



1 June 2021

Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: MCDproxyadvice@treasury.gov.au

Submission to Treasury Consultation Paper on Greater Transparency of Proxy Advice

Dear Treasury

Thank you for the opportunity to provide this submission to the Consultation Paper on *Greater Transparency of Proxy Advice* (Consultation Paper).

About the Australasian Investor Relations Association

The Australasian Investor Relations Association (AIRA) is the peak body representing Investor Relations practitioners in Australia and New Zealand. Our members include the majority of ASX100 companies and Australia's leading share registries.

AIRA exists to provide listed entities with a single voice in the public debate on corporate disclosure and to improve the skills and professionalism of members.

Our mission is to advance the awareness of, and best practice in, investor relations in Australasia and to achieve better outcomes for all capital market stakeholders. We drive industry best practice and reform through our engagement with government, financial regulators, and other stakeholders to promote a supportive environment for the sector.

We have published valuable guidance for listed companies on what constitutes best practice in the field in its *Best Practice Investor Relations: Guidelines for Australasian Listed Entities* and *ESG Engagement Guidelines: Recommended Practices for Australasian Listed Entities*. These are the definitive guides for the practice of investor relations across Australasia.

Executive Summary

AIRA supports the objectives of this consultation to strengthen the transparency and accountability of proxy advice in Australia and to assess the adequacy of the current regulatory framework.

The overarching aim of our submission is to provide constructive and balanced recommendations to help ameliorate some of the challenges facing our members based on their experiences with proxy advisers, including some of the issues we have observed since our inception in 2001.

More importantly, our submission is focused on outlining some practical solutions to foster stronger, more rigorous, and more transparent engagement between proxy advisers and companies, as well as the institutional investors who use proxy advice to inform their decision-making on company resolutions.



Proxy advisers play an extremely important role in Australia's capital markets by critically analysing proposals and resolutions put to shareholders by companies. Their voting recommendations on these resolutions put at a company's meeting are a valuable resource for institutional investors as they exercise their voting rights, often across highly diversified holdings in a large number of ASX listed companies. Their advice is highly influential and can have a profound effect on companies, directors and their shareholders. Companies, therefore, must work constructively with proxy advisers to ensure that institutional shareholders receive accurate advice on voting matters. It is in all parties' interests and the integrity of the capital markets, for proxy reports to be factually correct and for proxy advisers to receive important context about a company's decisions across financial, environmental, social, and corporate governance matters.

The interactions between companies and proxy advisers, however, are in constant competition with the tight timeframes of the AGM season, the large number of ASX listed companies that require analysis, the volume of data that shape each company's financial results, and the resources of proxy advisers to complete their analysis and deliver their recommendations.

Companies, similarly, are time poor during the period in the lead up to an AGM and financial reporting, and their investor relations teams are constantly engaging and consulting with their investors and other stakeholders throughout the year.

Inconsistent engagement

As the Consultation Paper notes, each of the four main proxy advisers in Australia has its own proxy voting guidelines and policies that outline how it engages with companies. Generally, there is a willingness to engage on both sides and in some cases, there is a willingness to address feedback from companies on factual matters. In other cases, AIRA members have experienced a concerning lack of engagement or willingness to address errors and inaccuracies. The existence of such mistakes in proxy adviser reports, often despite corrections being advised by companies, warrants close examination and reform.

To assist Treasury with its consultation, AIRA has attached the results of its member survey conducted in 2017. At a high-level, the research found that one third of ASX200 respondents identified one or more factual errors in the most recent proxy reports published on their companies and 94 per cent of respondents wanted the opportunity to fact check data before its release. Further, respondents said they wanted more constructive engagement with proxy advisers to ensure shareholders receive the best possible advice. Companies also requested that proxy advisers be signatories to and comply with a voluntary code of best practice to improve engagement and the quality of proxy reports.

The inconsistency of engagement has led to significant concerns from AIRA members – one of the most pressing being the lack of any requirement for proxy advisers to engage with companies on their analysis and recommendations, either before or after providing their reports to investors. However, many of the concerns highlighted by our members regarding the deficiencies in the current operating environment can, to a large extent, be resolved through more comprehensive and ongoing engagement between proxy advisers and companies throughout the financial year and not just within the 28-day notice period of a company meeting.

Transparency

Options 3 and 4 of the Consultation Paper provide positive steps to ensure more formal engagement occurs within the AGM window, amongst the range of informal interactions throughout the year. As such, **AIRA believes that only when a proxy adviser proposes to recommend *against* a Board recommended resolution, should it be required to share its report with the company and allow it three business days to respond. Further, the proxy adviser should be required to attach the company's response to the report when it is distributed to clients.**



We do not believe this would compromise the independence or transparency of the advice that proxy advisers provide. Instead, it would ensure proxy advisers have accurate information and other important context around decision-making required to make their recommendations. **Further, it would benefit institutional investors with limited capacity to engage with multiple sources of information in relation to each AGM, by providing them with both the proxy advice and the company's response to that advice. As some fund managers sometimes find it easier to follow a proxy adviser recommendation than to write a note to clients explaining why they have voted contrary to a proxy adviser recommendation, this additional recommendation is even more important.**

Accountability

As part of our in-principle support for greater accountability of proxy advice, AIRA supports Option 5, which if implemented, would mean proxy advisers would be required to obtain an Australian Financial Services License (AFSL) for the provision of proxy advice on all matters, financial or otherwise. We agree that this would ensure proxy advisers making assessments on issues that have a material impact on the conduct of business in Australia with appropriate regulatory oversight and the necessary care and skill required.

Many fund managers and superannuation funds are already under resourced to fulfill their stewardship obligations, including considering the issues around proxy voting. It has been suggested, therefore, that the more shareholder resolutions there are for consideration at company AGMs, then the more this shifts the balance of power to proxy advisers.

Best practice standards

Lastly, AIRA has for many years argued for in-depth reporting against international best practice standards, and for these reports to be made publicly available. As such, AIRA recommends that proxy advisers should be required to ratify the *Best Practice Principles for Providers of Shareholder Voting Research & Analysis* and make an annual statement of compliance with these principles. Likewise, superannuation funds, fund managers and other institutional investors should be required to ratify a stewardship code and provide an annual statement of compliance. These Principles are attached to this submission for Treasury's consideration.

Dissension and disagreement are essential to the success of our modern economic and financial system. Such contests must remain a core tenet of Australia's capital markets. While this consultation and our submission focus on strengthening the accountability and transparency of proxy advice, the boards and directors of our listed companies must also continue to be held to account by their shareholders. Boards must act in the best interests of shareholders, in good faith, and with the care and diligence required of them in their fiduciary position. No reforms being considered by Treasury should dilute this proposition.



Response to consultation questions

Our response is structured in relation to select questions and reform options posed by the Consultation Paper, informed by our knowledge and experience, and the perspective of AIRA's members.

Option 1: *Improved disclosure of trustee voting. Under this option, superannuation funds would be required to disclose more detailed information in relation to their voting policies and actions for each financial year. The details to be disclosed could include how votes were exercised, whether any advice was received from a proxy adviser and who provided the advice.*

If proxy advice is received, disclosure could include whether the voting actions taken were consistent with the proxy advice.

Option 2: *Demonstrating independence and appropriate governance. Under this option, proxy advisers would be required to be meaningfully independent from a superannuation fund they are advising to ensure that proxy advice is provided to and used by superannuation funds on an 'arm's length' basis.*

Trustees could also be required to outline publicly how they implement their existing trustee obligations and duties around independent judgement in the determination of voting positions.

AIRA's response

AIRA supports improved disclosure of trustee voting under Option 1, including the release of detailed information regarding voting policies and how institutional investors exercised their votes. However, improved disclosure and transparency should apply to all institutional investors, not only superannuation funds.

AIRA supports the principle of proxy advisers being independent from superannuation funds or other institutional investors. Any reforms around meaningful independence of proxy advisers from institutional investors and the management of conflicts of interest should focus entirely on ensuring the objectivity and integrity of proxy adviser research, reports and recommendations.

Option 3: *Facilitate engagement and ensure transparency. Under this option, proxy advisers would be required to provide their report containing the research and voting recommendations for resolutions at a company's meeting, to the relevant company before distributing the final report to subscribing investors. For example, a period of five days prior to the recommendation being made publicly available would give enough time for both the company and proxy adviser to comment and for the proxy adviser to amend the report in response if warranted.*

Question 7: *How would the proposed options affect the level of engagement by proxy advisers with companies?*

Question 10: *If proxy advisers were required to provide their reports to companies in advance of their clients, what would an appropriate length of time be that allows companies to respond to the report and for the report to be amended if there are any errors?*

AIRA's response

AIRA supports an amended version of Option 3, which would ensure proxy advisers provide their report to a company **only when it recommends against a Board recommended resolution** allowing the company **three business days to respond**.



Once the company has had the opportunity to respond, the proxy adviser should be required to attach the company's response to the report when it is distributed to clients. Alternatively, proxy advisers should be required to provide their clients with the link to the company's response, which would be made available on their website or at another location prior to publication on their website. We believe this measure would accelerate the communication between companies and the parties or individuals who are actually exercising the vote, who are often different to those who are making the investment decisions.

Further, there should be no charge or cost to the company for this service, nor for the proxy adviser sharing its report.

These changes will provide certainty for our members in terms of the ability to review and correct any factual inaccuracies. It would also give companies the opportunity to provide proxy advisers with information and context that has informed their decisions across a range of financial, governance and other matters.

Importantly, this framework would benefit institutional shareholders. It would provide these investors with a more thorough and nuanced set of information and advice with which to make their voting decisions. It will also foster stronger formal engagement between proxy advisers and companies and bolster the range of interactions that occur between the two parties, including in-person meetings, phone calls, email and letters throughout the financial year, as well as the period leading up to, and at, a company meeting or AGM.

Option 4: *Make materials accessible. Under this option, proxy advisers would be required to notify their clients on how to access the company's response to the report. This could be through providing a website link or instructions on how to access the response elsewhere.*

AIRA's response

AIRA's members have expressed support for proxy reports and responses being made available on their websites.

Option 5: *Ensuring advice is underpinned by professional licensing. Under this option proxy advisers would be required to obtain an AFSL for the provision of proxy advice. The purpose of the license would be to ensure that proxy advisers are making assessments on issues that have a material impact on the conduct of business in Australia with appropriate regulatory oversight and the necessary care and skill required.*

Question 12: *Is the AFSL regime an appropriate licensing regime through which to regulate the provision of proxy advice?*

Question 13: *Would coverage under the AFSL regime result in an improvement in the standard of proxy advice?*

AIRA's response

AIRA supports the implementation of Option 5 to ensure proxy advisers making assessments on issues that have a material impact on the conduct of business in Australia have appropriate regulatory oversight and the necessary care and skill required to make those assessments.

AIRA believes the AFSL is an appropriate licensing system with which to regulate the provision of proxy advice, however, there needs to be additional layers of self-regulation against international best practice standards.



Firstly, AIRA recommends that proxy advisers be required to ratify the *Best Practice Principles for Providers of Shareholder Voting Research & Analysis*, developed by the Best Practice Principles Group, and make an annual statement of compliance with these principles. Institutional investors should also be required to ratify a stewardship code and provide an annual statement of compliance annually.

The Principles are produced by the Best Practices Principles Group (BPPG) and refers to the latest updated stewardship codes globally. The Principles promote the integrity and efficiency of processes and controls related to the provision of proxy advice and intend to foster greater understanding of the role of proxy advisers in facilitating the voting decisions made by institutional investors.¹ According to the BPPG:

“The Principles may be regarded as reflecting widely-held and accepted general views on how providers of shareholder voting research and analysis contribute to the roles and responsibilities of investors and issuers in fostering effective stewardship and robust corporate governance and ensuring efficient markets.”

The Principles and their accompanying guidance state that proxy advisers:

- Deliver their services in accordance with agreed-upon investor client specifications and should publicly disclose their research methodology and “house” voting policies.²
- Publicly disclose a conflicts-of-interest policy that details their procedures for avoiding or addressing potential or actual conflicts of interest that may arise in connection with the provision of services.³
- Deliver high-quality research that enables investor clients to review the analysis sufficiently in advance of the vote deadline ahead of a general meeting. As part of this service, proxy advisers should disclose their policies for dialogue with issuers, shareholder proponents and other stakeholders and inform clients about the nature of any dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.⁴

These are a balanced set of principles that are internationally tested. AIRA believes that their adoption will foster more effective engagement between AIRA members, listed companies and proxy advisory firms in Australia.

