#72

COMPLETE

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Page 2: Information on Respondent

Q1 Name of Organisation

EuropeanIssuers

Q2 Type of organisation [select one]: **Representative body**

Q3 Main country / region of operation

Europe

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

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

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

info@europeanissuers.eu

Page 3: General questions on the Principles

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

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

3,

Please give a reason for your rating:

Thanks to the BPPs, proxy advisors are more aware of the necessity to be more transparent about their business practices and the way they operate. Their websites have been significantly improved and it is easier to find relevant information about for instance voting policy updates. In addition, at least in some countries, a constructive dialogue with proxy advisors has been started and improvements on the reciprocal understanding have been reached. Still, there are a few areas for improvements, notably as to the conflict of interest, the disclosure of methodology and awareness of local market. In particular, we would advise enhancing the Principles regarding communication with companies. The dialogue with issuers and offering companies the possibility to verify voting recommendation before it is provided to investors is key to avoid factual errors. We would suggest including that in the Principles as a recommendation for proxy advisors. A self-commitment of the signatories here would improve the situation. In our view, the three key principles (“Service quality”, “Conflicts of interest management” and “Communication policy”) are very broad and shall be supplemented as regard each information item to be disclosed under art. 3j of the revised Shareholder Rights Directive (2007/36/EC). These are: the essential features of the methodologies and models they apply; the main information sources they use; 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 markets, legal, regulatory and company specific conditions into account; the essential features of the voting policies they apply 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. In some markets it is felt that despite having signed up to the Best Practice Principles, some signatories do not comply with them. We hear that, for instance, conflicts of interest arise where corporate governance advice is offered to issuers while at the same time governance research is provided to investors on the same companies.

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

Respondent skipped this question

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

Page 4: Scope and Structure of the Principles

Q11 At present the Principles address three areas: service quality (which includes duties to clients, research methodology and voting policy); managing conflicts of interest; and communications with issuers, the media and other stakeholders (see the BPPG website here). Are there other issues or activities that should also be covered by the Principles [tick each that applies]	**ESG advisory services and indices ,** **Governance engagement services,** Other (please specify): Each item to be disclosed in line with the Art. 3j of the revised Shareholder Rights Directive (2007/36/EC) should be addressed by the Principles.
Q12 Each Principle is accompanied by guidance which sets out practices to be followed and information to be disclosed, on a "comply and explain" basis. Is this structure clear and appropriate? [Yes/No]	**Yes**

Q13 If no, how might it be improved?

We support the “comply or explain” principle. However, there is room for improvement regarding application of the Principles. Application of the Principles should be improved, notably with detailed explanations in case of non-compliance.

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

Q14 If you are a client of one or more signatories, do you consider that this Principle deals adequately with the various service commitments that you expect? [Yes/No]	**Respondent skipped this question**
Q15 If no, how might it be improved?	**Respondent skipped this question**
Q16 Depending on the wishes of their individual clients, those signatories that make voting recommendations will follow either bespoke or house voting policies. How satisfied are you with the process used by signatories to develop their house voting policies? [Scale 0 to 5, where 0 is dissatisfied and 5 is very satisfied]	**3**

Q17 How might the process be improved?

We would like to see more transparency regarding how the voting policy is developed. Voting policies should be tailored to each country, taking into account local legislation, corporate governance and market practices. While vote recommendation prepared for a General Meeting should consider specific circumstances of the company to which the recommendation relates. Voting policies should be applied with some flexibility avoiding the “box ticking” exercise.

Regarding the main features of the general voting policies applied for each market, we would like to see proxy advisors publishing an update of their voting policies on their website in November the latest. It is also important that the updates are published in a consolidated format, otherwise it may not be clear whether some provisions are still valid or not. The policies should be clear and understandable both for issuers and investors and definitions of the different notions used should be disclosed. Issuers increasingly experience difficulties understanding some of the technical aspects of the voting policies such as the pay for performance “P4P” or the “burn rate ratio”.

We would appreciate if the methodology used to update the voting policies was disclosed together with a synthesis of the responses received during the consultation process. We would also suggest that signatories consult companies on proposed changes to the policies before introducing them. Once new policies are adopted, signatories should ensure companies are well informed about the publication of revised policies on their websites.

