QUOTED COMPANIES ALLIANCE

Publish and be Damned:
The Problems with Proxy Advisers

Contents

Foreword

Proxy advisers wield too much power.

Not my assertion, but that of Jamie Dimon, the Wall Street titan who sits atop US financier JPMorgan Chase as chairman and chief executive.

"While asset managers and institutional investors have a fiduciary responsibility to make their own decisions, it is increasingly clear that proxy advisers have too much influence," he wrote in his annual letter to shareholders.

These data-crunching firms that churn out millions of boardroom voting recommendations to investors every year may well ease the pressure during the busy AGM season. They may well provide a useful filter, undertaking a huge amount of ground work that asset owners and managers would struggle to complete in-house. They certainly influence voting outcomes.

But none of this is done without cost. As Dimon adds, "Many companies would argue that this information is frequently not balanced, not representative of the full view and not accurate. In addition, companies complain that they often cannot get the data corrected, and, therefore, a vote may go uncorrected."

He isn't the only business leader to air concerns about proxy advisers recently. In a column for the Financial Times, Michel Demaré, chairman of the UK pharmaceuticals giant AstraZeneca, pointed out another worry.

"Proxies often make inconsistent voting recommendations between markets: advising shareholders to vote against pay policies at FTSE-listed companies but supporting US and Swiss businesses that typically have higher compensation levels and a lower degree of performance-indexed pay," he wrote. "These double standards cannot easily be justified, and do serious harm to the competitiveness of global companies based in the UK."

If some of the largest companies in the world feel they are being let down by proxy advisers, and struggle to combat what they see as errors and inconsistencies, what hope do smaller quoted stocks have? In producing this report, that is exactly what the Quoted Companies Alliance wanted to find out.

Our research results were startling.

Companies that found themselves in a race against time to correct what they viewed as basic errors and misunderstandings. No discernible right to reply. Being charged to discover what has been written about them. A reluctance to engage, even outside the AGM season. Soured relations with shareholders. The ensuing negative media and market sentiment.

Far from improving governance, proxy advisers appear to be closing down conversations and making broadbrush assumptions. Large companies have some hope of holding back the tide, speedily calling out what they see as unfair or inaccurate, but small companies are much more exposed, without the same company secretariat and investor relations resource to challenge quickly and engage extensively.

It is important to note that there is no regulatory requirement for asset managers to employ these box tickers. So why go along with a high-handed, often slap-dash approach that risks damaging the very investments they hope will prosper while in their ownership?

The only good news is there is an opportunity to improve the situation. At the QCA, we instinctively favour less and better regulation, allowing more focus on growing businesses rather than providing a running commentary and endless hoops to jump through.

If we thought proxy advisers were truly aligned to that mission, we would leave well alone. Unfortunately it is clear they occupy the same netherworld as financial index providers and credit ratings agencies – highly-profitable data providers whose activities have mushroomed but remain poorly overseen.

Of course, proxy advisers serve their clients, which are primarily the investors not the companies, but it must be hoped they can achieve that without doing a disservice to the enterprises whose activities they would be jobless without. Sadly, the numerous pages of voluntary disclosures on engagement and benchmarking do little to diffuse fractiousness.

Several of these proxy advisers operate globally, but we need to see local solutions applied to improve their effectiveness. Devising them would underscore the UK's claim to lead the way in the creation and adoption of good corporate governance.

A strengthened UK Stewardship Code is the best place to start. As the Financial Reporting Council noted in July 2024, one theme to emerge from its initial outreach for the Code's current review was concern related to the influence of proxy advisers. "We are carefully considering how the Service Providers Code [part of the Stewardship Code] might support greater transparency of their activities," it said.

This report sets out some concerns and proposes some solutions for the way forward. When such a premium is put on good governance to support growth it is hugely worrying that companies are so easily misunderstood or seemingly misrepresented and open dialogue is frowned upon. It's time to make the system work better – for large and small.

> " Far from improving governance, proxy advisers appear to be closing down conversations and making broadbrush assumptions.

James.