Conclusion

Thank you for the opportunity to provide these comments. We hope our submission assists Treasury’s consultation. As discussed, we have attached copies of the following documents for your review and consideration:

- The results of AIRA’s Snap Poll of its members’ views on proxy advisers and engagement practices; and
- The Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019 prepared by the Best Practices Principles Group.

Should you wish to discuss AIRA’s comments further, or require additional information, please do not hesitate to contact me at ian.matheson@aira.org.au.

¹ Best Practice Principles Group, *Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019*, p 5.

² Ibid p 10.

³ Ibid p 11.

⁴ Ibid p 11.



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Yours sincerely

Ian Matheson

CEO, Australasian Investor Relations Association



AIRA
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INVESTOR RELATIONS
ASSOCIATION

2017

SNAP POLL RESULTS

**LISTED ENTITY
VIEWS ON PROXY
ADVISORS AND
ENGAGEMENT
PRACTICES**

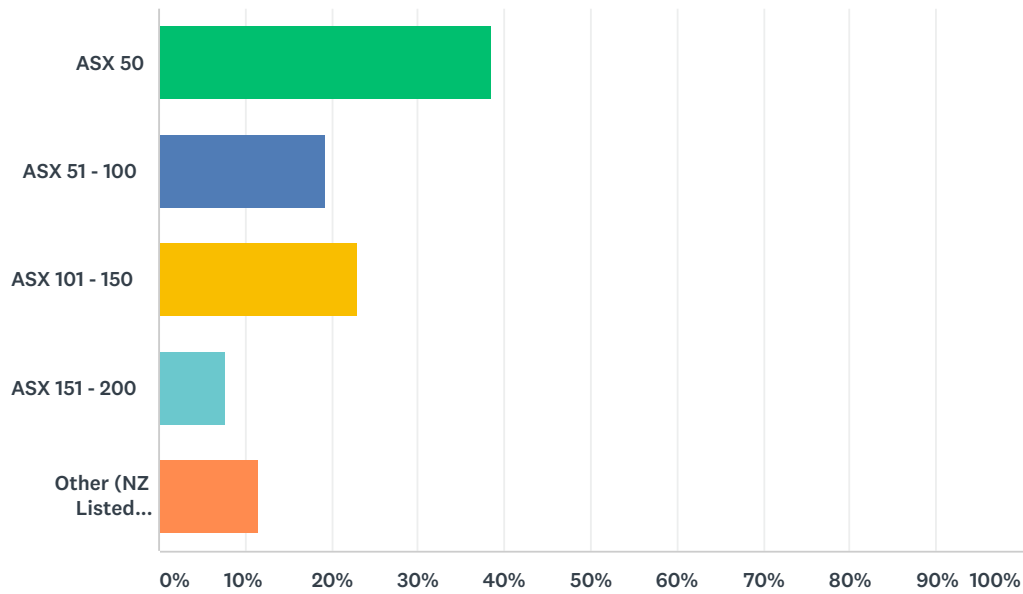
NOVEMBER 2017

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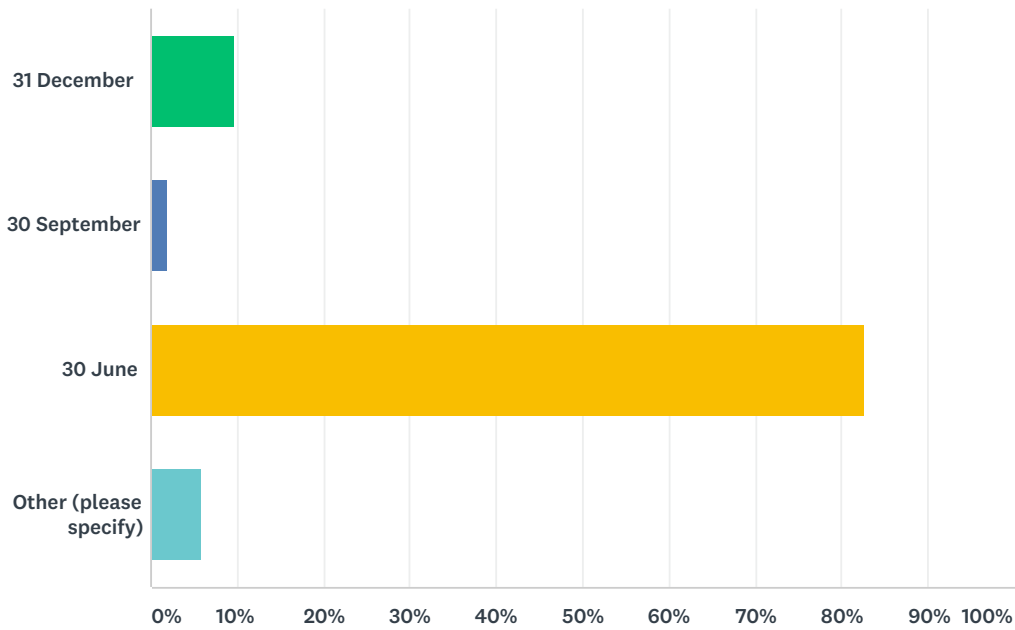
This research is strictly confidential and for use by AIRA members only. Please do not distribute.

Q1 Please indicate your company's market cap



ANSWER CHOICES	RESPONSES	
ASX 50	38.46%	20
ASX 51 - 100	19.23%	10
ASX 101 - 150	23.08%	12
ASX 151 - 200	7.69%	4
Other (NZ Listed Entities)	11.54%	6

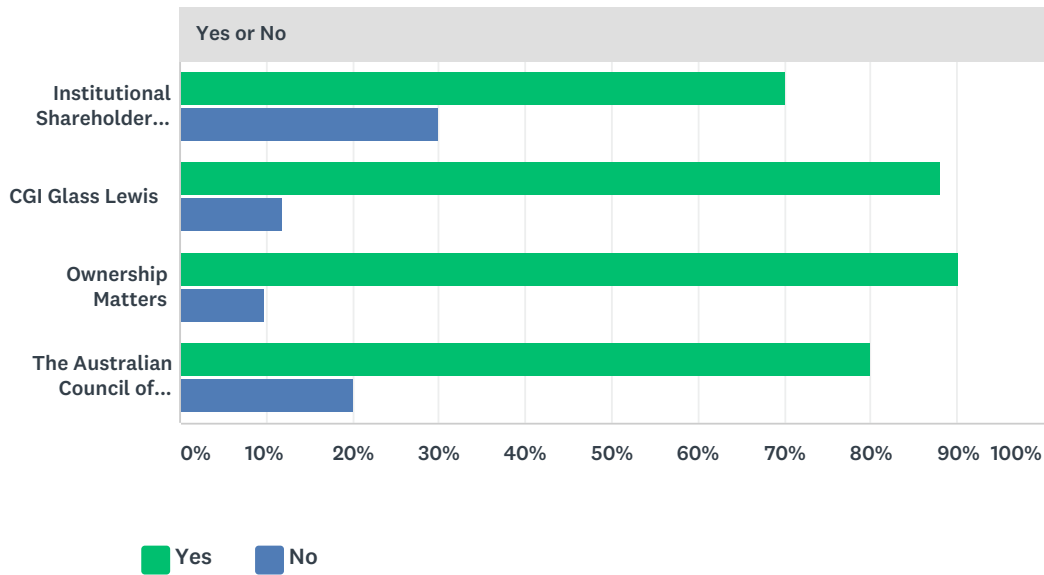
Q2 What is your Financial Year End?



ANSWER CHOICES	RESPONSES
31 December	9.62% 5
30 September	1.92% 1
30 June	82.69% 43
Other (please specify)	5.77% 3
TOTAL	52

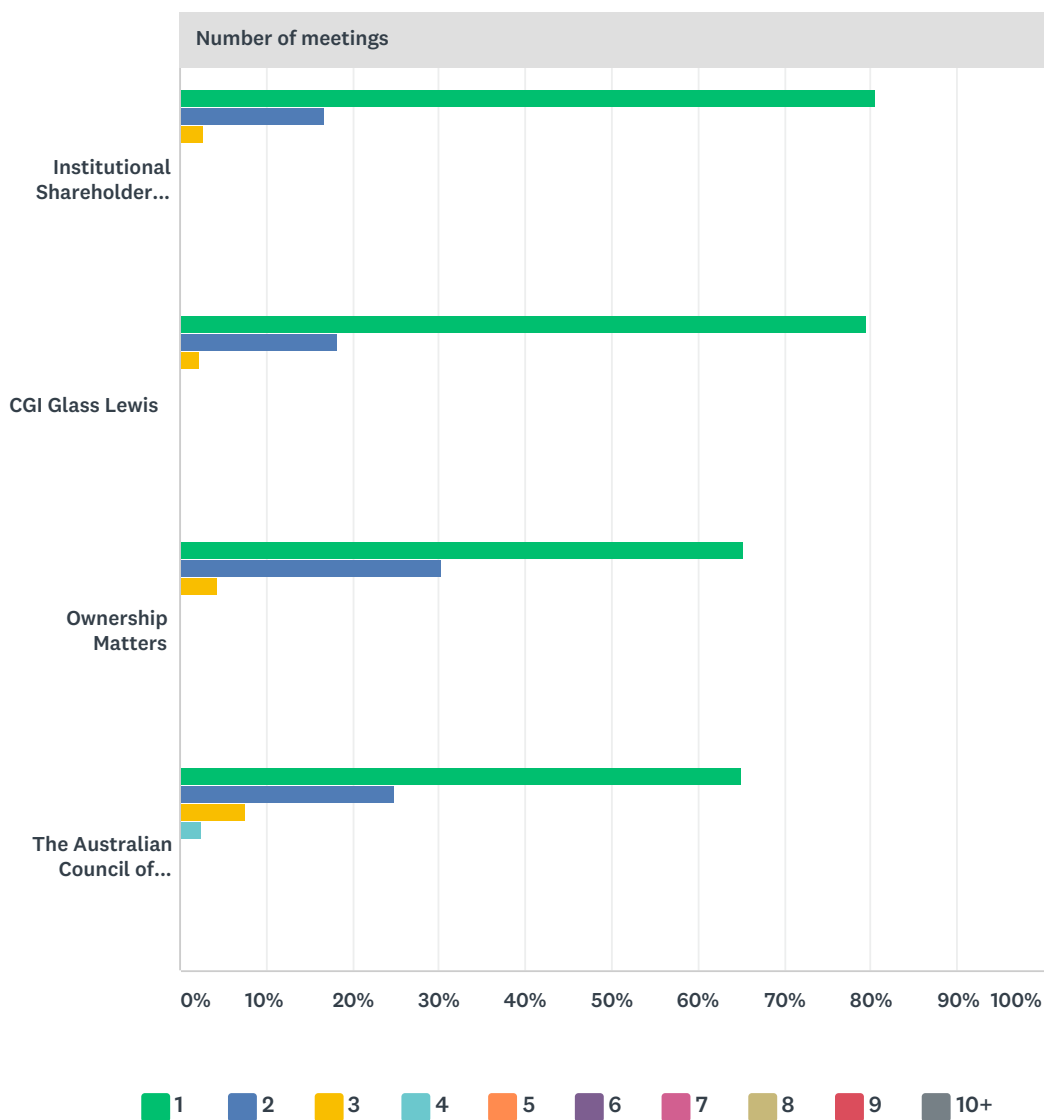
#	OTHER (PLEASE SPECIFY)
1	31 March
2	31 July
3	30 April

Q3 Prior to your most recent AGM, did you engage with the following proxy advisors?



