



## Investment Consultants Sustainability Working Group Response to Vote Reporting Group Consultation Paper, 2023

### Executive Summary

The Investment Consultants Sustainability Working Group (ICSWG) is a collaboration between 19 UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry. You can find more about the group at [www.icswg-uk.org](http://www.icswg-uk.org). This note sets out our comments on the Vote Reporting Group (VRG) Consultation Paper, dated June 2023.

We strongly support the initiative and would like to see a standardised vote reporting solution deployed as soon as possible.

We have suggested some additional reporting fields which would be useful to our clients, although we recognise these would add complexity. We would not want their inclusion to cause delays. One way to avoid this would be to launch an initial version but defer more challenging elements to v1.1 and to signal upfront which fields are likely to be added in future to enable managers to design their data reporting infrastructure accordingly.

The template will only be useful to asset owners if asset managers are able and willing to complete it. This means costs of completion needs to be reasonable - ultimately these are passed on to asset owners - and voting services providers such as ISS and Glass Lewis need to be able to support its completion.

What is described in the consultation as a 'template' may be more usefully conceived as a data standard. Conceiving it this way envisages that data will be shared via more automated processes in the future, with less necessity for the manual completion and exchange of spreadsheets.

UK pension trustees will still need additional information, such as overall voting statistics and detail on voting examples, to meet their regulatory requirements, which is not present in the template envisaged. Therefore, the PLSA voting template is likely to continue to be used in parallel for the foreseeable future. However, we hope that the VRG template will evolve to be sufficient to replace the PLSA voting template in the medium term.

Longer term, we would like to see the development of a registry, with a role as a 'single source of truth' in respect of many of the values which managers will be expected to report under the proposed template (eg Resolution identifier, Resolution title, etc.), rather than different managers reporting different values. Over time, we believe this would lead to enhanced data quality, more efficient data sharing and more effective comparisons between managers. The prospect of this long-term registry development should not hinder the rapid deployment of a data standard/template.

We would like to see clear regulatory support for the template. Voluntary usage may result in low uptake by managers, reducing the decision usefulness and efficiencies for asset owners, especially if major asset managers do not contribute.

### Q1: Do you have any comments on the proposed field 'name of the issuer'?

The proposed field title is clear and decision useful. To ensure consistent reporting of company names, this could be streamlined by linking it to the ISIN (as noted in response to Q5 regarding column E) or clear guidance that the company name from the proxy card should be used.



**Q2: Do you have any comments on the proposed field ‘meeting date’?**

We believe it would be best to use an international standard for data quality purposes (which supports in being decision useful and streamlined). ISO date format would satisfy this.

**Q3: Do you have any comments on the proposed field ‘meeting type’?**

No additional comments.

**Q4: Do you have any further comments on the proposed field ‘country’?**

We believe it would be best to use an international standard for data quality purposes (which supports in being decision useful and streamlined). ISO country codes would satisfy this.

**Q5: Do you have any comments on which reporting identifier should be used in the vote reporting template?**

We believe it would be best to use an international standard for data quality purposes (which supports in being decision useful and streamlined). ISIN would best satisfy this in our experience. We do not suggest use of LEI codes, which may incur additional database costs and are less widely used (reducing decision usefulness and streamlining). For clarity, the column could be more clearly named “Issuer Identifier”.

**Q6: Do you have any suggestions on a suitable resolution identifier?**

We suggest that clear guidance be given to instruct use of the meeting resolution as stated on proxy card (e.g. 3a, 3b). We question the value of the free text option.

We suggest inclusion of an additional column titled ‘Vote order’ to indicate which vote this corresponded to (e.g. numeric integers only, where 1a=1, 1b=2 etc). Inclusion of this in addition to the proposed resolution identifier and clear guidance for each would reduce scope for misidentification, allowing users to work with the raw data more easily.

**Q7: Do you have any comments on the proposed field ‘resolution title’?**

No further comments to the response to Q6.

**Q8: Do you have any comments on the proposed field ‘resolution type’?**

We note that there is a difference between the template wording on p20 of the consultation and the question here. The former says “Resolution category” while the question proposes “resolution type”. We suggest that the latter be used.

We believe that the indicative standard options from the N-PX baseline are not sufficiently granular and therefore do not provide sufficient information to be decision useful for asset owners. We recommend that more granular options be provided, particularly with respect to environmental and social issues, which are increasingly at the forefront of agendas and a focus of asset owners in assessing voting activity. We recommend:

1. ‘environment or climate’ be split out into:
  - climate change and net zero



- biodiversity and nature
  - other environmental
2. 'human rights or human capital/workforce' be split out into:
    - human rights
    - inequalities
    - public health
    - human capital and workforce
  3. an additional option of:
    - corporate lobbying.

