



ICGN

International Corporate Governance Network

Council of Expert meeting on Stewardship Code
Financial Service Agency
Tokyo, Japan

15 February 2017

Dear Council Members,

RE: ICGN statement on proxy advisors

Thank you for the opportunity to provide comment as a Member of the Council of Experts on the Japan Stewardship Code at a first meeting held at FSA Headquarters in Tokyo on 31st January 2017. This included discussion around the governance of institutional investors, vote disclosure, company engagement and the role of asset owners in corporate governance. Further to these topics, ICGN has been invited to make comment on the role of proxy advisors and this letter is intended for information at the second Council of Experts Meeting to be held on 17th February 2017.

The International Corporate Governance Network (ICGN) is an investor-led organisation of governance professionals with Members which include institutional investors responsible for assets under management in excess of \$26 trillion. Many of our Members have significant shareholdings in Japanese companies.

Our mission is to promote effective standards of corporate governance and investor stewardship to advance efficient financial markets and sustainable economies worldwide. ICGN's Global Governance Principles call both for companies to have high standards of corporate governance, and for investors to have responsible investment practices, given their fiduciary duty of providing sustainable returns on capital to their ultimate beneficiaries – typically pension funds and long term savers.

To our knowledge, while there is a perception that proxy advisory (PA) influence voting outcomes, there is no empirical evidence that this is disproportionate. To qualify this statement we would draw your attention to the following facts:

- Investors, not PAs, are accountable for their voting decisions. Many investors that engage PAs employ their own investment policies and voting protocols, which are often different from those recommended by PAs. In many cases PAs assist in vote execution, not in policy development or the development of specific voting rules.
- The standard advice provided by proxy research providers is usually based on generally accepted corporate governance best practices. The same best practices are in general also applied by institutional investors when analysing the ballots of upcoming shareholder meetings. These best practices are not invented by the proxy research providers but are foremost a result of the corporate governance codes that have been enacted in many jurisdictions worldwide. Public debate also has an impact on the development of generally accepted best practices.
- PAs only provide recommendations while the ultimate decision remains with the institutional investor. Institutional investors remains accountable for the way they fulfil their fiduciary duty towards their clients and ultimate beneficiaries.

- A correlation between proxy advice and voting outcomes is not exclusively the result of the former. Institutional investors often use several other sources of information and there can be various reasons to agree or disagree with a proposal.

ICGN's Global Governance Principles call for both companies and investors to act responsibly and accountably, with clearly established governance policies and related disclosures. In addition, the ICGN position regarding proxy research is articulated under Guidance 5.5 of the ICGN Global Stewardship Principles as follows: *"Investors should disclose the extent to which they use proxy research and voting services, including the identity of the provider and the degree to which any recommendations are followed. Investors should clearly specify how they wish votes to be cast and should ensure that such votes are cast in a manner consistent with their own voting policies."*

We support similarly high standards of practice for service providers such as PAs. We believe it is fundamentally the role of investors, as customers of PAs and consumers of their research, to hold PAs to account for the integrity and the quality of the services they provide. As such, the ICGN does not support a prescriptive regulatory approach to the oversight of the proxy advisory industry. Instead, we believe that codes of best practice are more appropriate to address any concerns relating to policy transparency, conflicts of interest and research quality.

The ICGN is of the opinion that it is in the public interest to encourage and enable investors to make use of their shareholder rights. The possibility to exercise voting rights at shareholder meetings is one of the key tools for our members to fulfil their stewardship role. However, because of the fact that most of our members hold widely diversified portfolio, it is almost impossible for them to closely scrutinize the agenda's of the shareholder meetings of all portfolio companies.

Another complicating factor is that all shareholder meetings take place in the period between March-June each year, which results in dozens of shareholder meetings per day. For the larger institutional investors it is not uncommon to have shares of thousands of companies in a portfolio. During the peak of the shareholder meeting season they need to cast their votes for dozens of upcoming shareholder meetings on a daily basis. This leaves insufficient time for institutional shareholders to do all the research themselves, but with the help of one or more proxy advisory firms they are able to make informed voting decisions.

We hope our comments are useful for the purposes of the second Council of Experts Meeting on the Japan Stewardship Code. Please do not hesitate to contact us should you have any further questions about our letter and we wish you a successful meeting.

Yours faithfully,



Kerrie Waring

Executive Director, ICGN

Copy: George Dallas, ICGN Policy Director, Erik Breen, ICGN Board Chairman