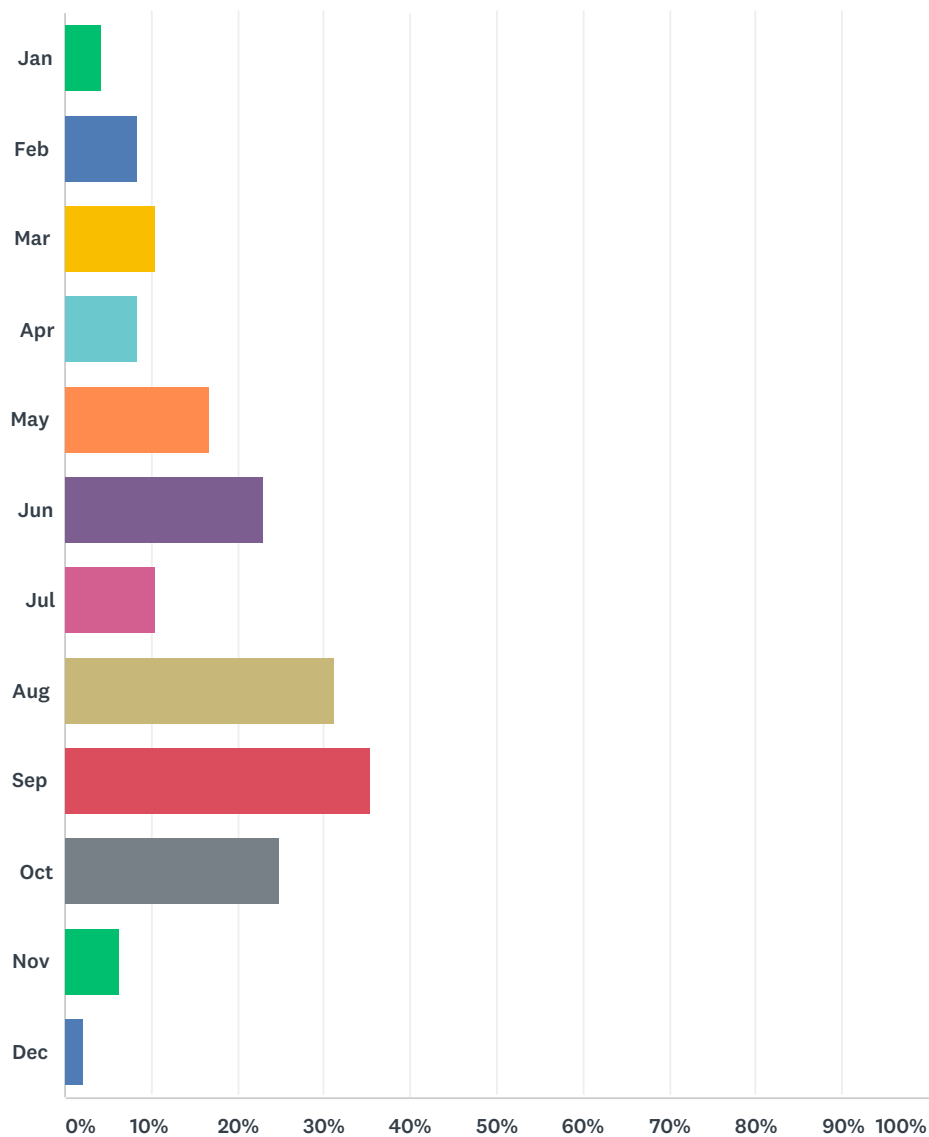
Yes or No			
	YES	NO	TOTAL
Institutional Shareholder Services (ISS)	70.00% 35	30.00% 15	50
CGI Glass Lewis	88.00% 44	12.00% 6	50
Ownership Matters	90.20% 46	9.80% 5	51
The Australian Council of Superannuation Investors (ACSI)	80.00% 40	20.00% 10	50

Q4 If you answered yes to Q3, how many times did your company representative(s) meet with the proxy advisor(s)? (If you answered No go to Q7).



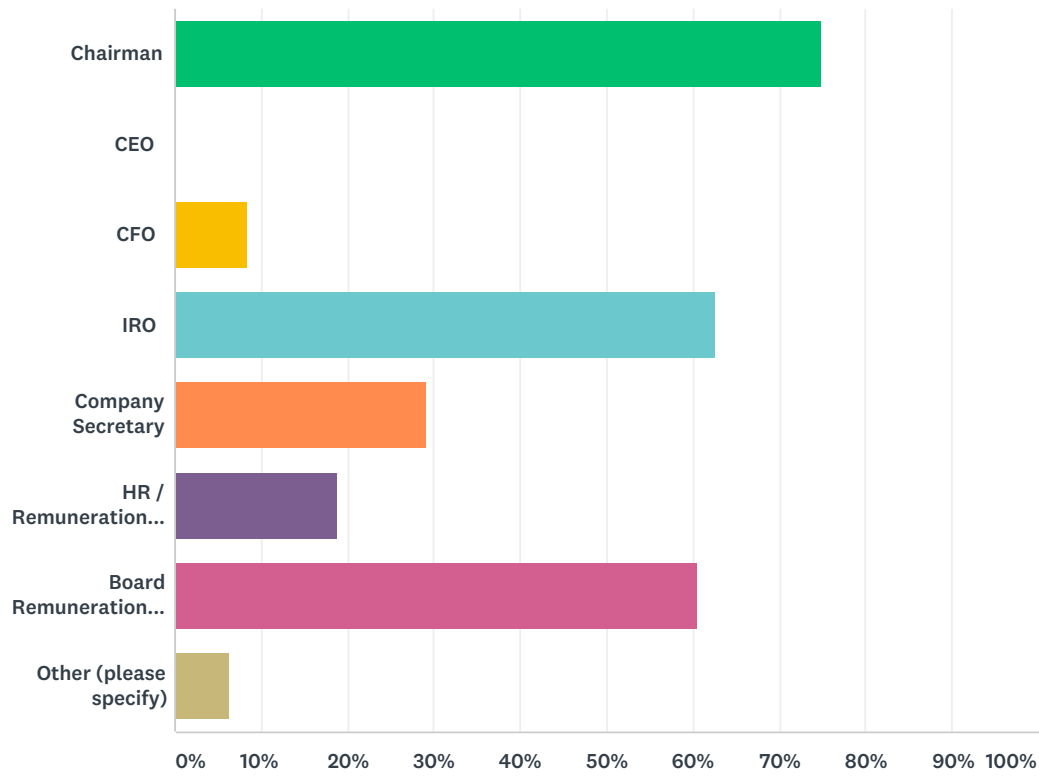
Number of meetings											
	1	2	3	4	5	6	7	8	9	10+	TOTAL
Institutional Shareholder Services (ISS)	80.56%	16.67%	2.78%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	36
CGI Glass Lewis	79.55%	18.18%	2.27%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	44
Ownership Matters	65.22%	30.43%	4.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	46
The Australian Council of Superannuation Investors (ACSI)	65.00%	25.00%	7.50%	2.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	40

Q5 What time of year did you meet with the proxy advisors?
(check as many boxes as applicable)



ANSWER CHOICES	RESPONSES	
Jan	4.17%	2
Feb	8.33%	4
Mar	10.42%	5
Apr	8.33%	4
May	16.67%	8
Jun	22.92%	11
Jul	10.42%	5
Aug	31.25%	15
Sep	35.42%	17
Oct	25.00%	12
Nov	6.25%	3
Dec	2.08%	1

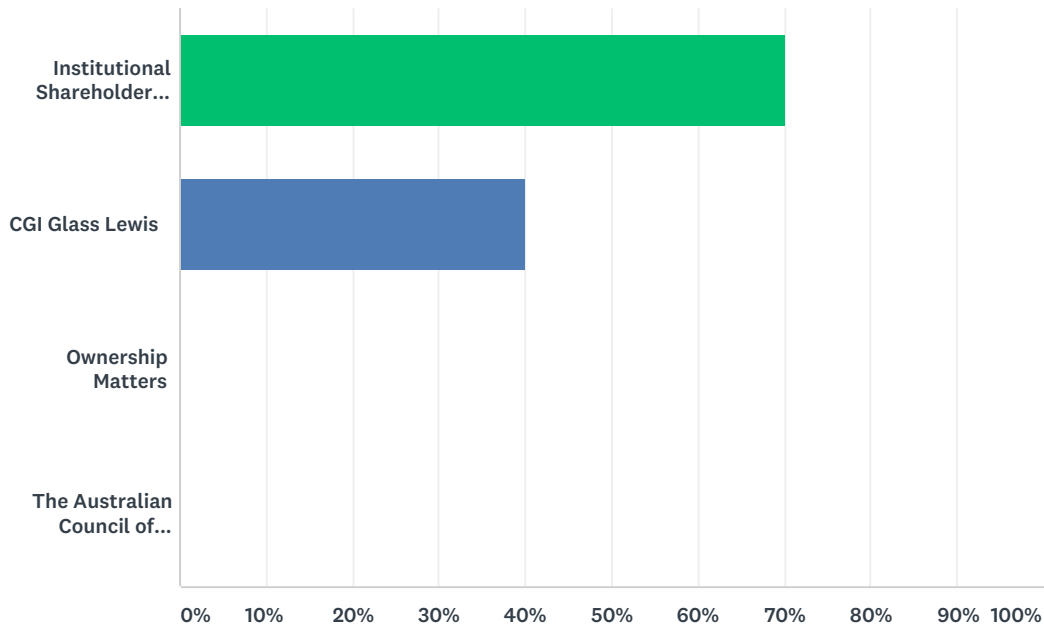
Q6 Who predominantly attended the meeting(s)?



ANSWER CHOICES	RESPONSES	
Chairman	75.00%	36
CEO	0.00%	0
CFO	8.33%	4
IRO	62.50%	30
Company Secretary	29.17%	14
HR / Remuneration Manager	18.75%	9
Board Remuneration Committee Chair	60.42%	29
Other (please specify)	6.25%	3

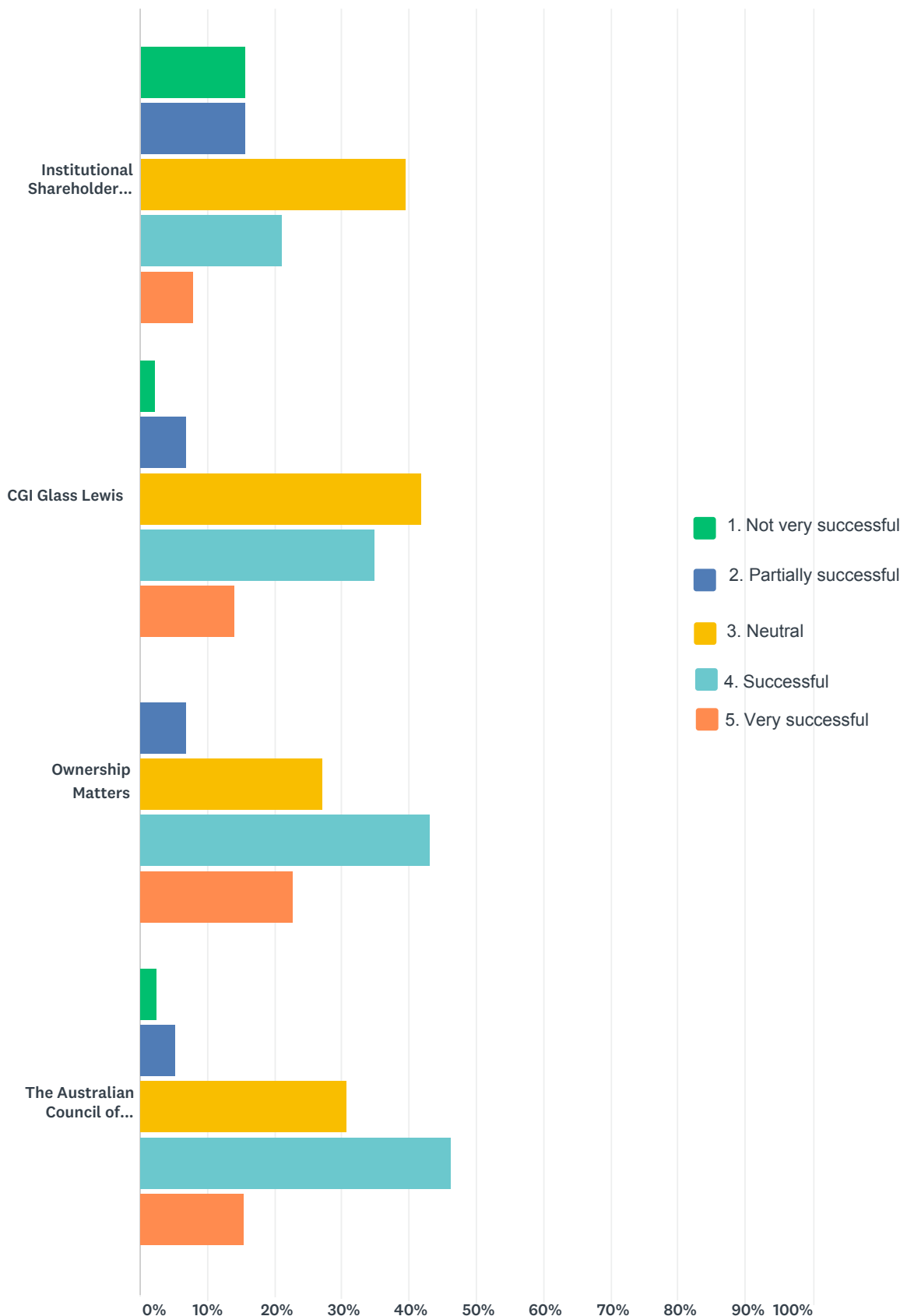
#	OTHER (PLEASE SPECIFY)
1	General Counsel
2	Deputy Chairman
3	Chair of Audit Committee

Q7 If you did NOT meet with any of the proxy advisors, was this because you could not get a meeting at a time of your company's choosing? (please indicate those whom you could not get a meeting with and check as many boxes as applicable)?



