

ECGS response to the UK Stewardship Code

This is the second response of ECGS to the UK Stewardship Code following the release of the 2012 Stewardship code, amended after consultation by the FRC on a series of proposals. Consultation gathered several requests from investors and a new code was finally issued in September 2012.

Who are we?

ECGS is an international partnership of local independent proxy advisors serving investors. As such, ECGS regularly takes part in consultations on local corporate governance standards and practices. The active participation of all institutional investors as shareholders especially in terms of voting is a benefit to the economy as a whole. Therefore, the publication of the UK Stewardship Code by the FRC and the ISC is greatly appreciated.

ECGS corporate governance advisory and proxy voting services are contributing to the satisfaction of the principles set out by the Stewardship Code in assisting investors to meet their fiduciary obligations. ECGS encourages shareholder engagement and ECGS analysts generally entertain a dialogue with investee companies. ECGS believes that good stewardship principles should also apply to institutional investors outside the UK, regardless of the investee companies' countries. For this reason, ECGS intends to discuss the stewardship principles with international clients in order to evaluate and strengthen their compliance.

For more information about this document and our services, visit www.ecgs.com or contact ocourade@ecgs.com.

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Principle 1: ECGS assists institutional investors to apply and publicly disclose their stewardship policy

- As a proxy advisor, ECGS fully discloses its own common voting policy. These common guidelines are adjusted according to local corporate governance codes and frameworks. Guidelines are reviewed and updated on a yearly basis with clients and all European partners following the changes in best practices and main local codes.
- Since the UK Combined Code and other local corporate governance codes are based on a 'comply and explain' approach, an important part of the task is to monitor the explanations provided by investee companies for non-compliance prior to companies' annual general meetings. However, ECGS does not provide any consulting services to issuer companies.
- The ECGS analytical process creates a dialogue with company representatives on the content of the resolutions and of the reference documents. On average 15 days prior to their AGM ECGS produces proxy recommendations as a result of this analytical process and in line with its international corporate governance principles for listed companies.
- Investors are invited to develop their own voting policy. ECGS will help them applying it by delivering the appropriate custom voting advice according resulting from each client's policy: these final voting recommendations will often differ from the recommendation resulting from the ECGS common voting policy.
- Finally, an engagement service on corporate governance topics and general shareholders' interests is also an important activity for ECGS which has developed its own engagement model enabling its clients to keep a continuous dialogue with issuers. On request ECGS will prepare letters or public questions to issuers to be sent by the investor alone or jointly with other investors; subsequently ECGS will arrange meetings with the company and inform the investors on the feedback from the company. In some case ECGS might prepare resolutions to be tabled for the company's AGM for the support of the investors.

Principle 2: As an independent advisor, ECGS monitors its potential conflicts of interests

- Independence is one of the core values of ECGS and ECGS partners do not offer any service to issuer companies. We believe that in order to conduct an objective analysis of the governance and performance of investee companies, ECGS analysts should be totally independent.
- ECGS strives to monitor and to reduce conflicts of interests since good corporate governance cannot be achieved without recognizing, disclosing and mitigating potential conflicts. Direct conflicts of interests such as official contracts, mandates and fees will be taken into account but also indirect conflicts situations resulting from a general business model. As an example, because of the conflicting nature of the universal banking business, any Director being an Executive of a local major bank will be classified as non - independent member of the company Board.
- When a conflict of interest could threaten the objectivity of the ECGS report, for instance in the case where the analyzed company is one of ECGS clients, ECGS would make a note of the potential conflict within the voting advisory report.
- The communication of the draft research report to the company before its release was long considered as a good practice, but ECGS now recognized that it also creates a potential conflict of interests as the issuing company can try to influence the analyst and thereby affect the objectivity of the recommendation. When such dialogue has had an impact over the final recommendation it should be at best reported in a note to the reader.

Principle 3: ECGS continually scrutinises companies' governance

- ECGS monitors the appropriateness and effectiveness of companies' Boards and Committees structure. It also records improvements or declines in terms of the governance structure of companies every year.
- ECGS monitors the compliance with local Corporate Governance Codes in each country on which ECGS' reports are written. As such, ECGS engages on a regular basis a dialogue with companies that depart from the local Corporate Governance codes.
- ECGS assesses the quality of the reporting released by the company to shareholders and supports that every documents should be available in English in order to maximize the understanding of the issues by international shareholders.
- ECGS always provides explanations regarding voting recommendations and keeps track of discussions and meetings or substantial discussion held with the investee companies.
- ECGS strongly encourage its clients to attend the Annual General Meetings and to participate to shareholders' discussions. ECGS representatives attend AGMs when appropriate.

Principle 4: ECGS assists investors in engaging with companies and intervening in order to enhance shareholder value

- ECGS identifies governance structures and behaviors that raise concerns within clients' portfolio.
- As an organisation, ECGS engages directly with investee companies in order to explain its governance principles.
- ECGS advises investors on the type of actions possible such as resolutions' proposals.
- Investors engagement include letters or public questions to issuers to be sent by the investor alone or jointly with other investors; one to one or joint-

meetings with the company, presentation of resolutions to be tabled for the company's AGM for the support of the investors.

- Taking legal action is an important final option which has not been mentioned in the Stewardship Code. We believe that taking legal action is a valid and important tool for investors to obtain reasonable redress, sanction and indemnification in the cases where Boards actions have had a direct damaging impact on the do not take into account shareholders' long term value of the shareholders equity. ECGS considers that side benefits should be expected from such legal actions for their positive impact over the better enforcement of the law and better respect of all parties.

Principle 5: ECGS helps the European investment community to communicate on voting matters and engagement

- ECGS facilitates communications between institutional investors in order to encourage collaborative engagement and gathers its clients in a governance workshop once a year.
- ECGS aims to gather its clients on international corporate governance issues and debates, including assistance to institutional investors in the area.
- Local ECGS members participate and comment on the local regulatory or parliamentary discussions and consultations on different issues affecting corporate governance and the long term shareholders' interests.
- ECGS Members joined forces in June 2012 with the coalition launched by [USS \(Universities Superannuation Scheme\)](#) on Audit – [\(EU Pension Fund position paper for the European Parliament 30 May 2012\)](#) calling for a maximum tenure of 15 years for any audit firm, mandatory tendering every 5-7 years with at least two new candidates, excluding any or reducing further non-audit work, suggesting a ceiling for audit-related tasks and 10 % for non-audit works.

ECGS sees such action as a practical tool to satisfy both the Principle 5 of the UN Principles of Responsible Investment and the Principle 5 of the Stewardship Code.

- ECGS members participate to international conferences and forums.
- ECGS is a member of the UNPRI Clearing House Collective platform for engagement.

Principle 6: ECGS assists investors in developing their voting policies

- As highlighted in the Code, investors should attempt to vote on a global scale. Voting can be technical and complex especially when voting abroad, that is why ECGS argues for easier and cheaper voting systems. ECGS representatives participated in several consultations with the EU Commission on these matters and have suggested specific innovations for the voting process.
- ECGS strongly supports the Code requirement for disclosing voting records.
- ECGS supports the requirement for investors to disclose the name of their proxy services advisors and services they use. In addition, ECGS believes that institutional investors should publicly disclose in which countries they vote.

Principle 7: ECGS provides statistical analysis of voting results and voting trends

- ECGS approves the principle of transparency regarding voting activities and publicly releases all the voting recommendations on ECGS' website at the end of each proxy season.
- ECGS analyses and issues annual publications on the local and European voting trends as well as the developments concerning the management remuneration issues.