James Ashton
Chief Executive
Quoted Companies Alliance

[1] JPMorgan Chase & Co., "2023 Annual Report", 2023. 2023 Annual Report (jpmorganchase.com)
[2] Financial Times, "AstraZeneca chair: UK business needs a level playing field to compete", 2024. AstraZeneca chair: UK business needs a level playing field to compete (ft.com)
{3] Financial Reporting Council, "Key themes for the UK stewardship code 2020 review", 2020. Key themes for the Stewardship Code 2020 Review (frc.org.uk)

Our Key Survey Findings

- More than half of companies have less than 48 hours to review, challenge or correct voting recommendations published about them by proxy advisers before they are circulated to shareholders.

- For more than half of these companies, the timeframe is less than 24 hours.

- Factual errors are commonplace: companies' profit performance and board composition are often reported inaccurately.

- Over three-quarters of companies that queried a voting recommendation found proxy advisers to be unresponsive.

- For companies that try to engage with proxy advisers outside the AGM season, over half find them to be unreceptive.

- Companies report that proxy advisers' lack of engagement has caused:
  - Managements to devote more time to investor meetings to clarify misunderstandings;
  - Negative media coverage;
  - Depressed market sentiment;
  - Loss of directors.

- More than seven in ten companies say proxy advisers have too much influence; three-quarters view them negatively.

- Key company concerns are of proxy advisers' box-ticking or one-size-fits-all approach to governance and lack of understanding of their circumstances.

- Some proxy advisers devise their own standards for companies over and above the accepted UK corporate governance codes; sometimes companies are measured according to one governance code when they have committed to following another.

What Directors Said

“They either need to improve the quality of their process and people, or investors should take responsibility and accountability for their shareholdings themselves and vote accordingly with decisions communicated to the Board.”

"They effectively regulate AGM voting, even though they are not regulated themselves. They do what they want, when they want.”

"Appalling. There is no way to engage, despite what they may say. We have given up trying. They do not understand our business, resulting in recommendations against voting in favour of our resolutions.”

“We feel like we have to appease and remind the proxies we are an AIM company. When our CEO moved to become Chair, they used practices from the UK Corporate Governance Code, not the QCA Code, to judge us.”

“We comply with our chosen code and they said we didn’t. They close it at that. They don’t acknowledge or have a conversation about it.”

"It appeared that ISS accepted we reported under the QCA Code but then applied additional tests which led to negative views spreading.”

Proxy Advisers: What They Do

Proxy advisers play a prominent role in UK capital markets by providing research and advisory services to institutional shareholders. They offer analysis of the corporate governance practices of public companies, covering areas such as executive pay and board composition, with the intention of helping investors' to make better voting decisions during the AGM season.

Proxy advisers also monitor governance trends, shareholder activism and environmental, social and governance (ESG) matters, selling their insights to investors as well as companies. [4]

Proxy Advisers: Who They Are

Two companies dominate the proxy adviser landscape: Institutional Shareholder Services (ISS) and Glass Lewis. It has often been claimed the pair control 97% of the industry globally, although this figure has been contested. "This is not a statistic we have verified or can confirm," ISS wrote in a letter to the chairman of the US Senate Committee on Banking, Housing and Urban Affairs in 2018.

More recent estimates put ISS on 48% and Glass Lewis on 42% market share of assets under advice. Glass Lewis claims to serve more than 1,300 investment managers and pension funds globally; ISS boasts of 4,200 clients but that includes the public companies it sells to too.

In the FRC's 2023 UK survey on the influence of proxy advisers, 78% of investors that responded said they used ISS for voting research and 16% Glass Lewis, although 31% of participants indicated they used more than one proxy adviser. [5] [6]

In the UK, there are also other smaller firms offering the same or related services, including Pensions and Investment Research Consultants (PIRC), Hermes Equity Ownership Services (EOS), Minerva Analytics and Institutional Voting Information Service (IVIS), which is owned by the Investment Association.