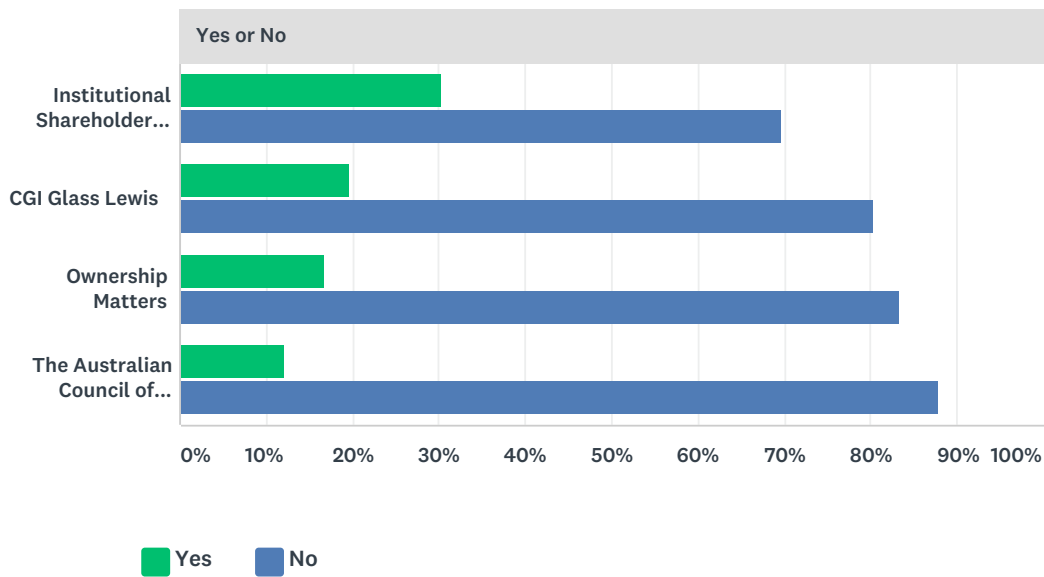
ANSWER CHOICES	RESPONSES	
Institutional Shareholder Services (ISS)	70.00%	7
CGI Glass Lewis	40.00%	4
Ownership Matters	0.00%	0
The Australian Council of Superannuation Investors (ACSI)	0.00%	0

Q8 How would you rate the quality of the meeting(s) that you had with the following?



	1. NOT VERY SUCCESSFUL	2. PARTIALLY SUCCESSFUL	3. NEUTRAL	4. SUCCESSFUL	5. VERY SUCCESSFUL	TOTAL
Institutional Shareholder Services (ISS)	15.79% 6	15.79% 6	39.47% 15	21.05% 8	7.89% 3	38
CGI Glass Lewis	2.33% 1	6.98% 3	41.86% 18	34.88% 15	13.95% 6	43
Ownership Matters	0.00% 0	6.82% 3	27.27% 12	43.18% 19	22.73% 10	44
The Australian Council of Superannuation Investors (ACSI)	2.56% 1	5.13% 2	30.77% 12	46.15% 18	15.38% 6	39

Q9 In the reports subsequently produced by each proxy advisor were there any FACTUAL errors?



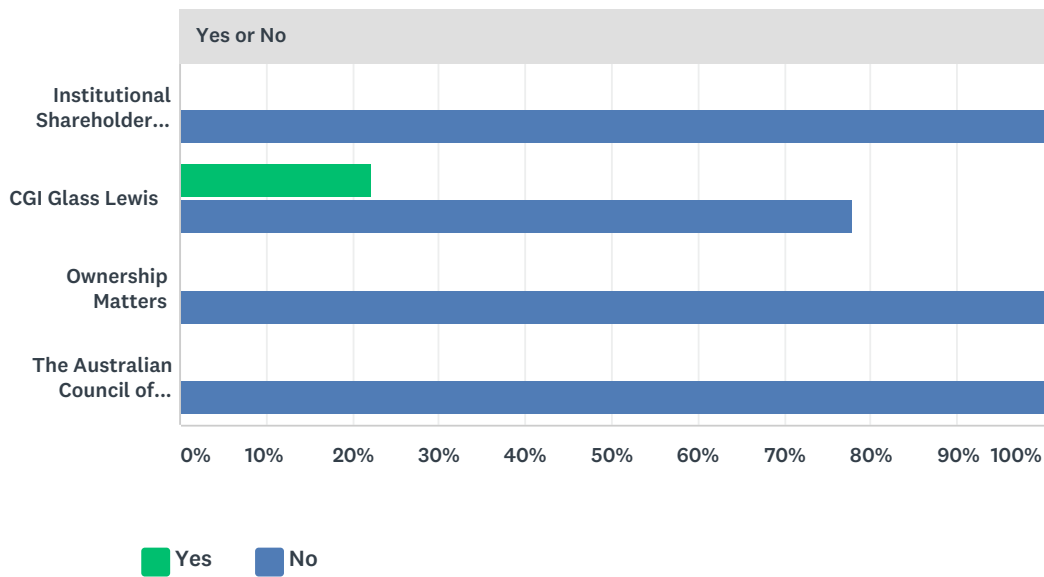
Yes or No			
	YES	NO	TOTAL
Institutional Shareholder Services (ISS)	30.43% 14	69.57% 32	46
CGI Glass Lewis	19.57% 9	80.43% 37	46
Ownership Matters	16.67% 8	83.33% 40	48
The Australian Council of Superannuation Investors (ACSI)	12.20% 5	87.80% 36	41

Q10 What did the error relate to?

ANSWER CHOICES	RESPONSES	
Institutional Shareholder Services (ISS)	58.82%	10
CGI Glass Lewis	35.29%	6
Ownership Matters	41.18%	7
The Australian Council of Superannuation Investors (ACSI)	17.65%	3
Other	0.00%	0

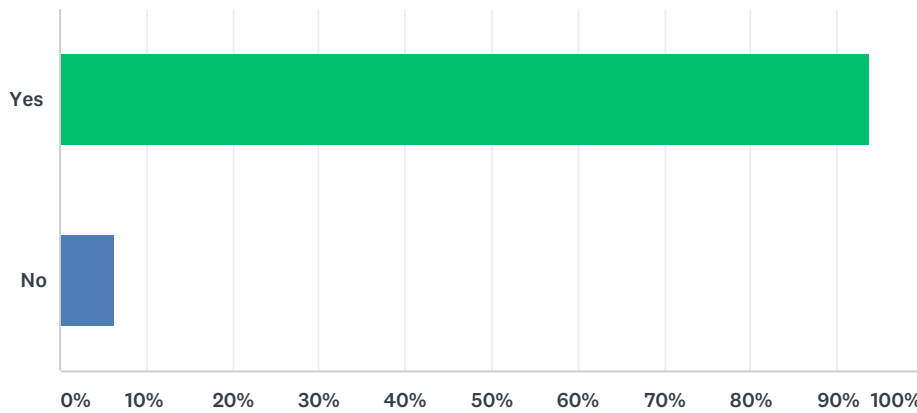
#	INSTITUTIONAL SHAREHOLDER SERVICES (ISS)
1	Remuneration
2	Director names
3	incorrect comparative data, employment terms and conditions, incorrect LTI references
4	Incorrectly identified a director up for reelection as non-independent
5	Misunderstanding of LTI structure
6	Detail of executive equity ownership guidelines
7	Definition of independence of Chairman
8	ISS using out of date information
9	Business portfolio changes
10	a number of minor errors related to remuneration including Chairman's and executives
#	CGI GLASS LEWIS
1	Incorrect year on year comparison of key financial metric
2	Chairman & CEO one person
3	Financials
4	employment terms and conditions, LTI criteria and metrics, incorrect detail on shareholder approvals in place
5	remuneration report
6	Some remuneration matters
#	OWNERSHIP MATTERS
1	Key financial metrics and remuneration
2	Calculation of realised remuneration. Understanding of normalised profit framework
3	spelling errors, employment terms and conditions, LTI criteria, other roles and directorships, valuation terminology
4	Impact of stated targets on achieving LTI growth thresholds
5	remuneration report
6	Fine detail of payment mechanism for deferred STI payments - more unclear descriptions
7	details of share based payments information
#	THE AUSTRALIAN COUNCIL OF SUPERANNUATION INVESTORS (ACSI)
1	Did not see report
2	Impact of stated targets on achieving LTI growth thresholds
3	remuneration report
#	OTHER

Q11 If there were any factual errors, where they corrected and the report reissued?



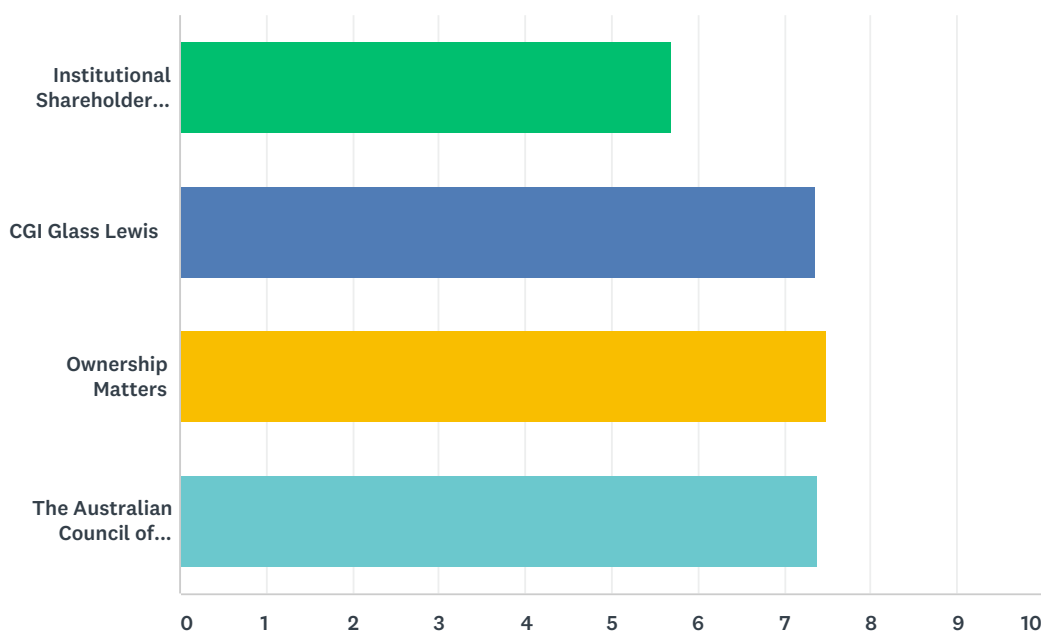
Yes or No			
	YES	NO	TOTAL
Institutional Shareholder Services (ISS)	0.00% 0	100.00% 15	15
CGI Glass Lewis	22.22% 2	77.78% 7	9
Ownership Matters	0.00% 0	100.00% 8	8
The Australian Council of Superannuation Investors (ACSI)	0.00% 0	100.00% 6	6

Q12 Would you like to have the opportunity to review draft reports and correct any factual errors prior to the report being released publicly?



ANSWER CHOICES	RESPONSES	
Yes	93.75%	45
No	6.25%	3
TOTAL		48

Q13 Overall, how would you rate the quality of the analysis of your meeting resolutions by the following proxy advisors?



	1. POOR	2. NOT VERY GOOD	3. AVERAGE	4. GOOD	5. EXCELLENT	TOTAL	WEIGHTED AVERAGE
Institutional Shareholder Services (ISS)	13.95% 6	6.98% 3	46.51% 20	30.23% 13	2.33% 1	43	5.70
CGI Glass Lewis	0.00% 0	0.00% 0	42.22% 19	53.33% 24	4.44% 2	45	7.36
Ownership Matters	4.35% 2	4.35% 2	26.09% 12	56.52% 26	8.70% 4	46	7.48
The Australian Council of Superannuation Investors (ACSI)	2.50% 1	5.00% 2	30.00% 12	60.00% 24	2.50% 1	40	7.38

Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019

Review and Update of the Best Practice Principles for Providers of Shareholder Voting Research & Analysis

by The Review Committee - Best Practices Principles Group

Publication Date: July 2019

Web: www.bppgrp.info

Email: committee@bppgrp.info

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Acronyms and Definitions Used

BPP or The Principles refer to the Best Practice Principles for Providers of Shareholder Voting Research and Analysis

BPPG refers to Best Practice Principles Group for Providers of Shareholder Voting Research and Analysis

BPP Oversight Committee refers to the governing body providing an annual independent review of the monitoring of the Best Practice Principles and the public reporting of each BPP Signatory

BPP Review Committee comprises the current BPPG members and Independent Review Chair

BPP Signatories refers to all ratified signatories to the Best Practice Principles

ESMA refers to the European Securities and Markets Authority

General Meeting refers to a meeting of a company's shareholders whether an Annual General Meeting or Extraordinary General Meeting

SRD II refers to the EU Shareholder Rights Directive II

Part One: Preamble

Executive Summary

These reviewed *Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019* (“Principles”) are the result of a thorough review process by the Best Practice Principles Group (“BPPG”) which refers to the latest updated stewardship codes globally¹, the requirements of the revised EU Shareholder Rights Directive II (“SRD II”) and the *ESMA 2015 Follow-Up Report on the Development of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis* (“2015 ESMA Follow-Up Report”). It also refers to the input of investors, issuers and other stakeholders received through a public consultation by the BPPG (completed in December 2017) and a review by the BPP Review Committee chaired by an independent review chair. These 2019 Principles replace the original 2014 Principles.

