PIRC response to European Commission – Shareholder Rights Directive – Call for Evidence

Good governance is a foundation of corporate success and a prosperous economy. This has led many jurisdictions to adopt corporate governance codes and strengthen laws. It is also critical to investor confidence, with investors willing to pay a premium for well-governed companies.

However, good governance is not achieved through codes and regulation alone. It requires the oversight and the stewardship activities of investors. Within this context, proxy advisers serve as research intermediaries, enabling active owners to better fulfil this role and protect their rights.

Without proxy advisory services, meaningful participation in corporate governance would be time-consuming and costly for individual investors. Proxy advisers thus meet a clear and established need, empowering investors to engage more effectively in governance processes and helping them raise the bar on standards. As such, proxy advisers play a pivotal role in enabling investors to exercise and realise their shareholder rights and fulfil their stewardship responsibilities.

Despite this, and probably because of it, the sector often faces criticism from some within the issuer community. These criticisms are overwhelmingly based on opinions, not facts. Institutional investors are not obliged to procure the services of proxy advisers nor follow their recommendations. They can also have their own policies – and many do. Criticism from those whose interests are served by weaker oversight is not new, but such claims remain unfounded. This has continued to be the case since an ESMA study concluded over a decade ago that there is no indication of market failure.

That report led to the foundation of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis, a self-regulatory framework based on service quality, conflicts of interest, and communication. Providers report annually against these principles, and since 2020, compliance has been overseen by an independent Best Practice Principles Oversight Committee (BPP OC). The BPP OC is multi-stakeholder and includes issuer representatives.

This monitored self-regulatory model avoids the disadvantages of hard-law regulation. It enables signatories to describe how the principles are followed, allowing them to go beyond merely what is required, providing more transparency to the market. Feedback from the BPP OC also supports improvements in disclosure. In addition, the monitored

approach provides an accountability mechanism for reporting standards and adherence to what signatories disclose.

This approach has proven successful. As a 2023 ESMA report stated, "'monitored self-regulation' should be maintained". PIRC fully agrees with this conclusion. In its latest annual report, the BPP OC has also noted that improvements in reporting continue to be made. As a signatory, PIRC values the feedback we receive and continuously seeks to improve our reporting.

The alternative approach comes with considerable downsides, especially to shareholders. Introducing hard-law regulation on the basis of an unsubstantiated claim of market failure would be unwarranted and would run counter to the EU's objective of simplifying the regulatory framework. The additional costs could lead to less competition within the market and reduce the diversity of research methodologies and voting policies available to investors. Increased compliance costs could also divert resources away from innovation and serving clients, and lead to higher costs for investors. The result would be a weaker proxy advisory sector and a diminished service for investors, potentially leading to weaker governance outcomes that could impact investor confidence and their ability to exercise their shareholder rights. Ultimately, this outcome would cut across the Commission's objective of promoting economic growth.