It has become a very lucrative industry, with key players in strong demand as investments in their own right. In November 2020, the German stock exchange operator Deutsche Boerse paid about $1.8bn for an 80% stake in ISS. Reuters coverage noted that the firm had changed hands for $720m in 2017 and $364m three years prior to that. Four months after that transaction was announced, Glass Lewis was acquired by the Canadian buyout firm Peloton Capital Management. [7] [8]

[4] Harvard Law School Fourm on Corporate Governance, "ISS Senate Hearing Statement", 2018. ISS Senate Hearing Statement (harvard.edu)
[5] Harvard Law School Fourm on Corporate Governance, "Analytical report: The proxy advisory industry: Influencing and being influenced", 2024. The proxy advisory industry: Influencing and being influenced (harvard.edu)
[6] Financial Reporting Council, "The influence of proxy advisory and ESG rating agencies on the actions and reporting of FTSE350 companies and investor voting", 2023. Analytical Report (frc.org.uk)
{7] Reuters, "Deutsche Boerse to buy 80% of ISS for $1.8 billion", 2020. Deutsche Boerse to buy 80% of ISS for $1.8 billion | Reuters
[8] Reuters, "Canada's Peloton Capital takes over proxy advisory Glass Lewis", 2021. Canada's Peloton Capital takes over proxy advisor Glass Lewis | Reuters

How Proxy Advisers are Currently Held to Account

There is limited UK regulation applied to proxy advisers.

The Financial Conduct Authority regulates these firms under the Proxy Advisors (Shareholders' Rights) Regulations 2019 (Proxy Advisors Regulations, or the regulations) which transpose into UK law Article 3j (transparency of proxy advisors) of the Shareholder Rights Directive (as amended by the Revised Shareholder Rights Directive II (SRD II)).

The FCA states that proxy advisers "must disclose the code of conduct which they apply" or if no code is applied, "they must provide a clear explanation why this is the case".

Firms must also give information on the preparation of their research, advice and voting recommendations, including "the main sources of information used", "the procedures in place to ensure that the research, advice and voting recommendations are of adequate quality and prepared by suitably qualified staff" and "whether the proxy adviser has a dialogue with companies which are the subject of the research… and, if so, the extent and nature of that dialogue".

In addition, firms are asked to disclose "the actions they have undertaken to eliminate, mitigate or manage the actual or potential conflicts of interest". [9]

There are voluntary standards proxy advisers may sign up to. The Financial Reporting Council's UK Stewardship Code was published in 2010, with subsequent editions in 2012 and 2020. The Code comprises a set of "apply and explain" principles for asset managers and asset owners, and a separate set of principles for service providers, including proxy advisers. The FRC notes that "the Code is voluntary and sets a standard that is higher than the minimum UK regulatory requirements".

Signatories may choose to use their Stewardship Report to meet the requirements of the Code and "disclose information to meet other stewardship-related UK regulatory requirements or international stewardship codes" but the FRC adds that it "cannot provide assurance against all other requirements in assessing reporting against the Code".

[9] Financial Conduct Authority, "Proxy advisors", 2024. Proxy advisors | FCA

Before detailing 12 principles for asset owners and asset managers, the Code makes clear these organisations "cannot delegate their responsibility and are accountable for effective stewardship". Among these principles, signatories must explain "the extent to which service providers were used and the services they provided".

Under Principle 8, "signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs". Examples given include "asset managers monitoring data and research providers to ensure the quality and accuracy of their products and services" as well as "asset managers monitoring proxy advisors to ensure, as far as can reasonably be achieved, that voting has been executed according with the manager's policies".

There are six principles set out for service providers, including proxy advisers, covering their purpose, governance, conflicts of interest, the promotion of well-functioning markets, how they support their clients' stewardship and how they review and assure their internal policies and processes.

