

New Bridge Street Response to Call for Evidence on the Impact of the Best Practice Principles for Providers of Shareholder Voting and Research Analysis

While New Bridge Street is not directly involved in the voting chain, as one of the largest executive compensation practices in Europe, it assists companies in formulating pay proposals that are the subject of shareholder voting at General Meetings.

The questions we have provided input into in relation to the Call for Evidence reflect our experience in working with the companies and proxy advisors and how this relates back to the content and operation of the Best Practice Principles that now apply to providers of shareholder voting research and analysis. We have not sought to respond on all questions.

General Questions (Section 3)

Q1: What is the nature of your involvement in the proxy advisory industry (proxy advisor, investor, issuer, proxy solicitor etc.)? To facilitate the comprehensibility of your response to this Call for Evidence, please describe your role in and your interaction with the industry.

A: See above.

Q2: Have you previously had concerns with the functioning of any areas of the proxy advisory industry? If yes, please specify.

A: In our view there are a number of areas where the original principles could have been more detailed to help address concerns raised by our clients (the concerns being unchanged pre and post the Principles) in connection with executive pay General Meeting resolutions, these include:

(i) Public disclosure of voting policies and issuer explanations:

It would be helpful if the Best Practice Principles required voting agencies to explain why their guidelines are not available (without charge) to issuers. Only a subset of the signatories require payment for a copy of their guidelines or do not make them available

We would also consider it helpful for the Best Practice Principles to require voting agencies to publish the explanations provided by companies where their views differ to those of the voting agency on topics covered in their voting reports unless they disclose why this is not appropriate.

(ii) Communications policy

There is varying practice among the voting agencies as to (i) whether they provide issuers with the opportunity to review voting reports and (ii) the time line for response. While the Best Practice Principles requires the disclosure of policy we would consider improvements to include (i) requiring voting agencies as a default to provide a draft copy of a voting report to the issuer if they are to 'oppose' a General Meeting resolution or explain why this is not the case in their policy and (ii) stipulating a minimum response time (e.g. 48 hours) and requiring voting agencies to justify why this is not appropriate if this is not adopted as a minimum standard.

Also, we do not consider it appropriate for voting agencies to seek to charge companies to review a voting report on their AGM. This is the practice of one of signatories to the Best Practice Principles and in our view there should be a justification in the principles for taking this approach.

Q3: Did you become aware of the BPP at the time of their publication, i.e. March 2014? If yes, how did you become aware of the BPP? If no, when did you become aware of the BPP and how?

A: Yes, through media coverage initially.

3.2.2 The BPP on paper

Q4: What is your view on the width and clarity of the scope of entities covered by the BPP (i.e. do you consider that the BPP cover the European proxy advisory market appropriately)? Please explain.

A: No view.

Q5: In your view, are the BPP drafted in a way so that they address the following areas identified in ESMA's 2013 Final Report? Please provide examples to support your response.

a. Identifying, disclosing and managing conflicts of interest. A: no issue raised.

b. Fostering transparency to ensure the accuracy and reliability of the advice. A: as detailed in 2 (i) and 2 (ii) above.

c. Disclosing general voting policies and methodologies. A: as detailed in 2 (i) above.

d. Considering local market conditions. A: we find that the policies can imply a cross market policy which is not always borne out in practice. We would find it helpful if the Best Practice Principles required voting agencies to make it clearer how the research methodologies and engagement vary by location and the reasoning for this.

e. Providing information on engagement with issuers. A: as detailed in 2 (i) and 2 (ii) above.

Q6: What is your overall assessment of the quality of the signatory statements? Please provide examples referring to the areas identified under Q5

A: Adequate but could be improved to provide the details referred to above in Q5.

3.2.3

The BPP in practice

Q7: In your view, are there proxy advisors which possibly fall within the scope of the BPP and have not signed the BPP? If yes, please:

- a. identify such entities;**
- b. explain why you consider them to be within the scope of the BPP; and**
- c. indicate the ir size and the coverage of their operations within the European market.**

A: IVIS research provided by the Investment Association. Colour coded research as opposed to formal voting recommendations but has a material influence on all Official List UK company meetings.

Q8: How would you describe the impact which the BPP have had on the proxy advisory Industry in practice? Please provide examples to support your response.

A: No view.

Q9: Have you observed any changes in signatories' practices in the areas mentioned under Q5 since the publication of the BPP in March 2014 and specifically during the 2015 proxy season? Please provide examples to support your view and specify whether these changes addressed the concerns you mentioned in response to Q2, if any.

A: No.

Q10: To what extent do you consider the conduct of BPP non-signatories in relation to the areas identified under Q 5 to be different from that of BPP signatories? Please provide examples to support your view.

A: IVIS, as a general rule, are much more likely to engage with issuers and reflect the nature of the engagement in their voting analysis.

Q11: Do you consider other measures than the BPP necessary to increase understanding of and confidence in the proxy advisory industry? If yes, please explain why and specify the measures which would in your opinion be suitable.

A: The main concern we have is that ISS provides such comprehensive global voting services across the board that the view could be taken that they are becoming disproportionately powerful vis-a-vis the other voting agencies.

For example, in 2014 where they recommended a vote against a UK FTSE 350 pay related resolution this typically resulted in the issuer receiving circa 25% dissent (votes against plus abstentions) against the resolution (using the median statistic) with this increasing to circa 35% in 2015 (to May).

Given this level of influence, and ISS not always having the resources to engage with issuers, and as a matter of policy not providing a view on the overall acceptability of pay proposals during consultation (in the same way as an actual institutional investor would typically) this is causing 'live' problems for many issuers.

To address this issue would require mandating voting bodies to provide a formal view to companies in consultation on their proposals in terms of their overall acceptability. This process could include the voting body, perhaps, taking soundings from their subscribers who are the larger investors in the Company to assist in providing voting recommendations to the broader subscriber population.

Q12: Do you have any other general comments that ESMA should take into account for the purposes of its review?

A: No.

Questions for Other Stakeholders (Section 7)

7.2 Questions

Q40: In your experience, to what extent have the BPP enhanced clarity as regards proxy advisors' conduct in the following areas? Please provide examples to support your response.

- a. Identifying, disclosing and managing conflicts of interest;
- b. Fostering transparency to ensure the accuracy and reliability of the advice;
- c. Disclosing general voting policies and methodologies;
- d. Considering local market conditions; and
- e. Providing information on engagement with issuers.

A: It has provided a clearer picture of how internal processes operate within the proxy advisors than was previously available.

Q41: To what extent has the publication of the BPP had an impact on the following areas? Please provide examples to support your response.

- a. Your business practice;
- b. Your interaction/relation with proxy advisors;
- c. Your interaction/relation with any of your clients or service providers.

A: none.