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Principles of best practice for proxy voting and corporate governance advisers

In response to the financial crisis there has been a much greater focus on the roles and responsibility of institutional shareowners. They are increasingly expected to demonstrate real transparency and accountability in respect of their ownership activity.

PIRC believes that this spirit of accountability must also be exhibited by those firms which work with institutional shareowners to address issues relating to ownership. To this end PIRC believes that firms like ours have a duty to be as transparent as possible within a commercial framework and to adhere to certain best practice principles in their day to day operations.

This brief paper sets out our approach to these issues, and is a model that we believe could be followed by others.

PROXY VOTING AND CORPORATE GOVERNANCE ADVISERS

Principles of Best Practice

In response to the financial crisis there has been a much greater focus on the roles and responsibility of institutional shareowners. They are increasingly expected to demonstrate real transparency and accountability in respect of their ownership activity.

PIRC believes that this spirit of accountability must also be exhibited by those firms which work with institutional shareowners to address issues relating to ownership. We believe they should be accountable not only to their clients, but also to the capital markets in which they operate, and by extension to the investing public.

We believe that proxy voting advisers in particular must demonstrate leadership in this area. Businesses like PIRC play an important role in providing research, analysis and voting recommendations to institutional shareowners. These are core elements of the ownership agenda, and as such providers of these services should be willing to demonstrate the same type of openness and accountability expected of shareowners.

To this end PIRC believes that firms like ours have a duty to be as transparent as possible within a commercial framework and to adhere to certain best practice principles in their day to day operations.

The Stewardship Code

The draft Stewardship Code for Institutional Investors published by the Financial Reporting Council contains the following consideration:

“Agents of institutional shareholders

3.7 The introduction to the ISC Code states that it is intended to cover the activities of both institutional shareholders “and those that invest as agents”. Asset managers are not the only agents used by institutional shareholders. For example, proxy voting agencies offer research and voting services. Principle 1 of the ISC Code includes guidance which recommends that shareholders should disclose “the use made of, if any, proxy voting or other voting advisory services, including information on how they are used”.

3.8 Many investors also employ investment consultants to analyse the services offered by asset managers, and they have in the past publicly supported the ISC Statement of Principles. Anecdotal evidence suggests that engagement has not been an area to which they have devoted much attention in the past, but that it has been increasing in recent years.

3.9 Views are invited on whether agents such as voting services agencies and investment consultants should be encouraged to commit to the spirit of the Code, and, if so, how this could be done. (Page 12)”

In our recent response to the consultation on the Stewardship Code for Institutional Investors, PIRC agreed that voting and engagement advisers should be subject to it. But we also believe that there is a need for further transparency and accountability.

PIRC has been considering for some time how it can exhibit the same openness and accountability it expects of both companies and investors. We have always made our shareholder voting guidelines available for comment by both clients and companies. In addition in January 2009 PIRC became the first and only voting advisory service to make its recommendations publicly available. These are disclosed on our website.

We now believe it is time for the voting advisory community to go further. We must be willing to match the same standards that we expect of others.

In this spirit PIRC has drafted a series of best practice principles intended as a framework of responsible behaviour for voting advisory services. We have released these principles to foster an open debate about the role of proxy voting advisors and the type of openness and accountability they should exhibit. PIRC intends to use this framework as a benchmark to evaluate its own practice in this regard. We encourage other members of the voting advisory community to do likewise.

BEST PRACTICE PRINCIPLES

We have set out below the principles that we believe form the starting point for debate. We welcome responses from companies, investors and other advisory services.

Principles of Best Practice for Proxy Voting and Corporate Governance Advisers

- **1. Clear voting policy guidelines should be made available to clients, the companies whom the adviser is monitoring and to the market;**
- **2. Clear audit trail and explanation of the process for assessing companies and making voting recommendations should be available to clients and the companies monitored;**
- **3. Possible conflicts of interest should be disclosed to clients and to companies monitored and, where necessary, to market regulators (ie paid consulting with companies);**
- **4. Companies monitored should be given reasonable opportunity to comment on voting recommendations made and the basis of such recommendations;**
- **5. Voting agencies should routinely report to clients on actions taken on their behalf;**
- **6. All voting recommendations made by a voting adviser should be publicly disclosed post-meeting.**

CONTACT US

If you have any comments on the Best Practice Principles, please send them to:

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