We suggest guidance around each of these headings, including examples (e.g. for human rights this would refer to modern slavery, inequality, migration, public health etc) to ensure data quality remains high and inputs are decision useful.

We have recently observed an increase in the number of “counter” and anti-ESG resolutions. ISS has a specific “counter” category and it might be useful to have such a category in the template. This would prevent an outcome where, for example, an anti-ESG climate resolution is simply categorised as “climate” and at surface level, the manager appears to be unsupportive of climate resolutions (when in fact it is the opposite). Alternatively, the guidance could encourage managers to use the narrative rationale column to highlight where they consider a resolution to be anti-ESG.

**Q9: Do you have any comments on the proposed field ‘proponent’ and the two field data options?**

No additional comments.

**Q10: Do you have any comments on the proposed field ‘company recommendation’**

No additional comments.

**Q11: Do you have any comments on the proposed field ‘asset manager instruction’?**

We note that there is a difference between the template wording on p20 of the consultation and the question here. The former says “Vote instruction” whereas the question says “asset manager instruction”. We suggest use of the former.

We agree that standardised options are best for streamlining and would provide sufficient information to be decision useful.

‘One year’, ‘Two year’, ‘Three year’ options should be provided for votes on frequency of advisory vote on executive compensation.

We note that the four options proposed all relate to votes exercised. It is also important for asset owners to know when votes have not been exercised and why. We therefore recommend exploring an additional option such as ‘no instruction submitted’ or ‘did not vote’, along with an additional column for standardised explanation of why, so the template can be used for all votes and not just votes exercised.

Guidance and potentially additional options/fields may be necessary for situations where an asset manager chooses to vote in different ways (eg for different funds) on the same resolution. One solution might be to provide a ‘split’ option and a free text field for details. We recognise that fully catering for split votes could add significant complexity and so it might be preferable to defer this until a later version of the template.



**Q12: Do you agree with the proposed principles set out in 3.28 for when a vote rationale is required?**

We are supportive of the approach, with the exception of the penultimate bullet point “Pre-emptive offers or other special business”. We believe that this needs reconsideration on two separate counts:

- i. We would like more clarity on the reasoning behind the inclusion of this category given it is potentially very broad to require disclosure on all occasions. For example, in France there are often many resolutions – around 10 at a single AGM is not unusual that might be seen to fall into the “other special business” category – and we cannot believe that there is an intent to include such large numbers of resolutions. Even in the UK, there are frequently multiple resolutions at a single AGM (4 or 5 is not unusual) that are special resolutions requiring 75% support. Again, we find it hard to imagine that the VRG is proposing that every special business proposal should be the subject of a rationale.
- ii. We also note that resolutions relating to the issuance of shares *not* subject to pre-emption are of much greater significance than pre-emptive issues, given the protection to the rights of existing shareholders that pre-emption represents.

We submit that this element of the proposal needs to be drawn much more narrowly than it is at present. Perhaps the category should be narrowed to simply include authorisations of non-pre-emptive share issuance?

**Q13: What is your preference for the level of disclosure in the field ‘standardised rationale category’? AND**

**Q14: Do you have any suggestions on what categories should be included in the field ‘standardised rationale category’?**

We believe that this can be kept high level and just be thematic – though we believe that (as with the resolution categories) ‘environment’ would be too high level and at the least would need to be split into ‘climate’ and ‘other environment’. Similarly, as with the resolution categories, we think there needs to be a clear separation between ‘human rights’ and ‘workforce’ issues. However, the options available for this field cannot simply mirror the categories in the ‘resolution category’ field as there will be standardised rationales that are not resolution categories. For example, ‘performance’, ‘independence’, ‘busy’ (what some refer to as ‘overboarding’) all ought to be available as potential rationales for opposing the (re-)election of a director, as well as diversity, or pay. We would also suggest that a category of ‘audit or reporting concerns’ should be included as this may be a driver for decisions about various forms of resolution, including potentially individual (re-)appointments, acceptance of the report and accounts, discharge of directors, auditor appointment and auditor fees.

Sometimes the rationale for a vote, for example against a particular director, is driven by more than one reason. The manager should therefore have the ability to select more than one standardised rationale category for a vote.

