

## **PUBLIC CONSULTATION ON BEST PRACTICE PRINCIPLES FOR GOVERNANCE RESEARCH PROVIDERS**

Frontis Governance is a sole proprietorship firm founded by Sergio Carbonara, ten years experienced in the proxy voting business. Frontis is the first Italian proxy advisory firm, totally focused on the domestic market, and it is partner of the international network of proxy advisers ECGS (“Expert Corporate Governance Service”). Other members of the ECGS network are: Proxinvest (France – managing partner), Ethos (Switzerland), DSW (Germany), Shareholder Support (Netherlands) and GIR (Canada).

The ECGS network includes only local analysts focused on their local markets. The independence of all proxy advisory firms is guaranteed by the mandatory prohibition to provide direct services upon payment to listed companies included in each advisor’s research universe. Hence, all ECGS’ members already comply with the Best Practice Principle Two proposed by the Drafting Committee: Conflicts of Interest Management.

Thanks to the partnership structure, each ECGS’ partner adopts its own proxy voting guidelines, based on the network’s principles applied to each specific country’s codes and customs. Finally, the local presence and the focus on local markets facilitate a direct and immediate engagement with institutional investors and listed companies, in compliance also with the Principles One (“services in accordance with agreed client specifications”) and Three (“dialogue with issuers, shareholder proponents and other stakeholders”).

It is very important to stress that research providers are solely responsible to their clients, that are mostly represented by professional investors with solid knowledge and that are adequately structured to protect their own clients’ interests. If researches are unsatisfactory, wrong and/or based on misleading information, clients should be aware that they can easily access to other providers, through transparent industry-based information.

In our view, the main purposes of the Principles are to enhance transparency, to open the proxy advisory industry to a wider number of local independent experts and to reduce any potential conflicts of interest. At the same time, it should be reminded that researches and proxy analysis are not of public domain and that the whole researchers’ activity is based on private agreements.

On the above mentioned basis, we welcome the ESMA’s initiative to encourage the development of a proxy advisory industry’s Code of Conduct, based on a “comply-or-explain” framework. In particular, we believe that the Code may further enhance the listed companies’ understanding of the proxy advisory industry, through a higher level of transparency and a closer and more constructive dialogue among all interested parties (issuers, proxy advisers and institutional investors).

We expect that the proxy advisers’ example will be followed by other actors of the proxy voting industry, such as custodians, proxy agents, voting platforms and proxy solicitors, that use to provide services to all organizations involved in the voting process and that risk to be involved in clear conflicts of interest.

## Frontis Governance's answers to consultation questions

We agree with the overall definition of the Principles, that we consider enough clear and general to be applied to all research providers. Although not being directly involved into the process, we believe that the Committee's composition represent almost the entire industry, both in terms of clients and coverage universe. Frontis Governance's answers to specific consultation questions are reported below.

*2. Respondents are welcome to express their expectations regarding the review and monitoring of the principles. As the on-going governance of the principles has yet to be determined, the committee particularly welcomes suggestions by stakeholders as to how a representative feedback mechanism can be implemented.*

The on-going monitoring should be open to all research provider signatories, who should be able to comment on the actual implementation of the Principles on a day-by-day basis (i.e. through a reserved area on [bbpgrp.info](http://bbpgrp.info) or another industry-related website). Comments should be open also to institutional investor clients, that are the sole beneficiaries of proxy advisers' researches and the sole responsible of exercising the voting rights at General Meetings.

*5. Do you believe the Principles and/or supporting Guidance conflict with obligations under legislation or other best practice principles? If yes, please elaborate and provide specific examples and/or suggestions.*

Neither the Principles nor the Guidance conflict with the Italian legislation nor with other best practice principles.

*6. Please share your views on the procedures for registering as a signatory, describing and disclosing how Principles and related Guidance are being applied, and for disclosing the Statement of Compliance.*

Both the procedure for the registration and the disclosure of the Statement of Compliance are clear and do not arise major concerns.

In our view, the list of signatories together with all relevant Statements of Compliance should be made easily available to all investors, on the same publicly available source ([bbpgrp.info](http://bbpgrp.info) or on a dedicated section of ESMA's website).

*7. What should the regional scope of the Principles be, in terms of signatories and services provided? For example, do you think that the Principles should be global?*

In our view, all research providers, including the global ones, should adopt country-specific guidelines related to each market on their coverage universe, explaining how global principles are applied to local rules and practices.

8. For additional potential signatories only: Are there factors that generally would keep you from becoming a signatory to the Principles? If yes, please elaborate and provide specific examples and/or suggestions.

The only barrier for Research Providers may be represented by the size of the organization and by its coverage. Small providers that are focused on peripheral markets may not be able to implement sophisticated checking procedures, IT platforms and/or to involve third party experts.

One of the main purposes of the Principles should be to foster the development of locally-based expert providers, that guarantee the highest level of knowledge of local practices, a quick engagement with all involved parties and a direct involvement in all specific market-related issues.

11. Are the definitions of “vote agency services” and “engagement and governance overlay services” and their distinction from “governance research services” sufficiently clear and accurate? If not, please elaborate.