2019 Best Practice Principles Key Updates

- **New Governance Oversight Arrangements**
- **New Reporting Arrangements**
- **New Monitoring Arrangements**
- **Updated Principles and Guidance**

In an increasingly complicated investment landscape, investors often choose to engage the services of data and analytics providers and other research providers to support their investment-related activities. Providers of shareholder voting research and analysis provide important research and analysis services to support investors in exercising one of their most important stewardship responsibilities and shareholder rights, that of casting informed votes at a company's annual general or special meeting.

The BPPG aims to educate global stakeholders about the role and key features of shareholder voting research and analysis service providers within the investment process; to advocate for the interests of research service users and providers worldwide; and to encourage high industry standards of good practice, independence and transparency. In working with regulators, market participants and other representative bodies, the BPPG promotes sound practices in the shareholder voting research and analysis industry that serve the needs of investors and, as such, strengthen the capital markets.

The standards contained in the Principles not only ensure the availability of high-quality research and the integrity of the business practices of BPPG members, but also to foster improvement, innovation and vigorous competition within the industry. BPPG members are committed to abiding by the antitrust and competition laws of all jurisdictions in which they operate. Nothing in these Principles is a substitute for adherence to relevant laws and market regulations.

¹ See Appendix 5 page 30

Purpose

The purpose of the Principles is to complement applicable legislation, regulation and other soft-law instruments and contribute to a greater understanding among investors, issuers and other stakeholders about:

- the nature and character of shareholder voting research and analysis services;
- the standards of conduct that are required to underpin those services;
- how signatories to the Principles (“BPP Signatories”) interact with other market participants.

Scope

The Principles have been developed to be applied by providers of shareholder voting research and analysis globally, even though the Principles were originally conceived as a soft-regulatory mechanism in the European Union (“EU”). Of note, although the new *SRD II Article 1* refers to a short, relatively narrow definition of “proxy advisor”, the scope of the Principles is broader than this definition. The 2015 ESMA Follow-Up Report highlighted that the comply-or-explain principle on which the Principles are based, allows for tailored implementation based on each BPP Signatory’s characteristics. Therefore, entities that fall partially under the definition of the Principles should be able to – and are encouraged to – apply the Principles to the appropriate extent. As a corollary, however, and to promote application of the Principles as a global code of conduct, the BPPG will put in place a process for ratifying BPP Signatories that is governed by the Principles’ Oversight Committee body (see “Part Four: Governance of the Best Practice Principles”).

The Principles apply to providers of shareholder voting research and analysis. BPP Signatories provide services associated with the provision of shareholder voting research and analysis. In addition to promoting the integrity and efficiency of processes and controls related to the provision of such services, the Principles are intended to foster greater understanding of the role of service providers in facilitating the voting decisions made by institutional investors (i.e., asset owners and fund managers). New BPP Signatories beyond members of the BPPG are encouraged to adopt the Principles.

The Principles are based on the notion that investors have a number of important ownership rights, one of which is the right to vote at general meetings. Voting is a key right of investors, whose effective discharge may also be a fiduciary responsibility. As with many other parts of the investment process, investors need access to information and administration tools that support them in the discharge of their responsibilities. BPP Signatories provide a range of professional services designed to assist investors in the discharge of their rights and responsibilities. In the spirit of the apply-or-explain framework², the Principles set forth here are designed to facilitate transparency and assist BPP Signatories’ conduct in discharging their responsibilities toward their clients.

² See Part Two: Applying the Best Practice Principles page 9

These Principles have been developed with the following considerations in mind:

- The services are an efficient way of managing the logistical complexities associated with analysing and interpreting company disclosures, as well as ensuring and managing the operational aspects of shareholder voting;
- Clients may use one or more services that support and complement their own in-house research and voting activities;
- Clients may, themselves, be subject to a variety of rules and regulations in relation to asset ownership and oversight;
- BPP Signatories' underlying clients are responsible for their own compliance procedures;
- BPP Signatories operate within the framework provided by applicable law, including those governing company law, contract law and client confidentiality and data protection, as well as securities laws associated with market abuse and insider trading;
- Nothing in these Principles is a substitute for adherence to relevant laws and market regulations.

Irrespective of the type of services used to support ownership and voting activities, these Principles are based on the understanding that the ultimate responsibility to monitor investments and make voting decisions lies with investors. The use of third-party services – such as those provided by BPP Signatories that deliver high-quality support, thought-leadership, expertise and insight – does not shift this responsibility or relieve investors from any fiduciary duty owed to their clients. Stakeholders wishing to understand how an institutional investor discharges its stewardship or ownership responsibilities should consult relevant disclosures of the investor to understand its approach. This includes how the investor takes national market, legal, regulatory and company-specific conditions into account and how this relates to global standards of corporate governance and investor stewardship frameworks.

Contents of the Principles

The Principles are not a rigid set of prescriptive rules; rather they consist of a set of Principles and accompanying Guidance. The Principles describe a code of conduct for providers of shareholder voting research and analysis. Not all BPP Signatories offer the same services in the same way. The way in which the Principles are applied should be the central question for each Signatory as it determines how to apply these Principles. The Guidance recommends how the Principles are to be applied (see Appendix 1). The Principles may be regarded as reflecting widely-held and accepted general views on how providers of shareholder voting research and analysis contribute to the roles and responsibilities of investors and issuers in fostering effective stewardship and robust corporate governance and ensuring efficient markets.

BPP Signatories may depart from these Principles and Guidance, provided they give reasons for doing so. The conditions for departures are explained below in the section titled “Compliance with the Principles”³

³ See Part Two: Applying the Best Practice Principles page 9

Definitions

As highlighted in the earlier Scope section (see page 5), SRD II Article 1 applies a relatively narrow definition of the type of service provider. According to SRD II, the term “proxy advisor” refers to a legal person that analyses, on a professional and commercial basis, the corporate disclosure and, where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights.⁷

Although the Principles include this definition, they also include broader definitions in line with the 2015 ESMA Follow-Up Report⁴.

Services

To better understand the relevance and application of the Principles, it is important to understand the different types of services BPP Signatories provide. The key objective of BPP Signatories is to support institutional investors in the exercise of their ownership rights and responsibilities through the provision of value-added services. Services may be provided on a commercial, not-for-profit or membership basis.

Shareholder Voting Research & Analysis

BPP Signatories analyze the corporate disclosures of listed companies with a view to informing investor voting decisions. Services include the provision of research, advice or voting recommendations that relate specifically to the exercise of voting rights. The services may exhibit one or more of the following characteristics:

- Data and analysis
- Company-specific research, advice or opinions
- ESG Assessment or Ratings⁵
- Policy guidance
- Voting recommendations
- Alerts, bulletins and newsletters

Depending on the services subscribed to, the services may yield different results for different clients. This is because governance and ownership policies and preferences will vary from organisation to organization.

Note: Unless otherwise stated or disclosed, BPP Signatories do not act on behalf of any particular shareholder or group of shareholders that is trying to influence how other shareholders vote. Similarly, BPP Signatories do not act on behalf of an issuer that is trying to secure votes from its shareholders.

Vote agency and/or engagement and governance overlay services

In addition to shareholder voting research and analysis services, BPP Signatories may also provide other services, such as vote agency and/or engagement and governance overlay services.

⁴ ESMA 2015 Follow-Up Report on the Development of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis Page 11

⁵ Per para (20) Regulation (EC) No 1060/2009 “ESG Ratings” do not constitute Credit Ratings

- **Vote Agency:** A voting agent provides shareholder vote execution services, whereby the voting agent is responsible for some or all of the logistical and operational activities associated with transmitting instructions from the institutional investor to the company meeting, as well as record-keeping and reporting activities. Votes may be transmitted to the meeting directly (including personal attendance) or through a chain of operational intermediaries, depending on regulatory or market specificities in each relevant jurisdiction.
- **Engagement & Governance Overlay Services:** Engagement services are defined as undertaking contact and engagement with issuers on behalf of an investor or group of investors with a view to asking the company in question to amend aspects of its governance.

Overlay services are defined as the provision of fully outsourced governance engagement and voting services to institutional investors. Vote agency, engagement and governance overlay service providers may provide shareholder voting research, recommendations and analysis as part of their service. Where this is the case, the provisions of these Principles apply to the shareholder voting research and analysis services they offer, either on a standalone basis or in conjunction with other services. The particularities of vote agency and engagement services are not addressed by these Principles.

Note: Unless otherwise stated, disclosed or addressed by these Principles, BPP Signatories act under the direct instruction of their investor clients and do not cast votes without their authority.

Part Two: Applying the Best Practice Principles

Apply and explain

The new Principles operate on an “apply and explain” basis, in line with SRD II. This enables each Signatory to explain how the Principles relate to their specific circumstances and business model.

Meaningful, relevant and detailed explanations

BPP Signatories that choose not to apply one of the Principles, or choose not to follow the Guidance, should deliver meaningful, relevant and detailed explanations that enable the reader to understand their approach. The explanations should be substantiated and adapted to the Signatory’s particular situation and should convincingly indicate why a specific aspect justifies a departure from a Principle or the Guidance. The explanations provided should state what alternative provisions have been made, if applicable. If a Signatory intends, at a later stage, to apply a Principle from which it has provisionally deviated, it should state when this temporary situation will come to an end.

Public Statement of Compliance

Each BPP Signatory should publish its annual Statement of Compliance with the Principles (“Statement of Compliance”) on its own website, and via a link to the BPPG’s independent website. If they so choose, BPP Signatories may also wish to issue their Statement of Compliance via other publicly-accessible sources. Furthermore, ESMA displays on its website a list of entities that have advised ESMA that they are BPP Signatories together with a link to the independent BPPG website.

The Public Statement of Compliance should:

- Describe in a meaningful way how the BPP Signatory applies the Principles and related Guidance;
- Disclose any specific information set out in the supporting Guidance;
- Where any of the Principles have not been applied or relevant information has not been disclosed, provide a reasoned explanation as to why.

Annual Update of the Statement of Compliance

In line with the requirements of the SRD II, each BPP Signatory is responsible for updating its Statement of Compliance on an annual basis and for ensuring that the statement is publicly available on the Signatory’s corporate website. Access to a BPP Signatory’s Statement of Compliance must remain available, free of charge, for at least three years from its publication date.

Material Non-compliance

The complaints procedure is detailed on the BPPG website here: <https://bppgrp.info/the-principles/complaints-feedback/> and all complaints will be considered as part of the BPP Oversight Committee’s annual review process (see page 14).

Part Three: The Best Practice Principles

The Principles for Providers of Shareholder Voting Research & Analysis were updated in 2019. The Principles are supported by Guidance that also was updated in 2019. Detailed in Appendix 1, the Guidance explains the background, relevance and application of the Principles. The apply-and-explain framework applies to both the Principles and the Guidance. All relevant policies should be clearly disclosed on a Signatory's company website and updated annually. The updated Principles and Guidance are the result of a thorough review process by the BPPG, which refers to the latest updated stewardship codes globally⁶, the requirements of the revised SRD II and the ESMA 2015 Follow-Up Report. The updated Principles and Guidance also reflect the input of investors, issuers and other stakeholders received through a Public Consultation (completed in December 2017); the results of a review by the BPPG Review Committee, a process overseen by an independent review chair; and discussions and feedback from a global, diverse Stakeholder Advisory Panel.

These Principles are based on the understanding that the ultimate responsibility to monitor investments and make voting decisions lies with investors. Use of third-party services such as those provided by BPP Signatories which deliver high-quality voting research and analysis, does not shift this responsibility or relieve investors from any fiduciary duty owed to their clients. Stakeholders wishing to understand how an institutional investor discharges its stewardship or ownership responsibilities should consult relevant disclosures of the investor to understand its approach. This includes how the investor views global standards of corporate governance and investor stewardship frameworks and the extent to which national market, legal, regulatory and company-specific conditions are considered.