Under Principle 2, signatories should explain how "the quality and accuracy of their services have promoted effective stewardship" and how "they have appropriately resourced stewardship, including their chosen organisational and workforce structure(s), their seniority, experience, qualification(s), training and diversity, their investment in systems, processes, research and analysis and how the workforce is incentivised appropriately to deliver services". [10]

The majority of proxy advisers are also signatories to the Best Practice Principles for Shareholder Voting Research (BPP), which was formed in 2013 to develop an industry code of conduct. However, this initiative in particular suffers from a low profile and its complaints procedure is little used. As the FRC reported in its 2023 study, "Judging by the interviews conducted for this research there is little awareness of the existing regulatory and voluntary framework – in particular the BPP – among companies." [11]

[10] Financial Reporting Council, "The UK Stewardship Code", 2020. The_UK_Stewardship_Code_2020.pdf (frc.org.uk)
[11] Financial Reporting Council, "Analytical report: The influence of proxy advisory and ESG rating agencies on the actions and reporting of FTSE350 companies and investor voting", 2023. Analytical Report (frc.org.uk)

The Problems with Proxy Advisers

Problem One: Excess

Proxy advisers' benchmark policies on which they base their voting recommendations often exceed the regulatory requirements or corporate governance code that a company has chosen to follow.

On numerous occasions while conducting our research we found evidence that companies which follow the QCA Corporate Governance Code are being judged against the UK Corporate Governance Code. A proxy adviser typically recognises the application of the QCA Code but still states that there are certain principles all quoted companies are expected to follow.

As Glass Lewis states in its benchmark policy guidelines, there are instances where it applies "the policies that pertain to smaller main market companies… to AIM companies".

This trend is not limited to AIM stocks. In a 2023 report, the FRC found that proxy advisers were often setting their own minimum requirements where they did not already exist.

"One such example is the total number of board appointments that can be held by a director," the FRC wrote. "Company interviewees consider that proxy adviser methodologies should be aligned to the [UK] Code to increase consistency, or that proxy advisers should at least be required to state explicitly how their policies deviated from the Code to increase transparency." [12] [13]

Problem Two: Inconsistency

Proxy advisers' policies are inconsistent from market to market. They are often more prescriptive for UK-quoted companies compared with those in the US or Continental Europe.

A comparative analysis by the Capital Markets Industry Taskforce (CMIT) of voting guidelines and recommendations found that the same proxy adviser will advise investors to vote against a pay policy for a UK-quoted company but support a US and European business that often proposes higher remuneration levels.

CMIT also found that key differences can be found in the structuring of executive pay policies, where in the UK restrictions are imposed on fixed pay components, including base salary increases and pension levels. Disparities also extend to ESG policies.

This creates challenges for companies operating in a global market for the best executive talent. As CMIT pointed out "There is the potential for differences between voting guidelines to contribute to arbitrage between listing jurisdictions which could negatively impact the competitiveness of the UK market."

These seemingly random standards trickle down. Smaller companies may also operate internationally but their own pay policies are capped by in-market pressures as well as global ones. [14]

[12] Glass Lewis, "2024 Benchmark Policy Guidelines", 2024. 2024-UK-Benchmark-Policy-Guidelines-Glass-Lewis.pdf (glasslewis.com)
[13] Financial Reporting Council, "Analytical report: The influence of proxy advisory and ESG rating agencies on the actions and reporting of FTSE350 companies and investor voting", 2023. Analytical Report (frc.org.uk)
[14] CMIT, "International comparative analysis of proxy agency voting guidelines and voting recommendations/outcomes", 2023. Capital Markets Industry Taskforce

Problem Three: Inflexibility

Proxy advisers' recommendations are often found wanting because they fail to take into account the unique nature of companies.

A one-size-fits-all approach is inappropriate for many smaller stocks. The vital scope to deviate from conventional corporate governance standards is often ignored in the rush to compile thousands of proxy reports.

A lack of understanding particularly around executive remuneration terms and board composition can sour relations between shareholders and their investee companies.
In its 2022 State of Stewardship report, Tulchan Communications (now Teneo) found that many directors were "critical of what they see as an excessively rigid, inflexible approach by the agencies, which is seen to have fuelled the drift towards 'box-ticking'." [15]

Problem Four: Conflicts

Sir Michael Moritz, the US venture capitalist, put it best in a 2022 Financial Times column.