Q18 In addition to national law and listing rules, which, if any of these considerations should signatories take into account when deciding whether to adjust their house policies for different markets? [Tick all that apply]	**Standards in national corporate governance codes and equivalent** , **Views and practices of local companies** , **Views of local and international investors**
Q19 How informative are signatories' descriptions of their research methodologies (see BPPG website here), including how they ensure that the research is reliable? [Scale 0 to 5, where 0 is uninformative and 5 is very informative]	**3**
Q20 While recognising the need for signatories to protect their intellectual property, how might the statements be made more informative?	**Respondent skipped this question**

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

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

Q22 If no, how might it be strengthened?

Regarding managing 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 directly or indirectly control 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, etc.).

While we agree that it is important to disclose how conflicts of interest are managed, we do not see that as a sufficient measure. Even if a proxy advisor, offering consulting services to companies on which it provides governance research to investor, recognises that it has significant relationships with those corporate issuers, it is of little help to those company confronted with this situation. Conflicts of interests should be properly addressed and resolved.

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.

Q23 The Principles include the following non-exhaustive list of potential sources of conflict:· A signatory’s ownership or shareholder base/structure, such as when a signatory is owned by an investor that owns shares in companies under coverage or when the investor is owned by an issuer under coverage;· A signatory’s employee activities, such as board memberships, stock ownership, etc;· Investor-client influence on the signatories, such as when an investor who is a client of the service provider is a shareholder proponent or is a dissident shareholder in a proxy contest; · Issuer-client influence on the signatories, such as when signatories provide consulting services to companies under coverage for research; and· Influence of other investor clients. Are there any others that should be included in this list?	**No**
Q24 If yes, please identify them.	**Respondent skipped this question**
Q25 If you are a client of a signatory, how satisfied are you with the information you receive on how potential conflicts are being managed? [Scale 0 to 5, where 0 is dissatisfied and 5 is very satisfied]	**Respondent skipped this question**
Q26 How might procedures be improved?	**Respondent skipped this question**

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

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

2

Q28 How might communication be improved?

Communication between proxy advisor and issuers has certainly improved in the last few years. Nevertheless, BPP provisions concerning dialogue with issuers should be strengthened.
We believe that the BPPs should not leave it to proxy advisors to choose whether to engage in dialogue with issuers but should recommend that proxy advisors have an engagement policy with issuers and disclose its main features in their compliance statement; if the policy does not provide for the engagement, proxy advisors should explain their choice. Moreover, engagement with companies should be encouraged during the entire year, not only during the proxy season. This is to ensure that proxy advisors send reliable and accurate reports to their clients and to avoid factual errors and any misunderstanding regarding draft resolutions, which we hear do happen and may have serious consequences.

Moreover, in case of engagement, the BPP should stipulate that companies are allowed sufficient time to analyse the draft recommendation report (minimum 2 and preferably 3 days). Proxy advisors should correct all factual errors in due time and the latest before the report is sent to their clients. In case the issuer disagrees with the factual information that the proxy advisor is not willing to change, the issuer's comments should be passed on to the clients (investors) by the proxy advisor.

According to our members, some proxy advisors establish dialogue with companies before AGMs and consult their preliminary report for comments. Issuers experiencing such behaviour praise its benefits since sometimes they lead to changes in voting recommendations. However, complaining about a non-demonstrable lack of time, some proxy advisers occasionally do not transmit the preliminary report. Or even if they do, they only accept issuers' comments within a very limited time. In some cases, the drafts are issued as late as in the morning of the AGM, making it impossible to engage in any dialogue.

We hear that some proxy advisors tend to prefer written comments rather than conference calls. This cannot efficiently replace an in-depth dialogue, especially regarding complex topics that require a proper understanding of the company.

We also question procedures that do not allow the preliminary report to be transmitted when a dissenting resolution is tabled. The need for dialogue and understanding remains as important as in other cases.

We hear that in some cases proxy advisors are giving access to the report, including data on the issuer regarding the main corporate governance issues such as composition of the board, related-party transactions, directors' remuneration and say on pay. But the issuer is only given the opportunity to check the accuracy of the data while not having access to the voting recommendations. This is even more difficult if the proxy advisor is not willing to engage with the issuer during the solicitation period.

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

Respondent skipped this question

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

Respondent skipped this question

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

Respondent skipped this question

Page 8: Reporting on the Principles

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

No

Q33 If no, please identify which matters are not adequately reported on

It depends on the subject, but it is felt that not all the statements adequately cover all the matters that signatories are supposed to report on under the Principles. For instance, the engagement policy with issuers is believed to be amongst those adequately covered.