Principle One: Service Quality

BPP Signatories provide services that are delivered in accordance with agreed-upon investor client specifications. BPP Signatories should have and publicly disclose their research methodology and, if applicable, "house" voting policies. BPP Signatories' disclosure will include:

- the essential features of the methodologies and models they apply;
- the main information sources they use;
- procedures put in place to ensure the quality of the research, advice and voting;
- experience and qualifications of the staff involved;
- whether and, if so, how, BPP Signatories take national market, legal, regulatory and company-specific conditions into account; how this relates to global standards of corporate governance and investor stewardship frameworks;
- the essential features of any house voting policies BPP Signatories apply for each market (client-specific custom policies will not be disclosed);
- how BPP Signatories alert clients to any material factual errors or revisions to research, analysis or voting recommendations after research publication.

⁶ See Appendix 5, page 30

Principle Two: Conflicts-of-Interest Avoidance or Management

BPP Signatories' primary mission is to serve investors. BPP Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for avoiding or addressing potential or actual conflicts of interest that may arise in connection with the provision of services.

In addition to disclosing their general policy, BPP Signatories should also have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations and the actions they have undertaken to eliminate, mitigate and manage actual or potential conflicts of interest.

Principle Three: Communications Policy

BPP Signatories' primary mission is to serve investors. BPP Signatories should provide high-quality research that enables investor clients to review the research and/or analysis sufficiently in advance of the vote deadline ahead of a general meeting. This primary accountability to investors should remain the key priority for BPP Signatories when applying Principle Three.

With regard to the delivery of Services, BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public. BPP Signatories should disclose a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders. BPP Signatories should inform clients about the nature of any dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.

Part Four: Governance of the Best Practice Principles

BPP Oversight Committee

The BPPG has established a BPP Oversight Committee to provide an annual independent review of the monitoring of the Best Practice Principles and the public reporting of each BPP Signatory.

The BPP Oversight Committee's governance aims to provide:

1. Confidence in the Principles that underpin the services provided by BPP Signatories.
2. Guidance and advice to the BPPG with respect to the operation and development of the Principles.

BPP Signatories are expected to co-operate with the BPP Oversight Committee, consistent with applicable contractual and legal requirements.

Scope and Responsibilities

1. Independent, annual reviews of each BPP Signatory's Public Statement of Compliance, in order to identify matters considered to require further BPP Signatory action or clarification.
2. Ratification of applications by new BPP Signatories that have been approved by BPPG members (see the [BPPG Membership and Governance Guidelines 2016](#) on the BPPG website, which may be updated in due course by the BPP Oversight Committee) and sanction of Signatories that are non-compliant, including the ultimate sanction of the Committee ending BPP Signatory status and BPPG membership⁷.
3. Oversight of the complaints-management procedure⁸ of the BPPG, monitoring of outcomes and responses to the BPPG.
4. Management of an annual open forum for investors, companies and other interested stakeholders for education, questions and feedback on the Principles.
5. Review and administration of suggested minor updates to the Principles outside of the periodic major reviews and updates.
6. Monitoring of progress and impact of the Principles.
7. Development and publication of an annual report summarizing the activities and findings of the BPP Oversight Committee. The annual report will be published on the website of the Best Practice Principles Group <https://bppgrp.info>.

⁷ The ratification and sanctioning terms of reference are to be developed in further detail by the BPP Oversight Committee

⁸ The complaints procedure is detailed on the BPPG website here: <https://bppgrp.info/the-principles/complaints-feedback/> and all complaints will be considered as part of the BPP Oversight Committee's annual review process

Structure

Role	Description	Time Period
Independent Chair	Chair to be completely independent of BPPG members and BPP Signatories	2-year term
Oversight Committee Members	11 members in total: 6 institutional investor/representative bodies 3 companies/representative bodies 2 independent (e.g. academic)	2- or 1-year terms as below 4 x 2-year term; 2 x 1-year term 1 x 2-year term; 2 x 1-year term 1 x 2-year term; 1 x 1-year term
Observers	Offer observer status to appropriate interested regulators	Meeting by meeting basis
Administration	Support to be provided by the BPPG Members	Ongoing

Membership

The BPP Oversight Committee shall be comprised of an Independent Chair and Committee Members with a diverse mix of skills, backgrounds, knowledge, experience and geographic locations.

The Principles have been developed to promote understanding of and confidence in the services provided by the BPP Signatories. These services play an important role in supporting investors' exercise of their stewardship rights and responsibilities. The representation of investors is therefore of primary importance and, for this reason, six members will be drawn from investor/investor representative bodies. The representativeness of investor members is also important therefore overall membership should reflect different investment styles (e.g. active vs. passive) and geographic regions (at least one member from each of the Americas, EMEA and AsiaPac). The current signatories to the Principles and any potential future BPP Signatories are not eligible for membership of the BPP Oversight Committee

Nomination and Election

BPP Oversight Committee member vacancies, including the BPP Oversight Committee Independent Chair, shall be advertised on the BPPG website and in other appropriate media. Upon inception of the BPP Oversight Committee, BPPG members will appoint the BPP Oversight Committee Independent Chair in advance of the BPP Oversight Committee members. BPPG members shall consider the nominations received and determine a "long list" of suitable candidates from the nominations. The Independent Chair and existing BPP Oversight Committee members shall then deliberate, taking into account the expertise and other requirements needed, to create a "short list" of candidates for the BPPG members to vote on. For the initial appointments of the BPP Oversight Committee Members upon inception of the BPP Oversight Committee, BPPG members will undertake this process, with input from the BPP Oversight Committee Independent Chair.

In the case of the initial appointment of the BPP Oversight Committee Independent Chair, BPPG members will put forward a "short list" of up to five independent, qualified candidates, with a minimum of two candidates. Candidates will be voted on individually by BPPG members and must receive unanimous support from BPPG members in order to be elected. In the case of the initial appointments to the BPP Oversight Committee (up to eleven Member vacancies, excluding the Chair), the short list shall be for up to thirty-three short-list candidates. To fill future vacancies, the short list shall comprise up to three candidates for each role to be filled, with a minimum of two candidates per vacancy. Upon inception of the BPP Oversight Committee, short-list candidates proposed by the Independent Review Chair shall be voted on by BPPG members and must receive unanimous support from BPPG members in order to be elected.

In accepting their role, BPP Oversight Committee members recognise that:

- Shareholder voting research services play an important role in supporting investors' exercise of their stewardship rights and responsibilities
- The primary responsibility of shareholder voting research service providers is to their investor clients;
- The primary purpose of the Principles and the BPPG is to uphold and protect the responsibilities of BPP Signatories to their investor clients.

Reporting

A report summarising the activities and findings of the BPP Oversight Committee will be published annually on the website of the BPPG. This report will include feedback regarding minor updates to the Principles outside of the periodic major reviews and updates.

Individual Signatory Compliance

The BPP Oversight Committee will write to an individual BPP Signatory when a need for progress is identified. Initially, this communication will be done on a confidential basis to enable the BPP Signatory to address the issue over a specified period of time that may vary in accordance with the severity of the issue but should generally not exceed one year. After the prescribed period, if the BPP Signatory has not addressed the issue in a satisfactory manner, the Oversight Committee will discuss appropriate next steps with other BPPG members, up to and including the ultimate sanction of ending BPP Signatory status and BPPG membership.

Monitoring

- Each BPP Signatory's application and disclosure will be monitored on an annual basis, based on the public Statements of Compliance.
- Monitoring may be conducted by independent members or third parties assigned by the BPP Oversight Committee;
- The results of the monitoring will be reported in the annual report by the BPP Oversight Committee.

Signatory Criteria

A BPP Signatory must ideally be unanimously approved by the BPPG members and then ratified by the BPP Oversight Committee. If a unanimous decision to approve a BPP Signatory by the BPPG members cannot be reached during a meeting, the decision will be postponed until the following meeting. It will then require a qualified majority rule of at least 75% of the present or represented Members⁹. Any new BPPG member must be ratified by the BPP Oversight Committee. Thereafter, a BPP Signatory must maintain adequate annual reporting against the Principles. The BPP Oversight Committee retains discretion to determine whether signatories are compliant. BPPG members are responsible for engaging with the BPP Oversight Committee as needed to support the BPP Oversight Committee in carrying out its duties. BPPG members must actively monitor regulatory developments that could merit an update to the Principles, inform the BPP Oversight Committee as such, and draft any necessary updates to the Principles or its governing documents.

⁹ Please see the [BPPG Membership and Governance Guidelines 2016](#) on the BPPG website, which may be updated in due course by the BPP Oversight Committee

Funding Structure

Funding is needed to cover the governance fees of the BPP Oversight Committee, i.e. for the Independent Chair and the two independent (academic) members. For the independent (academic) members, membership will be honorary, but fees will be paid for work relating to the independent review. The funding structure will be based on the fee band structure for service providers. Appendix 6 details the bands in which current (and future) BPPG Members would sit with the staff numbers they self-report. Staff numbers should be publicly available, either via annual reports, or via other sources.

Appendix 1: Guidance on Applying the Principles

Principle One: Service Quality

BPP Signatories provide services that are delivered in accordance with agreed client specifications. BPP Signatories should have and publicly disclose their research methodology and, if applicable, “house” voting policies. BPP Signatories’ disclosure will include:

- the essential features of the methodologies and models they apply;
- the main information sources they use;
- procedures put in place to ensure quality of the research, advice and voting;
- experience and qualifications of the staff involved;
- whether, and, if so, how BPP Signatories take national market, legal, regulatory and company-specific conditions into account; how this relates to global standards of corporate governance and investor stewardship frameworks;
- the essential features of any house voting policies BPP Signatories apply for each market (client-specific custom policies will not be disclosed);
- how BPP Signatories alert clients to any factual errors or material revisions to research, analysis or voting recommendations after research publication.

Principle One Guidance

1. Introduction

- a) BPP Signatories should explain how they organise their activities to ensure that research is developed in accordance with a stated research methodology and voting policies.
- b) BPP Signatories should describe what reasonable efforts they make to ensure their research and analysis are independent and free from inappropriate bias or undue influence.

2. Responsibilities to Clients

- a) A BPP Signatory’s primary responsibility is to provide services to investor clients in accordance with agreed specifications. Clients are the ultimate and legitimate ‘judges’ of the quality of shareholder voting research and analysis and other services they subscribe to from BPP Signatories and pay for.

3. Quality of Research

- a) Shareholder voting research and analysis should be relevant, based on accurate information and reviewed by appropriate personnel prior to publication.
- b) BPP Signatories should be able to demonstrate to their clients that their reports, analyses, guidance and/or recommendations are prepared to a standard that can be substantiated as reasonable and adequate.
- c) BPP Signatories should have systems and controls in place to reasonably ensure the reliability of the information used in the research process. BPP Signatories should disclose to what

extent issuers have the opportunity to verify, review or comment on the information used in research reports, analysis or guidance.

- d) BPP Signatories cannot be responsible for disclosures published by issuers or shareholder resolution proponents that are the subject of their research.
- e) BPP Signatories should maintain records of the sources of data used for the provision of services to clients (to the extent legally or contractually possible).
- f) BPP Signatories' disclosure should include procedures to reasonably ensure the quality of the research, advice and voting recommendations. BPP Signatories should implement proportionate organisational features to achieve adequate verification or double-checking of the quality of research that is provided. These may include:
 - Issuer fact-checking;
 - IT-based consistency check;
 - Four-eyes principle (i.e., reports reviewed by an appropriate second person);
 - Review by senior analyst;
 - Review by governance committee;
 - Review by senior management and/or executives
- g) BPP Signatories should be transparent regarding the sources used and content included in the research information they provide to their clients, including, when applicable, notations about any dialogue with issuers, shareholder proponents, dissidents or their advisors that may have taken place in accordance with their specific policies and procedures (see Principle 3). To that end, BPP Signatories should ensure that use, inclusion or reproduction of external private information be duly referenced, so clients can assess to what degree third-party input plays a role in the services they use.
- h) BPP Signatories should alert clients to any verified factual errors or material revisions to published research or analysis without delay. Alerts should explain the reasons for any revision in a transparent and understandable way.

4. Research Methodology

- a) BPP Signatories' disclosure will include the essential features of the methodologies and models they apply and the main information sources they use. This will include whether and, if so, how they take national market, legal and regulatory and company-specific conditions into account.