"Along with its edicts on executive pay, ISS has salespeople hawking reports on diversity, sustainable investing and climate policy to the very companies whose shareholders it courts," he wrote. "In another line of business it acts as a compensation consultant for the boards of fund managers. But there's more, ISS also operates a ballot vote counting service and provides research for class action stockholder lawsuits. A cynic might say that ISS operates a protection racket in the full light of day."

The proliferation of services offered by proxy advisers to stakeholders across the market gives rise to concerns over conflicts of interest.

In its 2022 report against the UK Stewardship Code, ISS admits that some of the data and advisory services sold to companies by its division ISS Corporate Solutions (ICS) "are closely related to some of the matters which will ultimately be covered by ISS during the production of its research offerings". It said it managed this potential conflict of interest with a firewall that included "the physical, functional, and technological separation between ICS and ISS". [16] [17]

[15] Tulchan, "The state of stewardship report", 2022. Tulchan-Stewardship-Report_Nov-2022.pdf (teneo.com)
[16] Financial Times, "Tim Cook pay vote shows ISS should not be judge and jury", 2022. Tim Cook pay vote shows ISS should not be judge and jury (ft.com)
[17] ISS, "ISS stewardship report 2022", 2022. iss-uk-stewardship-code-2022-report.pdf (issgovernance.com)

Problem Five: Unresponsiveness

Proxy advisers are not required to have contact with the companies they write about and insist their reports are based on publicly available information.

They make clear they do not typically engage with companies on issues up for a vote during the "solicitation period", which is defined as running from the release of the company's notice of meeting to the date of the meeting taking place. But many companies find engagement hard even outside the AGM window.

The main reason to require contact once voting recommendations have been published about them is to query a stance or correct facts. Glass Lewis states that when it receives feedback, "the details are reviewed within 48 hours. If there is a reasonable likelihood the Proxy Paper will require revision, we take steps to limit its availability on our voting platform pending the report's possible revision and reissuance". Many companies do not recognise such a smooth and speedy process.

In its 2023 survey, the FRC found a notable difference between the percentage of FTSE 100 companies that had engaged with proxy advisers (68%) outside of the AGM season, compared to FTSE 250 companies (50%). Although the reasons for this difference were not clear, the report suggested it "could be that smaller companies experience more barriers to engagement, have fewer resources, or were not persuaded of the benefits of doing so". If the indicated trend was extrapolated, it suggests that significantly fewer than half of all smaller companies are able to engage.

Engagement and communication is a thorny area. For this reason we chose to focus our member survey on it. [18] [19]

"

If some of the largest companies in the world feel they are being let down by proxy advisers, and struggle to combat what they see as errors and inconsistencies, what hope do smaller quoted stocks have?

James Ashton
Chief Executive, QCA

[18] Glass Lewis, "Issuer relations policy & procedures", 2023. Engagement-Policy.pdf (glasslewis.com)
[19] Financial Reporting Council, "Analytical report: The influence of proxy advisory and ESG rating agencies on the actions and reporting of FTSE350 companies and investor voting", 2023. Analytical Report (frc.org.uk)

Our Survey Findings in Full

In general, small and mid-cap companies have a negative view towards proxy advisers and consider that the level of influence they have is excessive:

75% of companies stated that their view towards proxy advisers was negative

with **76%** of these respondents answering "very negative"

73% of companies believe proxy advisers have too much influence

with nearly **80%** of these believing they have "significantly too much" influence

The main concerns of companies regarding proxy advisers and their practices include (top 5 only):

65% One-size-fits-all approach (limited consideration of smaller companies)

61% Box-ticking approach to governance

58% Uninformed analysis/misunderstanding a company's approach

58% Limited engagement

55% Appearing to follow their own agenda

Voting recommendations and processes

In terms of satisfaction of voting recommendations over the course of the last three years:

51% of companies have been either slightly dissatisfied or very dissatisfied

34% of companies have been neutral

4% of companies have been satisfied

The areas in which companies have witnessed concerns raised by proxy advisers most often apply to the following (top 5 only):

42%
Executive remuneration

33%
Board composition

28%
Board member re-election

19%
Diversity and inclusion policies

19%
ESG practices and sustainability initiatives

For companies that have contested a voting recommendation made by a proxy adviser (45%):

76% of these companies have found proxy advisers to be either slightly unresponsive or very unresponsive during the process.