As correctly stated on the definition of “governance research services”, the service providers do not act on behalf of any party that wants to influence other shareholders’ vote. Nevertheless, clear conflicts of interest may arise in case a proxy advisor also acts as voting agent, as proxy advisers do recommend specific voting positions. We believe that the Principles should apply also to voting agents, due to their very delicate role in accurately express the investors’ voice to the Meeting.

In large majority of markets, shareholders have not the possibility to verify how (and even whether) their votes have been cast. This happens because the meeting minutes, when published by the issuer, report all foreign votes in the name of the custodian. Furthermore, voting shareholders rarely have direct contacts with their proxy agents, that are often hired by the local custodians. This global practice prevents shareholders from verifying whether their fundamental voting rights have been correctly exercised. As per the Italian legislation, all meeting minutes must be published on the corporate website, together with all attachments, including the list of all voting beneficial owners. Hence, it is possible for all shareholders to verify that their votes have been correctly cast.

Of course the definition of transparent voting procedures do not pertain to the research providers’ principles, but it depends on local legislations. Nonetheless, we would like to stress the necessity of similar initiatives from ESMA (or other supranational Authorities), in order to effectively guarantee the correctness of voting procedures, and consequently to safeguard all shareholders’ voting rights.

15. Do you think the disclosure of the research policy, voting guidelines and research methodologies will enable stakeholders to determine how signatories consider local market conditions? If not, please provide reasons.

In our view, the best way to consider local market conditions is to draft specific country or regional guidelines, to be publicly disclosed or made available to all actual and prospect subscribers.

16. Please express your views on the scope and content of the proposed research-related disclosure under this principle with respect, to:

b. Voting guidelines:

One of the major criticisms to proxy advisers research methodologies is the use of a “tick-the-box” approach, based on global best practices and guidelines that do not take into account the specificities of each company and the local customs. If the Principles push for a stronger standardization of guidelines and procedures, the risk is an even higher use of the “tick-the-box” approach. Furthermore, only very big global players may be able to implement large-dimensioned structures to comply with strict procedures.

In our view, strict procedures do not ensure the quality and the independence of the researches.

Said that, the reliability of information used and the quality of the analysis (that should be always performed on a “case-by-case” basis) are a real issue for all advisory industries.

We agree with the drafted Principle One on the disclosure of the procedures that have been put in place to ensure the quality and the independence of guidelines and researches. At the same time, such procedures should take into account the local customs (i.e., it is not always possible to involve local third parties in the definition of voting guidelines, due to the prevalent corporate governance culture in a specific market or to the presence of widespread conflicts of interest), as well as the size and the coverage universe of each provider.

17. For additional potential signatories only: Does the Guidance provide you with the information necessary to properly apply Principle One? If not, would you prefer further Guidance? Please explain.

Yes.

18. Does Principle Two address the relevant issues or considerations relating to potential conflicts of interest in the provision of governance research? If not, please explain.

Granted that all research providers already have in place all necessary procedures to manage potential conflicts of interest, it would be highly recommendable to avoid any conflict rather than managing it.

We suggest that research providers commit themselves not to directly provide any advisory services to listed companies under coverage for research, unless the potential buyers of researches and/or papers are not known (i.e., through a sale “over-the-counter” or through intermediaries).

In order to guarantee a clear disclosure of potential conflicts of interest, the Statement of Compliance should generically describe all services provided, the nature of target clients (institutional investors, listed companies, retail, etc.) and the type of distribution channels. Of course, signatories should not disclose confidential information.

21. For potential additional signatories only: Does the Guidance provide you the information necessary to properly apply Principle Two? If not, what additional Guidance do you need?

Yes

22. Please express your views on the scope and content of the proposed policy disclosure under this principle with respect to:

a. Issuers:

We believe that the ESMA's initiative, together with the Principles, will foster the dialogue between issuers and research providers. In particular, we note that there is still poor knowledge of the proxy advisers' role among many stakeholders. It should be stressed that the dialogue between issuers and researchers is not a negotiation, where issuers try to persuade the analysts of their reasons. An ongoing dialogue is of great benefit for all stakeholders, when related to corporate governance issues and not necessarily linked to the resolutions submitted at the GM, as it may help issuers to improve their governance as well as researchers to understand each company's specificities. To this effect, we welcome the initiatives of several associations and/or individual institutions aimed at a public confrontation between issuers and proxy advisers. We would suggest regular market meetings, also on a one-to-one basis, to be preferably held well in advance the proxy season, or at its end.

b. Media and the public:

Also the dialogue with media has to be considered of great benefit for the market, as expert analysts may clarify many aspects that are not always known by the general public. On the same time, the public disclosure of voting positions before the Meeting date, may lead to an alteration of the fair voting process: issuers or dissident shareholders may take advantage of the disclosure to foresee the final outcome of the meeting or to put pressure on some institutional investors to change their voting position. We would suggest that all proxy advisers abstain from disclosing their voting recommendations, at least until it is reasonably expected that all investors have executed their votes.

25. For additional potential signatories only: Does the Guidance provide you with the information you need to properly apply Principle Three? If not, where would you prefer further Guidance?

Yes