BPP Signatories should have and disclose a written research methodology that comprises the following essential features:

- The general approach that leads to the generation of research;
- The information sources used;
- The extent to which local conditions and customs are taken into account;
- The extent to which custom or house voting policies or guidelines may be applied;

- The systems and controls deployed to reasonably ensure the reliability of the use of information in the research process, and the limitations thereof.
- b) In making such disclosure, BPP Signatories do not need to provide information that could harm the BPP Signatory's legitimate business interests, including, but not limited to, its intellectual property and trade secrets, as well as the intellectual property of any of its clients or third-party content providers.

5. Voting Policies or Guidelines

a) Shareholder Policies

- i. Shareholders may assess investee companies' governance arrangements and make voting decisions based on their own view or "custom" voting policy. In this case, a shareholder may contract with a BPP Signatory to receive services based on the shareholder's own voting policies.
- ii. Shareholders may subscribe to shareholder voting research and analysis services based on a BPP Signatory's proprietary or "house" voting policies and subsequently decide on the extent to which they incorporate that research and analysis into their own assessment and decision-making process.

Whether shareholders adopt a policy that is consistent with a BPP Signatory's "house" voting policy or vote according to a "custom" voting policy that differs from the policy of the BPP Signatory, shareholders are always responsible for and entitled to exercising their own judgement when determining their final voting decisions.

b) BPP Signatory Policies

- iii. BPP Signatories may provide shareholder voting research and analysis services based on "house" voting policies or guidelines. These voting policies typically consist of corporate governance principles against which the governance arrangements and general meeting resolutions of listed companies are assessed.
- iv. BPP Signatories should disclose whether they have developed "house voting policies. If so, they should disclose these policies, including, but not limited to, the extent to which local standards, guidelines and market practices are taken into account, the extent to which issuer explanations on deviations from comply-or-explain corporate governance codes are taken into account and the extent to which peer comparisons are used in formulating analysis and recommendations. BPP Signatories should specify the scope of their research.
- v. Each BPP Signatory will have its own approach to voting policy development and review, which may include one or more of the following approaches:
 - Client review
 - Academic literature review
 - Public consultations
 - Guideline exposure drafts

- One-on-one/face-to-face discussions
 - Group discussions/webinars
 - Expert/regulatory body reports
 - Discussion at industry conferences
- vi. BPP Signatories should explain how their voting policies are developed and updated. They should explain whether and how they incorporate feedback into the development of voting policies. They should disclose the timing of their policy updates and policies should be reviewed at least annually.
- vii. BPP Signatories should explain how and to what extent clients may customize their voting policies using the Signatories' services, without disclosing proprietary information. BPP Signatories are not responsible for disclosing client corporate governance policies or voting guidelines and may have contractual obligations that preclude them from discussing any aspect of their client relationships, voting guidelines or intentions.

A BPP Signatory's voting guidelines do not need to include information that could harm the BPP Signatory's legitimate business interests, including, but not limited to, intellectual property and trade secrets of the BPP Signatory, as well as the intellectual property of any of its clients or third-party content providers.

Whether services are provided on a "custom" or "house" voting policy basis, clients expect BPP Signatories to exercise their independent professional judgment when delivering shareholder voting research and analysis.

6. Employee Qualification & Training

BPP Signatories should disclose the procedures they have in place to ensure staff members are qualified to perform their respective jobs, including:

- a) The procedures they have in place to ensure staff members have the appropriate education, skills, competence and experience.
- b) BPP Signatories should make reasonable efforts to ensure their staff is trained on the relevance and importance of their activities and on how they contribute to service delivery.
- c) Where a BPP Signatory outsources any process that could affect service quality, the BPP Signatory should exercise control over such processes. The type and extent of control applied to these outsourced processes should be clearly explained.
- d) BPP Signatories should disclose their operational arrangements for the provision of services, including, for example, qualifications of staff and organization of production processes, etc.

7. Timeliness

- a) BPP Signatories have a responsibility to provide clients with adequate and timely services, subject to the availability of source information from issuers and shareholder resolution proponents, as well as intermediary constraints (for example, vote deadlines and intermediary cut-offs).

- b) BPP Signatories should make reasonable efforts to use the most up-to-date publicly available information when delivering their services. BPP Signatories should disclose how and to what extent relevant stakeholders can submit supplementary information for consideration in their research or analysis, taking into consideration relevant deadlines.

8. Complaints & Feedback Management

- a) BPP Signatories should have and disclose their policies for managing and responding to complaints, comments or feedback about their services.

9. Client & Supplier Understanding

- a) The operational aspects of service delivery will generally form the basis of the service agreement between BPP Signatories and their clients.
- b) BPP Signatories should notify clients of the scope of the services provided, as well as any known or potential limitations or conditions that should be taken into account in the use of signatory services. Limitations may include:
 - Data availability issues, as not all markets require the same level of detail in disclosure;
 - Missing, inaccurate or incomplete documents or disclosures, such as from issuers or shareholder proponents;
 - Reliance on third parties that are beyond the control of the signatory;
 - Inconsistencies and irregularities of information provided by intermediaries in the ownership chain, such as agenda information, vote deadlines and blocking procedures, etc.
- c) BPP Signatories should provide clients with a framework that enables them to fulfil their due-diligence requirements. The framework could include the following:
 - Site visits;
 - Interaction with research teams;
 - Information on quality controls that govern the research development process;
 - Information on the qualifications and experience of the BPP Signatory's staff;
 - Information on how the research framework has been or will be applied and on which assumptions the research output has been based.

10. Client Disclosure Facilitation

- a) BPP Signatories recognise that institutional investors may be subject to disclosure requirements regarding the investors' use, if any, of shareholder voting research and analysis services.
- b) BPP Signatories should assist clients, upon reasonable request, with disclosure relating to the clients' discharge of stewardship responsibilities. This disclosure could include information on how an institutional investor client uses a BPP Signatory's services; the public identification of a BPP Signatory; conflict avoidance and management by the BPP Signatory; and information on the scope of services offered by a BPP Signatory, among other relevant issues.

Principle Two: Conflicts-of-Interest Avoidance or Management

BPP Signatories' primary mission is to serve investors. BPP Signatories should have and publicly disclose a conflicts-of-interest policy that details their procedures for avoiding or addressing potential or actual conflicts of interest that may arise in connection with the provision of services.

In addition to disclosing their general policy, BPP Signatories should also have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations and the actions they have undertaken to eliminate, mitigate and manage actual or potential conflicts of interest.

Principle Two Guidance

1. Introduction

- a) The possibility for conflicts of interest can arise in all businesses. While conflicts cannot always be eliminated, they can be managed and mitigated.
- b) The overriding objective of this Principle is to ensure, as far as reasonably possible, that research and business conduct are independent, fair, clear, not misleading and free from possible bias or undue influence.
- c) With this in mind, BPP Signatories should make full and timely disclosure of potential conflicts that could reasonably be expected to impair their independence or interfere with their duty to clients.

2. Conflicts of Interest Policy

BPP Signatories should publicly disclose their policy regarding the prevention and management of potential conflicts of interest.

- a) A BPP Signatory's conflicts-of-interest policy should explain:
 - The existence of potential material conflicts;
 - How and when potential material conflicts will be disclosed to clients (for example on a website, within the applicable research report and in email bulletins, etc.);
 - How BPP Signatories communicate their conflicts-of-interest policy and train their employees in the operation of that policy;
 - How conflicts will be managed.

3. Possible Conflicts for Consideration

- a) BPP Signatories should consider how the following non-exhaustive list of potential conflicts may materially impact their operations and how these potential conflicts may be addressed:
 - A BPP Signatory's ownership or shareholder base/structure, such as when a BPP Signatory is owned by an investor that owns shares in companies under coverage or when the investor is owned by an issuer under coverage;
 - A BPP Signatory's employee activities, such as board memberships and stock ownership, etc.;

- Investor-client influence on the BPP Signatories, such as when an investor who is a client of the service provider is a shareholder proponent or is a dissident shareholder in a proxy contest;
- Issuer-client influence on the BPP Signatories, such as when BPP Signatories provide consulting services to companies under coverage for research;
- Influence of other investor clients.

4. Conflict Management & Mitigation

a) Conflict management and mitigation procedures should include the following approaches to the extent that they are relevant to potential conflicts faced by the Signatory:

- Transparent policies and procedures
- Code of ethics
- Division of labour
- Employee recusal
- Fire walls/IT systems and controls
- Information barriers and ring-fencing
- Independent oversight committees
- Physical employee separation
- Separate reporting streams

5. Conflict Disclosure

In addition to disclosing their general policy, in line with SRD II, BPP Signatories also should have a process in place to identify and disclose without delay to their clients, on a case-by-case basis, actual or potential conflicts of interest or business relationships that may influence the preparation of their research, advice and voting recommendations, as well as the actions they have undertaken to eliminate, mitigate or manage the actual or potential conflict of interest.

If a BPP Signatory becomes aware of a material conflict of interest, that is not otherwise addressed in its general policies, the BPP Signatory should:

- disclose the conflict to the relevant client(s) without undue delay before or at the same time the service is delivered, subject to contractual arrangements;
- provide the relevant client(s) with research from an unconflicted proxy advisor for the relevant meeting; or
- manage the conflict as further detailed in the BPP Signatory's conflicts-of-interest policy.

Principle Three: Communications Policy

BPP Signatories' primary mission is to serve investors. BPP Signatories should provide high-quality research in a timely fashion that enables investor clients to review the research and/or analysis prior to the vote deadline ahead of a company meeting. This primary accountability to investors should remain the key priority for BPP Signatories when applying Principle Three.

With regard to their delivery of Services, BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public. BPP Signatories should disclose a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders. If issuer communication has taken place, BPP Signatories should inform clients about the nature of the dialogue with relevant parties in their research reports, which may also include informing clients of the outcome of that dialogue.

Principle Three Guidance

1. Introduction

Shareholders are always responsible for and entitled to exercising their own judgment when determining their final voting decisions, according to their own investment and governance philosophy and company engagement activities in any particular situation.

- a) BPP Signatories should explain their approach to communication with issuers, shareholder proponents, other stakeholders, media and the public.
- b) It is up to BPP Signatories to choose whether or not to engage in dialogue and in what format. If a BPP Signatory chooses to have such a dialogue, it is up to the Signatory to determine the objectives, timing, frequency and format of this dialogue.
- c) Comments and statements in the press or public forums may have a significant impact and, as such, should be properly managed.

2. Dialogue with Issuers, Shareholder Proponents & Other Stakeholders

- a) BPP Signatories should have a policy (or policies) for dialogue with issuers, shareholder proponents and other stakeholders.
- b) BPP Signatories should communicate to clients in their research reports the nature of any dialogue with relevant parties, which may also include informing clients of any changes made to their research or analysis as a result of that dialogue.
- c) The policy on dialogue should cover issues including, but not limited to:
 - The circumstances under which such dialogue could occur;
 - Details of any year-round mechanisms for dialogue with relevant parties;

- Whether BPP Signatories provide engagement services to investors and how these relate to shareholder voting research provision;
- How BPP Signatories verify the information used in their analysis;
- Whether and how issuers are provided with a mechanism to review research reports or data used to develop research reports prior to publication to clients;
- Procedures for avoiding receipt of privileged, non-public information and, in cases where such information is received, procedures for managing such information;
- If/how BPP Signatories communicate during the voting period (defined as the period from release of the agenda until the general meeting);
- What steps are taken to protect BPP Signatories and their employees from undue pressure or retaliatory actions arising from the delivery of services.

3. Dialogue with Media & the Public

- a) BPP Signatories reserve the right to respond to general media enquiries about the nature of their services and about the companies or issues they cover. However, BPP Signatories should have and disclose a policy (or policies) for communication with the media and the public. This policy should include, at minimum, the following considerations:
 - Which of the BPP Signatory's employees are permitted to make comments to the media;
 - The BPP Signatory's policy toward the publication of house recommendations (if made) on any particular resolution prior to the publication of their reports to clients. Exceptions to this policy should be explained.
- b) It should be noted that BPP Signatories cannot be held responsible for the unauthorized use or re-use of their materials.
- c) At all times, BPP Signatories should observe applicable laws or regulations regarding libel, slander, market abuse, insider trading and distribution of confidential or material non-public information, etc.

Appendix 2 BPPG Signatories

At the launch date of the 2019 BPP, the BPPG comprises of the following members:

- Glass, Lewis & Co., LLC
- Institutional Shareholder Services Inc.
- Minerva Analytics Ltd (The Manifest Voting Agency Ltd)
- PIRC Ltd
- Proxies

The BPPG operates an independent website: <https://bppgrp.info> which is a central location for BPPG documents.