In terms of alignment between the voting recommendations of proxy advisers and the policies of investors:

13%
of companies believe there is strong alignment

49%
of companies believe there is limited alignment

17%
of companies believe there is no alignment

22%
answered don't know

Engagement (company, investor and proxy firm)

In terms of companies actively engaging proxy advisers outside the AGM season:

65% do not actively engage

30% do actively engage

Of the companies that actively seek to engage proxy advisers outside the AGM season:

35% found proxy advisers to be slightly receptive

60% found proxy advisers to be unreceptive

In terms of the level of engagement of proxy advisers within the AGM season:

48% of companies were dissatisfied

6% of companies were satisfied

46% of companies were either neutral or did not know

For Investor Engagement:

Outside AGM season **72%** and Inside AGM season **63%** of companies found investors to be receptive outside and inside the AGM season, respectively

---

Only **10%** of companies found investors unreceptive both outside and inside the AGM season

---

In terms of the impact of a lack of engagement on behalf of proxies (top 5 only):

54%

of companies believe it led to an increase in management time for investor engagement

25%

of companies believe it led to negative media coverage

24%

of companies believe it led to depressed market sentiment

12%

of companies believe it led to the loss of directors

12%

of companies believe it had no impact

Responding to research reports

In terms of the process for responding to the research reports published by proxy advisers:

63%

of companies were dissatisfied

5%

of companies were satisfied

12%

were neutral

19%

didn't know

In terms of how long companies were given to respond to proxy reports:

27%

of companies were given less than 24 hours

27%

of companies were given between 24 and 48 hours

5%

of companies were given over 48 hours

42%

answered not applicable

Improving the situation

In terms of measures that could help to improve interactions with proxy advisers, companies highlighted the following (top five only):

49%

answered dedicated support channels for addressing company-specific concerns

48%

answered one-week minimum response time to reports and recommendations

45%

answered free-of-charge reports for companies

38%

answered the development of an industry code of conduct

36%

answered investors should disclose their standard voting policies online

Note:
YouGov surveyed 67 small and mid-cap companies on behalf of the QCA prior to the General Election campaign.

Company A

Market: AIM

Market cap: >£500m

The company found itself with just nine hours to address the most recent proxy report written about it, which reiterated concerns about the pay of non-executive directors. But with no prior warning another issue was also introduced: concern over the company's proposed change of auditor. Despite the company's proactive engagement with several of its largest shareholders, which had expressed support for the move, the proxy adviser issued a strongly negative voting recommendation towards the plan.

Adding to the frustration was the adviser's apparent disregard for the company's response to this verdict. Directors' efforts to explain the rationale behind the decisions, citing alignment with the QCA Corporate Governance Code, failed to convince the proxy adviser to relay these points in the report shared with shareholders. The company suffered a significant negative vote, generating the perception that this was a company that did not listen.

Company B

Market: AIM

Market cap: >£300m

The company has built a relationship over several years with one of the proxy advisers that covers it. Yet factual errors and misunderstandings persist.

The company has attempted to address these concerns by pointing out mistakes. In its experience, the proxy adviser is willing to listen and accommodate feedback, allowing for revisions within a reasonable timeframe. However, the problems still reappear year after year, consuming valuable time and resource.

Dealing with a smaller proxy adviser is tougher. Such is its consistently negative stance on them, the company views engagement as a waste of time.

Company C

Market: AIM

Market cap: >£1 billion

The company provided what it believed was a transparent explanation of an unusually structured long-term incentive plan in its annual report, yet has still had to contest the details of the scheme with a proxy adviser three years in a row.

This repeated dispute has led to a deterioration in engagement. The company thinks its ability to contact the proxy adviser directly was only possible through a personal relationship.