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

2

Q35 How might the statements be made more useful?

The revised Shareholder Rights Directive requires regular publication of statements of compliance. We would suggest that proxy advisors take inspiration from the Commission's Recommendation (2014/208/EU) on the quality of corporate governance reporting ('comply or explain') regarding usefulness of explanations.

Page 9: Monitoring the Application of the Principles

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

Surveys of market participants ,

Other (please specify):

It could be usefully to have: • a survey/study to collect data about the way the BPPs are applied; • explanations given in case of deviation from the principles.

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

We believe that proxy advisors are mostly aware of their responsibility created by providing voting policies and recommendations on many General Meetings of companies. The BPP committee consulting regarding a need for monitoring reinforces that.

We would be interested in receiving information on the ongoing monitoring of the implementation of the Principles which, according to the membership guidelines, the BPP Group had committed to.

At least, it would be useful to receive feedback regarding whether the members of the Group met, how many times, also regarding the role of the independent chairman, etc. We would also appreciate if the Group would publish a (annual) report on its activity reporting on the application of the Principles and where it sees room for improvement. It would be useful to have a possibility to report on issues experienced by companies regarding proxy advisors who are signatories (dialogue, erroneous data, content of voting policies, conflicts of interest, etc.).

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 complaints' handling.

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

Respondent skipped this question

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

Respondent skipped this question

Page 10: Signing-Up Process

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

Respondent skipped this question

Q41 If yes, please specify

Respondent skipped this question

Page 11: Other comments

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

To complement Question 10 of this questionnaire, we have the following comments:

Overarching principles in the BPPs are generic enough to be applied to all European markets. However, they should recommend that voting policies are to be tailored to each country taking into account local legislation, corporate governance and market practices. We understand that in some markets proxy advisors may not pay enough attention to or lack sufficient understanding of the national legal framework and corporate governance culture. The following examples may illustrate this.

Example 1
Certain companies with a dual listing have experienced problems. It is important that proxy advisors apply the appropriate national legal framework for the company they give recommendations on.

Example 2 – Italy

We hear that In Italy, 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 taking into consideration that the 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 result, the competent Commercial Registry would not allow to register the new articles of association.

Example 3 – Spain

In Spain 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 preemptive rights.

We understand 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 (see below). Nevertheless, the proxy advisor decided to change the policy disregarding the explanations provided by companies and the recommendation of the NCA.

“Pursuant to recommendation 5 of the Spanish CNMV Good Governance Code of Listed Companies, the board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of share capital at the time of such delegation.

We consider that empowering the board of directors to fully or partially exclude shareholders' pre-emptive subscription right for an amount not exceeding 20% in the shares issuances gives more flexibility, than the 10% proposed, when capturing financial resources is intended to be made on international markets or by techniques of demand prospecting or book building or when otherwise justified by company interests. The withdrawal of the pre-emptive rights allows a relative reduction of the financial costs associated to the operation (including the commissions of the financial entities that participate in the issue) in comparison with an issue in which pre-emptive rights are given. At the same time, it has a lesser effect of distortion in the negotiation of company shares during the issue period.

Furthermore, it must be noted that according to Spanish Companies Act if the board agrees to exclude pre-emptive rights in an issue, it shall also issue a report explaining the company interests that justify such exclusion, which also must be subject to a report by an independent expert and that will be provided to shareholders and communicated in the first General Shareholders' Meeting held after adoption of the issue resolution. These reports will also be immediately posted on the company's website.”

Example 4 – France

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.

Moreover, we have not seen a study that would prove that a company performs better when the position of Chairman and CEO are separated. One size does not fit all and there is no ideal model of governance structure that is suitable for all companies. The specific context of each company must be taken into account.

Example 5 – Germany

In Germany most of companies choose to incorporate as public limited companies (Aktiengesellschaft; AG). Nevertheless, companies may also choose a legal form of the societas europaea (SE) or of a partnership limited by shares/silent partnership (Kommanditgesellschaft auf Aktien, KGaA) which can be stock listed. KGaA is mix between the public limited company and a partnership and is rather rare. Not all recommendations of the German corporate governance code are suitable for it. We believe it

is important that proxy advisors consider the structure and legal background of such companies while forming is voting recommendations.