Appendix 3 BPP Review Committee & Review Chair

2014 Best Practice Principles Chair

Following the publication of the ESMA Final Report and Feedback Statement on the Consultation Regarding the Role of the Proxy Advisory Industry in February 2013, a number of industry members formed a committee under the ESMA endorsed independent chairmanship of Prof. Dr. Dirk Andreas Zetzsche, LL.M. (Toronto), to develop an industry code of conduct. The “Best Practice Principles for Providers of Shareholder Voting Research & Analysis” were published in April 2014. With this report, the Chair’s aim was to make the committee’s work and discussions transparent to facilitate the application of the provisions and enhance understanding of the reasoning behind their adoption. The report also aims to enhance transparency and understanding on the functioning of Providers of Shareholder Voting Research & Analysis and their role in corporate governance and assist in creating a more informed discussion.

2019 Best Practice Principles Review Chair

Terms of Reference

In April 2017, the BPPG Steering Group announced its intention to launch a Review of the operation of the Best Practice Principles for Shareholder Voting Research (the Principles). In order to gather the views of stakeholders, a public consultation was held at the end of 2017, and an advisory stakeholder panel was established to provide input to the preparation of the consultation document and any subsequent revisions to the Principles. The Review was overseen by the BPPG Steering Group comprising representatives from the current signatories to the Principles and the independent chair.

Nomination of Review Chair

BPPG members put forward a long list of 5 independent, qualified candidates. Candidates were voted on individually by BPPG members and needed to receive at least 50% of the valid votes to be elected.

In April 2017 the BPPG appointed BPPG independent Review Chair, Chris Hodge, who served in the role until June 2018 and completed the public consultation phase.

In October 2018, the BPPG appointed Dr. Danielle A.M. Melis MBA, to succeed Chris Hodge as the new Review Chair of the BPPG. The main task of the new Chair was to oversee the BPPG Steering Group and coordinate and facilitate the finalization the Review process as outlined below leading to the 2019 update of the Principles and updated governance structure of BPPG.

The purpose of the Review was to:

- assess the implementation and content of the Best Practice Principles;
- ensure that they achieved the original objectives;
- identify where there was scope to improve practice and transparency;
- ensure that the Principles would be capable of being applied in all markets for which voting research and analysis is provided, and by all providers of such services.

The Review referred to the original objectives of the Principles to:

- promote a greater understanding of the role of shareholder voting research providers in the voting decisions made by institutional investors;
- promote the integrity and efficiency of processes and controls related to the provision of these research services;
- foster a robust management of any conflicts of interest.

The assessment involved consideration of:

- the structure and content of the Principles;
- the form and frequency of reporting against the Principles;
- the process and criteria for providers to become signatories;
- the oversight arrangements for monitoring and reviewing the Principles.

The Review was informed by:

- the views of investors, companies and other stakeholders through a Public Consultation;
- experience of implementing the Principles since they were introduced in 2014;
- the December 2015 report on the development and implementation of the Principles by the European Securities and Markets Authority;
- the revised EU Shareholder Rights Directive and regulatory developments in other markets since the Principles were introduced.

The Review Process was completed by June 2019 and resulted in:

1. updated set of Principles (and guidance to the Principles)
2. updated governance structure of BPPG (oversight and monitoring process)
3. review Report of the Chairman and all BPPG members

BPP Review Committee

Independent Review Chairs		
Dr. Danielle A.M. Melis (2018-2019)	Director	Aequinova
Chris Hodge (2017-2018)	Director	Governance Perspectives
Members		
Loïc Dessaint	CEO	Proxinvest
Lorraine Kelly	Managing Director, Head of Governance Business	Institutional Shareholder Services Inc (ISS)
Alan MacDougall	CEO	PIRC
KT Rabin	CEO	Glass Lewis
Sarah Wilson	CEO	Minerva

Support Staff		
Sarah Ball	Drafting support	ISS
Jennifer Thompson	Administrative support	Glass Lewis

Appendix 4 BPP Review Stakeholder Advisory Panel

Terms of Reference

The BPP Review Stakeholder Advisory Panel consisted of members with the mix of skills, backgrounds, knowledge, experience, geographic locations and diversity appropriate to achieve oversight of updates to the Principles in light of the transparency requirements for proxy advisors outlined in the amendments to the revised EU Shareholder Rights Directive 2007/36/EC, adopted on 3 April 2017 and due for implementation in 2019. Members should represent the following stakeholder groups – companies/representative bodies, asset owners/representative bodies and asset managers/representative bodies.

Given that the Principles exist to promote the integrity and efficiency of shareholder voting research services, which play an important role in investors exercising their stewardship rights and responsibilities, it is recognised that investor representation on the BPP Review Stakeholder Advisory Panel is, therefore, of major importance.

Nominations

Each BPPG member put forward a list of up to 30 candidates. The Chair then deliberated, taking into account the incumbent BPP Review Stakeholder Advisory Panel members and potential expertise needed to update the Principles to create a short list of 15. Candidates were voted on individually by BPPG members and had to receive unanimous support to be elected, with a view to the Stakeholder Advisory Panel being comprised of at least 10 members in total.

In accepting their role, BPP Review Stakeholder Advisory Panel members recognised, as much as possible, that:

- The BPPG's mission is to promote greater understanding of the corporate governance and ESG research and support services provided to professional investors and other capital markets participants.
- Shareholder voting research services play an important role in investors exercising their stewardship rights and responsibilities, that the primary responsibility of shareholder voting research service providers is to their investor clients, and that one primary purpose of the BPP is to uphold and protect this responsibility.
- The BPP Stakeholder Advisory Panel should be diverse regarding geographic balance and experience.

2019 BPP Stakeholder Advisory Panel Members

Richard Gröttheim	CEO	AP7
Jakob Skafte	Senior Analyst, ESG	ATP
Mirza Baig	Global Head of Governance	Aviva Investors
Geof Stapledon	Vice President Governance	BHP
Michael Herskovich	Head of Corporate Governance	BNP Paribas Asset Management
Matt Orsagh	Director, Capital Markets Policy	CFA Institute
Ken Bertsch	Executive Director	Council of Institutional Investors
Rients Abma	Executive Director	Eumedion
Lutgart Van den Berghe	Professor of Corporate Governance	Vlerick Business School
Carine Smith Ihenacho	Chief Corporate Governance Officer	NBIM
Francesco Chiappetta	Consultant, Corporate Governance	Pirelli & C. S.p.A
Paul Clark	Head of Stewardship	UBS Asset Management

Appendix 5 BPP Review Process

The Review Process was completed by June 2019 and resulted in:

1. updated set of Principles (and guidance to the Principles);
2. updated governance structure of BPPG (oversight and monitoring process);
3. review Report of the Chairman and all BPPG members.

Prior to publication of the Principles, in Q1 2019 the BPPG provided a series of intermediate process updates and, in Q2 2019, organised a preview event for issuers, investors and regulators to validate the amendments.

In April 2017, the BPPG appointed BPP Review Chair Chris Hodge, who served in the role until June 2018 and completed the public consultation phase.

In October 2018, the BPPG appointed Dr. Danielle A.M. Melis MBA, to succeed Chris Hodge as the new Review Chair. The main task of the new Chair was to oversee the BPPG Steering Group and coordinate and facilitate the finalization of the Review process as outlined below.

The assessment involved consideration of:

- structure and content of the Principles;
- form and frequency of reporting against the Principles;
- process and criteria for providers to become signatories;
- oversight arrangements for monitoring and reviewing the Principles.

The Review was informed by:

- views of investors, companies and other stakeholders received through the Public Consultation by BPPG completed in December 2017;
- experience of implementing the Principles since they were introduced in 2014;
- December 2015 report on the development and implementation of the Principles by the European Securities and Markets Authority;
- revised EU Shareholder Rights Directive and regulatory developments in other markets since the Principles were introduced.
- the following Investor Codes:
 - AFG: Recommendations de l'Association Française de Gestion (FR)
 - BVI: Bundesverband Investment and Asset Management Rules of Good Conduct (DE)
 - The Committee On Corporate Governance Denmark: Stewardship Code (D)
 - The Council of Experts on the Stewardship Code: Japan's Stewardship Code (JP)
 - EFAMA: Stewardship Code Principles for asset managers' monitoring of, voting in, engagement with investee companies (EU)
 - Eumedion: The Dutch Stewardship Code (NL)
 - FRC: The UK Stewardship Code (UK)
 - G20/OECD: Organisation for Economic and Co-operation and Development Principles of Corporate Governance; OECD Corporate Governance Factbook (Global)

- ICGN: International Corporate Governance Network Statement of Principles on Institutional Shareholder Responsibilities; ICGN Model Stewardship Disclosures (Global))
- PRI: Principles for Responsible Investment (Global)
- Singapore Stewardship Principles for Responsible Investors Working Group: Singapore Stewardship Principles for Responsible Investors (SG)
- The following financial markets participants:
 - AMF: Recommendation No 2011-06 of 18 March 2011 in respect of proxy voting agencies issued by the Autorité des Marchés Financiers (FR)
 - CFA: Code of Ethics and Standards of Professional Conduct and Research Objectivity Standards (Global)

This list is not comprehensive in covering all relevant Investor Codes or regulatory instruments/guidance globally. There are additional (local) codes that were reviewed by specific members that contributed to the Principles, up to the BPP Review's completion date in June 2019.

Appendix 6 BPP Oversight Committee

Minimum Terms of Reference

Below are the minimum terms of reference for the BPP Oversight Committee upon inception, which may be augmented after the BPP Oversight Committee has been established in 2H 2019, in light of their further feedback.

Confidentiality

The BPP Oversight Committee members agree to treat as confidential and to not at any time disclose or permit to be disclosed to any person any Confidential Information (whether during or after a member's term expires), or otherwise make use of or permit to be made use of any Confidential Information. This restriction shall cease to apply to information or knowledge that has come into the public domain other than by breach of this clause.

Meetings

Meetings shall be held no less than three times per year. Provision shall be made for members to attend either in person or virtually by web or teleconference.

Quorum

Quorum shall normally be satisfied when the Chair and at least eight of the eleven members of the Committee are present. A quorum change must be clearly stated on the agenda for any meeting, circulated to all members at least 72 hours in advance of the meeting.

Funding Structure

This is based on the BPP Oversight Committee consisting of:

- 1 independent chair
 - 6 institutional investor/representative bodies (to be appointed free of charge)
 - 3 companies/representative bodies (to be appointed free of charge)
 - 2 independents (e.g. academics)
- Observers are allowed and support is to be provided by the Members

It is also based on the following key responsibilities of the BPP Oversight Committee:

- 1) Execute an independent, annual review of each BPP Signatory's Public Statement of Compliance
- 2) Ratification of applications by new Signatories and sanctioning
- 3) Oversight of the compliance management procedure
- 4) Management of an annual open forum
- 5) Review and implementation of minor updates to the Principles
- 6) Monitoring of progress and impact of the Principles
- 7) Development and publication of an annual report summarising the Oversight Committee's activities.

Funding is needed to cover the fees of the Independent Chair and the two independent (academic) members. For the independent (academic) members, membership will be honorary but fees will be paid for work relating to the independent annual review.

The six representatives from the investor community and the three representatives from the issuer community will be appointed to be honorary members of the BPP Oversight Committee, free of charge.

All Signatories should be willing and able to pay their fair share of the required BPPG budget in any year (which will be agreed upon between the members annually).

The 2019 BPP Oversight Committee funding structure will be based on the fee bands in the table below based on staff numbers they self-report. Staff numbers should be publicly available, either via annual reports, or via other sources. Each year, after ratification of new Signatories, the BPP Oversight Committee will adjust the percentages of fee bands in the table to match the new number of Signatories to the Principles.

The table below indicates the bands in which the current 2019 BPPG Members sit and the percentage of the total payment for the BPP Oversight Committee to which they are committed. The right-hand column provides a future example of how the allocation could change, should a new Member join the BPPG.

2019 BPPG Member Fee Band by Number of Staff	BPP Oversight Committee % of Total Payment per 2019 BPPG Member Fee Band	Future Example: additional new Member with 51-200 staff
Staff 1- 10	10% (1 x 2019 BPPG Member)	10%
Staff 11 - 50	15% (2 x 2019 BPPG Members)	12.5%
Staff 51 -200	n/a (0 x 2019 BPPG Members)	20%
Staff > 200	30% (2 x 2019 BPPG Members)	22.5%

The fee split will be formalised in a contract, to be amended upon acceptance of any new Members/new Signatories.

Best Practice Principles for Providers of Shareholder Voting Research & Analysis 2019

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The Review Committee - Best Practices Principles Group

Web: www.bppgrp.info

Email: committee@bppgrp.info