



20 December 2013

Prof. Dr. Dirk Andreas Zetsche, LL.M.
Chairman
The Best Practice Principles for Governance Research Group
Submitted by email to: consultation@bppgrp.info

RE: Public Consultation on Best Practice Principles for Governance Research

Dear Dr. Zetsche -

Thank you for the opportunity to provide feedback on the Public Consultation on Best Practice Principles for Governance Research.

By way of background, Eurosif - the European Sustainable Investment Forum - is a pan-European sustainable and responsible investment membership association whose mission is to promote sustainability through European financial markets. Our members include national Sustainable Investment Forums (SIFs) and approximately 70 Member Affiliates, including asset managers, environmental, social and governance (ESG) rating agencies, research and investment service providers, academic institutions, trade unions and non-governmental organisations, representing assets in excess of €1 trillion.

General Comments

We welcome the initiative of the proxy advisory industry to develop these Best Practice Principles in response to the recommendation made by the European Securities and Markets Authority (ESMA) that the industry should develop a Code of Conduct.

Eurosif believes that the proxy advisory industry provides essential research and services to shareholders that enable them to form their own judgments and make their own decisions with regard to exercising their shareholder rights. Proxy advisors can help investors to be more active and better shareholders by providing them with timely, factual and relevant information on a broad scale, which otherwise might be challenging to achieve due to the scale and diversity of their investments.

On a higher level, we believe that the proxy advisory industry plays a crucial, although indirect, role in enabling long-termism and restoring trust in the financial markets, thereby contributing to the public interest. The importance of having more engaged shareholders has been acknowledged recently by the European Commission itself: "Shareholders have a crucial role to play in promoting better governance of companies. By doing this they act in both the interest of



the company and their own interest [...] Shareholders should be encouraged to engage more in corporate governance.”¹

Further, proxy advisors can enhance shareholder democracy through lowering the cost of monitoring, especially on a cross-border basis where each fund or asset manager may not have the specialist knowledge to make informed voting decisions.

Nevertheless, and as a side comment to this consultation, we would like to stress that the use of proxy advisory research services does not absolve institutional investors of their fiduciary responsibility to exercise due diligence regarding the accuracy of the research and advice they utilise, as well as make their own final voting decisions.

The Principles

Eurosif supports the key Principles identified by ESMA and the Committee – Service Quality, Conflicts of Interest Management and Communications Policy.

While we agree with the “soft regulation” approach taken, we would like to highlight the need for the proposed approach to supplement each of the Principles with a set of specific and measurable (or observable) “best practice” provisions. This is the route taken by similar “Codes”² within the financial industry and would make the overall approach more robust and transparent. We would therefore strongly advise the Drafting Committee to further develop such provisions.

Given the importance of appropriately managing conflict of interests within proxy advisors with multiple activities, we would like to see more specific “best practice” provisions in particular in this area.

Further, we strongly encourage a comply or explain approach **at each provision level**, rather than at the level of the Principles (given their relatively broad nature).

Finally, we believe that in order to make this “Code” effective and transparent, an independent body or committee should be appointed to review its implementation, as well as to evolve it as needed.

Scope of the Principles

Eurosif is concerned that the Committee has expanded the scope of the Principles beyond that which was intended by ESMA. The definition of “governance research services” provided in the Consultation Document captures services that are provided by both the proxy advisors and other types of organisations including, but not limited to, asset managers and ESG rating agencies.

¹ European Commission, COM (2012) 740/2, Action Plan: European company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies.

² The Consultation refers to Best Practice Principles and not to a Code. However, our understanding is that the term “Code” might be more appropriate as a certain level of commitment to the Principles is expected.



ESMA's recommendation for a Code of Conduct was clearly directed toward the proxy advisory industry in response to specific concerns regarding the independence of proxy advisors and the accuracy and reliability of advice they provide. Further, the relationships that asset managers and ESG rating agencies have with their own respective clients are already governed by a number of voluntary codes of conduct (such as the UK Stewardship Code, the ICGN Modern Mandate, and the EFAMA Code for External Governance for asset managers and others listed in the Consultation Document, and ARISTA 3.0 for ESG rating agencies).

As such, we urge the Committee to re-focus the scope of the Principles on the proxy advisory industry.

Conclusion

In conclusion, we reiterate our support for this initiative, but believe that more work is needed to strengthen the Principles in order to ensure their credibility and ultimate effectiveness.

A handwritten signature in black ink that reads "François Passant".

François Passant
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About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the leading pan-European sustainable and responsible investment membership association whose mission is to promote sustainability through European financial markets. Eurosif works as a partnership of national Sustainable Investment Forums (SIFs) with the support and involvement of around 70 Member Affiliates from the industry and related services. These include asset managers, ESG rating agencies, research and investment service providers, academic institutions, trade unions and NGOs, together representing assets exceeding €1 trillion and richly diverse standpoints. Informed by the expertise of its Member Affiliates, Eurosif speaks authoritatively and broadly on SRI (sustainable and responsible investment) issues.

Eurosif has two main roles: (1) to provide an international forum that allows members and member affiliates to work together on issues pertaining to Sustainable & Responsible Investment and Corporate Governance in the EU, and (2) to collect input from members and member affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission as well as the European Parliament.

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This position has been developed as part of Eurosif's aim to promote sustainability through European financial markets. It does not necessarily reflect the views of all its Members and Member Affiliates.