**Q15: Do you have any comments on the proposed ‘narrative rationale’ field?**

We agree that this should be free text, and that managers should be able to provide as much or little insight into their decision-making on particular resolutions as they wish. We believe that it would not be helpful to provide guidance as to the nature and content of narrative rationales. This is first because the level of detail will vary markedly between different individual resolutions – depending on the nature of the resolution, the significance of the company, the state of a manager’s engagement with the company and so on. We do not believe that any guidance could be helpful in assisting managers to navigate this degree of complexity and variety, and that professional judgement will be required to decide how detailed the rationales will need to be. Which leads us to the second reason why guidance would not be helpful in our view: the dispersion in manager rationales (something that is highly visible in terms of current practice) in itself offers useful insights for asset owners, and we do not believe it would be helpful to the proper functioning of a market for stewardship services for that dispersion to be compressed by guidance.



**Q16: Do you agree with the approach of including standard data and free text box fields for the field 'is the vote decision in line with voting policy'?**

We believe that this field should be restricted simply to yes or no. We think any free text explanation of a difference from the voting policy should be integrated as part of the narrative rationale. We believe it would be unhelpful to have multiple free text fields inviting explanations for decision-making, not least as it would be likely to lead to repetition that would hinder asset owners' assessment of manager effectiveness.

**Q17: Do you have any comments on the field 'what type of engagement with the issuer is linked to the vote decision'?**

We would propose including an indication of whether the engagement has taken place before or after the vote, or clarifying that the question relates to engagement before the vote – in our experience, engagements before tends to be more powerful and invite greater dialogue with companies, and also allow the voting decision to be informed by what is said. Engagement after votes clearly cannot influence the voting decision itself and is often simply in the form of standard letters or emails which will in most cases not have a substantive influence on recipients either. We would also recommend that 'dialogue with' is substituted for 'meeting with', as a conversation over the phone can be as effective and influential as a face-to-face or virtual meeting, and that a 'dialogue with company secretary' is added to the categories.

An extra, optional, free text field to allow managers to report more detail would be useful.

**Q18: Do you have any further comments on the proposed fields for the vote reporting template?**

We would propose the inclusion of a column where the manager can indicate whether they believe a particular vote is "significant". This is a relevant consideration for UK pension schemes under DWP guidance on stewardship matters; while it will not determine the pension scheme's own decisions on significance it may be a useful consideration for them to bear in mind.

We also suggest adding a field for "What next steps have been taken or are planned?" with standardised answer options (such as Engagement, Monitoring of company actions, Other, None) plus an optional free text field for extra detail. These extra fields could be deferred until a later version if their inclusion would cause delays to the template launch.

**Q19: Do you agree the vote reporting template should adopt a quarterly vote reporting frequency?**

We would support quarterly reporting of voting data as a minimum. However, month end data would be preferable given the different reporting dates of schemes and the need for asset owners to report voting actions aligned to custom year ends. Given the significance of the reporting need, and presuming there is marginal additional effort on the part of managers, month end reporting of voting data is our preference. Completed templates should be available by the next month end.

**Q20: Do you have any further comments on the frequency of vote reporting for the vote reporting template?**

No further comments to the response to Q19.

**Q21: Do you have any comments on how client-led voting should be reflected in the vote reporting template?**



We are of the opinion that the template should be kept true to purpose and reflect *manager-led votes only*. In this way, the content of the template is clear and any confusion is avoided.

However, we note that some asset managers offer clients a choice of voting policies. This differs from client-led voting in that the client only selects broad voting principles; it does not direct (and will not know) how individual votes are cast. If the manager only completes the template for its standard voting policy, this will not provide clients who have selected a different policy with the information they need to fulfil their reporting requirements. It is important that the manager provides the relevant voting information in some format. We suggest that the manager completes the template for each voting policy used for the fund, making it very clear which version is which. Ideally the manager would also indicate what proportion of votes in the fund have been cast in line with each policy. However, as per our comments in the executive summary, we would not want the additional complexity this entails to delay the initial launch of an industry standard template.

**Q22: Do you have other views on how the Group seek to address the development of client-led voting?**

The addition of a field for the percentage of the fund's AUM that a particular vote relates to, as suggested in para 3.48, would be informative to the user by indicating the level of influence the manager has versus the level of client input. This information should be readily available to the manager.

**Q23: Do you agree with the approach to pre-disclosed voting intentions?**

Given the encouragement of pre-disclosure of voting from UK regulatory authorities and the PRI, an additional column indicating a simple Yes/No, would be additive in our view. Many managers have a policy on pre-disclosure and highlighting this may offer asset owners a point of manager engagement, so extending the line of influence from beneficial owner to the vote decision.

