the vote's outcome should even be made public . Third, whenever proxy advisors get involved in takeover situations, they are recommending in effect that their institutional clients sell, or not sell, their shares to a would-be acquirer. In those circumstances, proxy advisors should subject themselves voluntarily to rules and regulations for financial advisers and investment bankers giving an "opinion" about a merger or acquisition transaction. In addition, proxy advisors should inform all parties concerned as to whether they have acted as consultant in any way for any of the parties involved in the transaction. It should be noted that many of the largest hedge funds are clients of ISS.

3. 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 Don't Know

4. If yes, how satisfied were you with how your complaint or feedback was handled? *[Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]*

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. How satisfied are you with reporting on this in the Compliance Statements? *[Scale: Don't Know; 0-5 where 0 is not at all satisfied, 5 is very satisfied]*

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please give a reason for your rating

Generally speaking, complaints made by issuers are not seriously considered and examined in depth by proxy advisory firms. Moreover, the complaint procedures and the follow-up given therein are unknown and this situation very often discourage issuers from launching such a complaint. In terms of efficiency, issuers are of the opinion that the shortcomings observed should rather be subject to a procedure which could be initiated with a national regulator.

6. 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 and compliance 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): [Click or tap here to enter text.](#)

7. If you are a company, what length of time would you need to review drafts of proxy advisors' reports? *[tick one only]*

- Don't need or expect to provide comments
- 24 Hours before proxy advisor publication
- 48 Hours before proxy advisor publication
- 3 Days before proxy advisor publication**
- 5 Days before proxy advisor publication

Reporting on the Principles

1. 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.

Do the statements adequately cover all the matters that signatories are supposed to report on under the Principles? Yes No Don't Know

If no, please identify which matters you consider are not adequately reported on:
[Click or tap here to enter text.](#)

2. How informative and useful are the statements? *[Scale: Don't Know; 0-5 where 0 is very uninformative, 5 is very informative]*

Don't Know	0	1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. How might the statements be made more useful?

[Click or tap here to enter text.](#)

4. What are the examples of best reporting practice?

[Click or tap here to enter text.](#)

Monitoring the application of the Principles

1. An Oversight Committee composed of independent investor, issuer, and academic representatives is empowered to determine whether proxy advisor Signatories comply with Best Practice Principles. The Oversight Committee's first annual report, issued 1 July 2021, is accessible on its web page: <https://bppgrp.info/best-practice-principles-bpp-oversight-committee/>. What would be your level of expectation for the Independent Oversight Committee to improve service quality, integrity, and communication among proxy advisors?

- Don't know/wait and see
- high expectation**
- medium expectation
- low expectation
- the Independent Oversight Committee can have no impact

2. If you have additional suggestions for how the Principles should be monitored, please provide details:

Click or tap here to enter text.

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

Click or tap here to ent