Please note that the comments expressed herein are solely my personal views

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- Your Ref: Comment letter on Discussion Paper
- An Overview of the Proxy Advisory Industry: Considerations on Possible Policy Options

Dear Sir.

Thank you for giving us the opportunity to comment on your Discussion Paper 2012/212 on "An Overview of the Proxy Advisory Industry: Considerations on Possible Policy Options".

We should improve transparency in the proxy advisory industry to ensure a level playing field between all participants, and minimise any conflicts of interest. I would support rules that: promote greater efficiency and transparency in the proxy advisory industry; and enhance the integrity of the shareholder vote.[1]

Effective rules on conflicts of interest

A conflict of interest arises when a proxy advisor's obligation to act in the best interest of its client conflicts with any of:

- the advisor's own interest
- an interest of a partner or affiliate
- an interest of the issuer
- the interests of third parties including other clients

[1] See also my comment letter on the 2011 Green Paper on the EU Corporate Governance Framework, available at: http://ec.europa.eu/internal_market/consultations/2011/corporate-governance-framework/individual-replies/barnard-chris_en.pdf

Effective rules on conflicts of interest should be introduced, including a general principle that proxy advisors must ensure that their ability to provide independent and objective advice is not, and cannot be perceived to be, compromised. It is the proxy advisor's responsibility to ensure that it is aware of any existing or potential conflicts of interest, and I would strongly recommend that these are documented and fully disclosed up-front to clients and, where necessary, to market regulators, in order to allow assessment of their independence. A proxy advisor should disqualify itself where clear, unmanageable conflicts exist.

Improving transparency in the proxy advisory industry

Many of the perceived problems of the proxy advisory industry are a part of the larger problem of separation of shareholder ownership through the investment process, leading to lack of shareholder engagement and inadequate corporate governance. These are very significant problems that cannot be addressed solely through the proxy advisory industry. However, as a minimum, I would strongly recommend that proxy advisors' methodologies should be clear, transparent, and publicly disclosed, so that clients can evaluate their recommendations and issuers can improve communication and modify their governance procedures where necessary. In order to increase transparency further, I would recommend that all voting recommendations made by a proxy advisor should be publicly disclosed after the general meeting. These recommendations are a reasonable starting point for improving the transparency and integrity of the proxy advisory industry.

Yours faithfully

C.R. Barnard

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