**Q24: Do you have any further comments on the approach to pre-disclosed voting intentions?**

No further comments.

**Q25: Do you have any comments on the ownership of the vote reporting template?**

We agree with the proposal that ownership should lie with a board of industry representatives (i.e. the oversight body). Whilst asset managers should be involved, given they will be responsible for completing the template and they are best placed to understand the costs involved, there is a risk that they will push for oversimplification that could diminish the value of the template to asset owners. We believe the majority of the board should consist of non-asset managers and regulators to ensure there is a sufficient level of independence. The template should be closely aligned with regulatory expectations of asset managers. This will ensure that reporting standards are maintained.

**Q26: Do you have any comments on how the oversight body could be established, the responsibilities of the body, and which organisations should be part of it?**

As stated in our response to Q25, we believe the oversight board should consist of a variety of individuals from across the industry, including asset managers, investment consultants (or the ICSWG), policy makers and regulators, asset owners and professional trustees. Whilst this list is not exhaustive, we would expect the oversight board to have the following key responsibilities:

- Evolve the template over time ensuring it reflects best practice.
- Ensure the template is aligned to voting regulations and update the template when necessary.



- Consider feedback from industry users, particularly those that relate to data availability, efficiency, and ease of use.
- Ownership of any central registry.
- Provide industry guidance on the completion and maintenance of the template.
- Decide on the balance between an 'ideal' template vs the costs for asset managers to complete.

**Q27: Do you think the vote reporting template should be publicly accessible? AND Q28: Do you have any comments on whether the template should or should not be publicly accessible?**

Yes, we are supportive of the vote reporting template itself being publicly accessible.

In relation to *completed* vote reporting templates (ie managers' voting information), we believe that asset owners would benefit from the increased transparency that would come from publishing voting information. However, we can appreciate that asset managers with concentrated portfolios may be unwilling to share details of their holdings publicly due to confidentiality issues and so this could reduce uptake of the registry. We are also concerned that publication of voting information may cause asset managers to be more cautious on the way they vote (for example, voting against company management) or provide less detailed voting rationale, thereby reducing the usefulness of the reporting.

We can therefore see an argument for restricting access to voting information for a particular investment product to people that have a direct connection to the product in question, for example the individual is an existing or potential investor, consultant or the asset manager. This could potentially be achieved through a central registry which asset owners and consultants access via a login.

In summary, the question about making voting information publicly accessible is tricky, with a need to balance the benefits of transparency with practical and behavioural considerations. Subject to the views expressed by asset managers and others in response to this consultation, it may be beneficial for the VRG to explore further how to achieve a balance that suits both asset owners and managers.

**Q29: Do you have any comments on the ownership of the public registry?**

As stated in our response to Q26, we believe the ownership of the public registry should be the responsibility of the oversight body.

**Q30: Do you have any comments on the funding of the public registry?**

We believe the costs for the production and maintenance of the template should be kept as low as possible. It would make sense for these costs to be paid by asset managers in our view, noting that provision of voting information is a core service they should be providing to their clients, although we recognise it is likely they will seek to pass some /all of this cost to the client through their annual management charges. We would hope this approach encourages asset managers to improve the efficiency of their internal systems, which will reduce costs over time and enhance the overall service for asset owners (e.g. data requests are completed quickly and simply).

**Q31: Do you have any further comments on the proposals laid out in this consultation?**

- As noted in the introduction, we believe it would be more useful to think of the fields as forming part of a data standard. This recognises that the end users should have a preference for sharing larger volumes of data via an API, rather than the more manual process of exchange of spreadsheets. Perhaps the technological process for N-PX reporting is an efficient approach which could be learned from.





- Fund-level or mandate-level data is the priority for asset owners, although firmwide data would also be of interest. Ensuring the template is suitable for both levels of reporting would increase its complexity and may require more consideration, so we suggest the initial template (v1.0) is designed for fund/mandate-level data.
- UK pension trustees are likely to continue to use the PLSA vote reporting template in parallel to the template proposed by the VRG for the foreseeable future. This is because they will need additional information – such as overall voting statistics, use of proxy voting services, outcomes of votes and size of holdings – to comply in full with DWP’s statutory guidance on implementation statements. Moreover, while the voting examples section of the PLSA template could in theory be replaced by the narrative rationales from the VRG template, we do not expect managers will provide sufficient detail in the VRG template. However, we hope that the VRG template will evolve to be sufficient to replace the PLSA voting template in the medium term.
- We encourage the VRG to get feedback on feasibility from some US based asset managers. UK based asset owners often use non-UK based managers so we would want these managers to be able to use the template too.