

2019 Best Practice Principles for Shareholder Voting Research & Analysis Updates Summary

QCA Briefing
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Best Practice Principles for Shareholder Voting Research

The BPP Group

Agenda

Introduction to BPP Review Process | Delineating Investor and Proxy Advisor Responsibilities

Key Considerations & 2019 BPP Updates | Preamble & Governance

Key Considerations & 2019 BPP Updates | The Best Practice Principles & Guidance

Introduction to the BPP Review Process

Summary of Inputs to BPP Review Process

Key Takeaways BPP Review Process Addressed

Delineating Investor and Proxy Advisor Responsibilities

Summary of Inputs to BPP Review Process

The updated Principles and Guidance are the result of a thorough review process by the BPPG Review Committee, which refers to the following key considerations:

- The latest updated stewardship codes globally;
- The requirements of the revised EU Shareholder Rights Directive (“SRD II”);
- The December 2015 report on the development and implementation of the Principles by the European Securities and Markets Authority (“2015 ESMA Follow-Up Report”);
- The input of investors, issuers and other stakeholders received through the 2017 Public Consultation;
- The outcome of the 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 in 2019.

Key Takeaways from BPP Review Consultation Addressed

2017 Public Consultation feedback regarding improved governance and oversight of Principles 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 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 addressed by:

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

Active Ownership Regulatory & Market Frameworks Delineating Investor and Proxy Advisor Responsibilities

Global & Regional Frameworks



EU SHAREHOLDER RIGHTS DIRECTIVE (II)

Additional annual disclosure requirements for institutional investors and asset managers as well as proxy advisors

Local Market Stewardship Codes e.g.

(UK)



(NL)



(DK)



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Delineating Investor and Proxy Advisor Responsibilities

- The 2019 updates to the Principles relate to existing and evolving regulatory and stewardship frameworks which delineate responsibilities and disclosure requirements with regard to investors' use of proxy advisory services, as well as direct requirements for proxy advisors.
- Irrespective of the type of services used to support ownership and voting activities, the 2019 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 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 taken into account.

Key Considerations & 2019 BPP Updates

Preamble & Governance

Scope & Definitions

Applying the Principles

Governance of the Best Practice Principles

Key Considerations & 2019 BPP Updates

- **Scope:** The Principles have been developed to be applied by global providers of shareholder voting research and analysis who fit the SRD II definition of a proxy advisor. Entities that fall partially under the definition of the Principles are able to apply the Principles to the appropriate extent. 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.
- **Apply and Explain:** The new Principles operate on an "apply and explain" basis, in line with SRD II, to enable each Signatory to explain how the Principles relate to their specific circumstances and business model. 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.
- **Governance of the Principles:** 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.

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 comprise an Independent Chair and Committee Members with a diverse mix of skills, backgrounds, knowledge, experience and geographic locations. The representation of investors is of primary importance and, for this reason, six of the eleven members will be drawn from investor/investor representative bodies.

Key Considerations & 2019 BPP Updates

The Best Practice Principles & Guidance

Principle One & Guidance: Service Quality

Principle Two & Guidance: Conflicts of Interest Management or Avoidance

Principle Three & Guidance: Communications Policy

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 plus input from the 2019 BPP Stakeholder Advisory Panel.

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

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 review or comment (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.

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

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 clients may customise their voting policies. This is in response to 2019 BPP Stakeholder Advisory Panel feedback that transparency would help inform the market. 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.

2019 BPP Updates

Principle Two: Conflicts-of-Interest Management or Avoidance

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. The update also responds to feedback from the 2017 Public Consultation and 2019 BPP Stakeholder Advisory Panel.

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

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, 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; and
 - 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, 2017 Publication Consultation and 2019 Stakeholder Advisory Panel feedback.

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.

2019 BPP Updates | Principle Three Guidance:

2. Dialogue with Issuers, Shareholder Proponents & Other Stakeholders

There are several updates in the Principle Three Guidance section 2. in light of feedback from the 2017 Public Consultation:

BPP Signatories policy (or policies) for dialogue should include dialogue with shareholder proponents:

- a) BPP Signatories should have a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders.

BPP Signatories may include informing clients of any changes made to their research or analysis as a result of any dialogue:

- 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.

Details of any year-round mechanisms for dialogue with relevant parties should be disclosed.

- 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;
 - [...]

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