

The Shareholder Voting Working Group (SVWG)
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Dear Sirs,

Shareholder Proxy Voting: Discussion Paper on Potential Progress in Transparency

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the work of the Shareholder Voting Working Group (SVWG) in identifying key barriers to trust and transparency as demonstrated in this discussion paper. We believe that this paper takes a useful step in identifying some of the flaws in the current voting system.

We generally agree with the identified issues and proposed potential solutions. We have a few overarching comments from the point of view of our constituency, small and mid-size quoted companies:

- Small and mid-size quoted companies tend to have close relationships and regularly engage with their institutional investors, as many of these investors have significant holdings in these companies (i.e. 5 – 10%) and so want to be treated as partners. This creates a different dynamic between the institutional investor and a small and mid-size quoted company than what may exist for larger FTSE 100 and FTSE 250 companies and their investors. Any changes need to take this difference into consideration.
- Although not the focus of this paper, better engagement between issuers and proxy advisors should be fostered so that there is an open, healthy and transparent dialogue and a deeper understanding and appreciation of each other. We believe that there could be improvements in

developing regular dialogue and building trust between proxy advisors and issuers, which, in turn, could benefit the voting system.

- Non-institutional shareholders are not mentioned in this discussion paper. We believe that some considerations need to be taken as to the voting process of retail shareholders, as they provide an important source of investment for small and mid-size quoted companies.
- We believe that any proposals, particularly those introducing standardised processes, should take into consideration the limited resources of small and mid-size quoted companies and ensure that any changes do not increase costs.

In light of the above, we have some specific comments regarding the SVWG discussion paper:

- **Visibility of voting data to issuers (p 10)**

We agree with the paper that it is important for issuers to know how their investors are planning to vote their shares. This is particularly important in cases where there is going to be a significant 'no' vote at the AGM, as the UK Corporate Governance Code now requires companies that follow that code to issue a statement explaining what actions it will take in these cases. This would ensure that issuers would be better prepared for the period after the AGM if a policy is rejected or vote lost and ready to explain to shareholders how they are going to address this.

However, engagement between investors and issuers should happen well in advance of the AGM. Timely and ongoing engagement allows for any clarifications to be made and helps to ensure that issuers have the support of investors. Last minute engagement between issuers and investors on specific votes is probably of minimal value and likely to not lead to changes in issuers' policy or investor's voting decisions ahead of the AGM due to practicalities and timing issues.

It is difficult to envisage the best way to add further visibility of voting data and the proposals outlined on page 38 are quite vague (i.e. what is considered a 'timely manner'). Nonetheless, we are not in opposition to any of the recommended best practices.

Related to this, our members have reported that some proxy advisors will only allow issuers to see a copy of a report issued about them on payment of a fee. We believe that good engagement requires that such reports be freely shared with issuers in advance of publication.

- **Vote confirmation to investors (p 13)**

We understand that some investors would like to have confirmation that their vote has been received, and thus would like to have a standardised, reliable process for the registrars to confirm up the chain that the vote was taken. This already exists through the CREST system. However, providing confirmation of how those shares have been voted at a meeting requires additional market infrastructure, which does not exist at the moment.

Many small and mid-size quoted companies conduct general meeting voting on the basis of show of hands and many votes do not go to a poll. To require poll voting for all quoted companies would add costs disproportionately for small and mid-size quoted companies, which do not have significant resources and usually have relatively few investors that attend their annual general meetings. Any changes in this area as a result of implementing voting confirmation to investors would need to recognise the use of both show of hands voting and polls.

Nonetheless, issuers should publish voting decisions on their company websites. The Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies recommends this as a minimum disclosure and states that:

Where votes at a general meeting are by show of hands, the votes by proxy received by the company, including abstentions or votes withheld, should be reported as soon as practical after the meeting. Where votes are conducted on a poll, the actual votes, including votes withheld and abstentions, should be reported as soon as practical after the poll.

In the second QCA/UHY Hacker Young Corporate Governance Behaviour Review¹, we found that only 33% of small and mid-size quoted companies in the sample published voting decisions on their company websites and 18% went on to state the votes by proxy or the actual votes conducted by poll. Clearly, there is room for improvement. We are carrying out our 2015 review at the moment and plan to highlight this issue again this year.

We believe that change in this area would be best achieved by encouraging best practice. Investors should engage with companies on this more and let them know that they would like to see this information published, rather than changing regulation as to how companies conduct their voting at their general meetings, which would be costly to implement and limit issuers' choice of how best to conduct their general meetings.

- **Record date (p 28)**

The alternative view mentioned in the Discussion Paper (p 30), by which the record date would be brought forward to two days before the voting deadline, could be an adequate solution to eliminate many unpractical aspects of the system and reduce the risk of error. We believe that a separate study on this option should be conducted.

- **Stock lending (p 34)**

We generally agree that the impact of stock lending on voting should be minimised. We would agree with the proposed suggestion for issuers to keep voting cut-off dates and dividend record dates separate by a minimum of five days (p 39).

¹ The QCA/UHY Hacker Young Corporate Governance Behaviour Review is carried out annually in partnership with accountancy firm UHY Hacker Young. We benchmark the corporate governance disclosures made by a sample of 100 small and mid-size quoted companies against the minimum disclosures of our Corporate Governance Code for Small and Mid-Size Quoted Companies. The 2014 report is available at: www.theqca.com/article_assets/articledir_192/96197/QCAUHYCGReview2014_WebVersion_Final.pdf

- **Technology and new processes (p 39)**

The introduction of a UK online gazette for distributing meeting information might prove useful to ensure consistency (e.g. number of proxy items), to make sure everyone gets the same copy from the same source, which could speed up reports. However, we are concerned that any such requirement could translate into added costs and bureaucracy through the potential duplication of processes, particularly for small and mid-size quoted companies.

At the moment, issuers are required to publish their meeting notices and reports through a Regulatory Information Service (RIS) and most make these readily available on their websites. Rule 26 of the AIM Rules requires that AIM companies have a website that stores all notifications that the company has made in the past 12 months. Furthermore, listed companies have to file all their documents made public through a RIS in the national storage mechanism.

Therefore, we believe that, if this proposal is taken forward, it would be important to adopt a joined up approach and examine the various requirements on issuers that already exist in terms of the distribution of information. In addition, we believe that a detailed cost-benefit analysis on how this option could benefit issuers and potentially help to reduce costs would be helpful.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'TW' followed by a stylized flourish.

Tim Ward
Chief Executive

Quoted Companies Alliance Corporate Governance Expert Group

Edward Craft (Chairman)	Wedlake Bell LLP
Colin Jones (Deputy Chairman)	UHY Hacker Young
Nathan Leclercq	Aviva Investors
David Isherwood	BDO LLP
Eugenia Unanyants-Jackson	BMO Global Asset Management (EMEA)
Nick Graves	Burges Salmon
Nick Janmohamed	Charles Russell Speechlys LLP
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Nicholas Stretch	CMS Cameron McKenna LLP
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Nick Gibbon	DAC Beachcroft LLP
Tracy Gordon	Deloitte LLP
Andrew Hobbs	EY
Melanie Wadsworth	Faegre Baker Daniels LLP
Rob Burdett	FIT Remuneration Consultants
Richie Clark	Fox Williams LLP
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Peter Fitzwilliam	Mission Marketing Group PLC
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Amanda Cantwell	Practical Law Company Limited
Kelly Millar	PricewaterhouseCoopers LLP
Dalia Joseph	Stifel
Marc Marrero	
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