Company D

Market: Main Market

Market cap: >£1 billion

The company has faced recurring issues with a proxy adviser over several years. Despite consistently following the "comply or explain" rule, the adviser repeatedly issues negative voting recommendations, disregarding the company's detailed explanations.

Additionally, the timeframes given to respond to research reports have been inconsistent and often unreasonably short, sometimes as little as 12 hours.

This unpredictability has made meaningful engagement difficult and highlights the need for more standardised and regulated practices within the proxy advisory industry.

QCA Guidance

Companies

should continue to proactively engage with proxy advisers on an annual basis outside of the AGM season, with the intention of fostering an open and meaningful conversation, updating analysts on recent developments, their strategic vision and governance practices. They should also ensure they have a sufficient understanding of the benchmark policies that their shareholders follow.

Asset managers and owners

should clearly disclose their standard voting policies on their websites. To underscore good stewardship, they should demonstrate how key voting decisions are escalated to the relevant fund manager and how they engage with companies, especially to explain votes cast against.

Proxy advisers

should show how they incorporate flexibility into their benchmark policies and how they diverge from market norms, in particular where smaller companies are concerned. Research reports should be provided free of charge to all companies on whose AGM agendas voting recommendations are published.

Proposed Solutions

Expand and strengthen the UK Stewardship Code, to reinforce proxy advisers' operational transparency and good practice, including:

Communication and engagement

Proxy advisers should guarantee a seven-day minimum review window for companies to respond to research reports written about them;

Proxy advisers should proactively seek out companies they choose to write about to schedule an annual meeting outside the AGM season;

Research reports should be provided free of charge to all companies on whose AGM agendas voting recommendations are published;

An independent dispute resolution channel should be established, overseen by the FRC, with clear procedures and guidelines for mediation between proxy advisers and particularly small and mid-cap companies.

Methodology

UK quoted companies should not be subject to more exacting standards than companies whose shares are traded in other jurisdictions, without express justification.

UK quoted companies that have chosen to adopt one governance code should not be judged by the principles of another. On this point, proxy advisers should explicitly "comply or explain" why they are deviating, just as companies are asked to do with regard to the principles of the UK Corporate Governance Code.

Stewardship

Investors should take greater responsibility for the performance of service providers they choose to employ and better disclose how they use them. This should include:

Disclosing how they have conducted their own assessment of proxy advisers' benchmark voting policies and engagement practices;

Disclosing the proportion of voting recommendations for each company that were actively reviewed by the investment manager.

Market Study

The FRC should undertake a market study of proxy advisers to assess their contribution to UK competitiveness and check for emerging conflicts of interest as their product range grows.

If conflicts are found, as a last resort UK regulators – including the Financial Conduct Authority - should consider the case for the structural separation of proxy advisers along the lines of the audit and consulting split carried out by accounting firms in recent years.

About the QCA

The Quoted Companies Alliance champions the UK's community of 1000+ small and mid-sized publicly traded businesses and the firms that advise them.

We believe the public markets can be the best place for companies to source the funds to grow, operate transparently and distribute wealth, fairly.

The QCA seeks to inform policy in dialogue with regulators and government, showcase the latest thinking on leadership, investment, technology and governance through our events and research, and to provide a forum to share good practice among members, who are quoted on the Main Market, AIM and the Aquis Stock Exchange.

For more information, please visit www.theqca.com and

Become a member of the QCA today

- Enjoy access to our busy events programme featuring fund managers, regulators, senior politicians, corporate peers and the media
- Influence our campaigns and policy work that presses to improve public market regulation and reward through our seven Expert Groups
- Stay informed with our boardroom good practice guides, training workshops, sector surveys and in-depth research
- Take advantage of exclusive member discounts on partner-run courses, professional services and technology tools
- Tap unparalleled business development and thought leadership opportunities

To find out more visit www.theqca.com/membership-plans

Contributors:
Report researched, written and designed by Iqra Ahsan, Jack Marshall and Ruby Halabi.