

**27 June 2007**

## **Industry framework on voting disclosure published**

The Institutional Shareholders' Committee (ISC) has today published a framework on voting disclosure (the Framework) designed to help UK institutions develop policies on the public disclosure of votes.

The Framework sets out how disclosure can be achieved in a flexible and cost-effective manner. The ISC believes that a non-prescriptive approach will encourage greater public disclosure. The Framework sets out a 'comply or explain' approach whereby if institutions eventually conclude that disclosure is not appropriate, they should explain publicly why they have taken this view.

The ISC is confident that this initiative will help institutional shareholders build on the significant levels of public voting disclosure achieved to date. Already disclosures are made in respect of £340 billion of UK equities held by UK institutions.

The rate of increase in publication of voting records has been impressive. In 2003, only 2 fund managers disclosed voting information on their websites. A year later this had risen to 10, and by the end of June 2006 it had risen to 15 firms and at least one more has started making disclosures since. These disclosures are in respect of a wide variety of funds, including pensions and other collective investments and represent just over half of all equities held by UK institutional shareholders.

Jeremy Tigue, Chairman of the ISC, said:

*"There is increasing interest in voting disclosure and the ISC is asking UK institutional shareholders to consider these issues carefully and to make voluntary disclosures where possible. The Framework will help them in this task.*

*A lot has already been achieved. From a low baseline only a few years ago, information on voting is now being published in respect of £340 billion of UK equities managed by UK institutional investors.*

*This represents 53% of the UK stocks held by UK institutional investors and is a significant achievement, particularly given that it has been achieved in such a short time. However, I anticipate that the Framework will help further increases to be delivered in the future."*

**-ends-**

## **Notes to editors**

The Institutional Shareholders' Committee (ISC) is comprised of the Association of British Insurers (ABI), The Association of Investment Companies (AIC), The Investment Management Association (IMA) and The National Association of Pension Funds (NAPF).

The full "Institutional Shareholders' Committee framework on voting disclosure" is attached.

A government response to the Framework from Ed Balls MP, Economic Secretary is also attached.

The ISC's Statement of Principles on Shareholder Engagement now covers the need for UK institutions to develop a policy on voting disclosure. The ISC therefore anticipates that this matter will be reviewed as part of institutions' regular reviews of their engagement policies.

The framework will be sent to the members of the ISC's constituent bodies and is also available on the ISC website at: [www.institutionalshareholderscommittee.org.uk](http://www.institutionalshareholderscommittee.org.uk)

Further details of the role of the ISC and its constituent members can be found on the website.

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## **Institutional Shareholders' Committee framework on voting disclosure**

The Institutional Shareholders' Committee (ISC) recognises the interest in the disclosure of information on voting and that such disclosure is becoming increasingly common.

The ultimate responsibility for voting rests with the beneficial owners of shares or their delegated representatives, for example, trustees of defined benefit pension schemes or boards of investment trusts. It is therefore the beneficial owners, and their representatives, rather than the fund managers who act as their agents, who should decide on their voting disclosure policy.

However, it is common practice for the beneficial owners or their representatives to delegate voting to their fund managers. Where fund managers are acting as agents in this way, they will require authorisation before making disclosures.

Fund managers already follow the ISC recommendation that they should disclose their voting decisions to wholesale clients. It is also best practice for them to disclose to retail clients and beneficiaries if the information is requested.

As regards making information on voting public, the ISC supports a voluntary approach which takes account of the overarching fiduciary obligation of institutional shareholders and their agents to act in the interests of beneficiaries. This allows them to take a considered view of the benefits of disclosure and gives them flexibility so that any disclosure made can be tailored to suit the needs of their stakeholders and be achieved without excessive cost and compliance burdens. Institutional shareholders or their agents who have chosen to disclose publicly may perceive benefits including an improved understanding by retail customers and beneficiaries of institutions' stewardship of their investments.

On this basis, voluntary public disclosure is generally desirable, although it may not be appropriate in all cases. For instance, where institutional shareholders or their agents have a policy to disclose, they should provide explanations of any exceptions where they consider disclosure to be inappropriate. Where their overall approach is not to disclose, the ISC recommends that they provide a reasoned explanation of that policy.

### **The current situation**

Significant levels of disclosure are now being made. Public disclosure of votes is now being made in respect of £340 billion of UK equities managed by UK institutional investors. This includes disclosures by 16 major fund managers. The ISC is aware that other institutions are also considering disclosure and anticipates that further disclosure will be made on a voluntary basis in due course. (This compares with 30<sup>th</sup> June 2002 when only 2 institutions were making public disclosures.)

Overseas investors, who may not normally disclose voting decisions, represent an increasing proportion of UK equity ownership.

## **Developing and publishing a policy on disclosure**

This framework should be read in conjunction with the ISC's Statement of Principles on the Responsibilities of Institutional Shareholders and Agents. The 'Statement of Principles', first published in 2002 and subsequently updated, refers to public disclosure of votes. It says that institutional shareholders and their agents should have a published policy on engagement with investee companies, which should include reference to their policy on public disclosure of votes. This policy should be published and regularly reviewed.

### **Method of disclosure**

The most cost effective method of disclosure will normally involve publishing voting information on a website, which is accessible to the public.

This framework is not intended to be prescriptive and institutional shareholders and their agents have significant flexibility to determine how they approach this matter. For example, Institutions may chose only to publish details of individual votes where they have departed from their published voting policy. Alternatively, institutions may choose to disclose their voting on each and every vote. The precise method of public disclosure is a matter for each institution.

Also, given the complexity of the voting chain, it is likely that any disclosure made will relate to voting instructions given rather than votes actually cast. In addition, disclosing voting instructions may make it easier to justify disclosure on a cost benefit basis. It is reasonable for those viewing disclosures of voting instructions to assume that, where a poll was taken, the votes were counted as intended.

The ISC believes voting disclosure must not jeopardise the creation of value through engagement with investee companies. With this in mind, it is appropriate that disclosure should take place only after the relevant general meeting and a time lag in publishing information on voting will be appropriate. This may also reduce risks of inappropriate pressure from special interest groups whose objectives are not aligned with those of clients and/or beneficiaries.

### **What is disclosed**

Information on voting need only be disclosed once. Where voting is delegated representatives of beneficial owners need not replicate disclosures made by the fund manager, or other third party, unless they choose to override them.

Where fund managers offer several different products to their clients it should be sufficient for fund managers to make aggregate disclosure of voting instructions given according to the issuer of the shares without specifying the clients whose shares they have voted, the number of shares in respect of which instructions were given, or the product/scheme that holds the related shares. Such disclosures will give a clear picture of the institution's policy. This approach may reduce the potential problems in relation to their fiduciary duties and reduce costs while still giving a clear picture of its approach to the issues on which votes are sought.

## **Review of disclosure policy**

Institutional investors should review their policy on voting disclosure on a regular basis. The ISC anticipates that this would be done as part of the wider review of the policy on engagement.

ISC member associations will monitor progress under this framework and report back to their members.

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June 2007

Dear *Jeremy*

#### **DISCLOSURE OF VOTING**

Thank you for submitting the ISC framework on voting disclosure. This is an important step towards greater transparency. The Government believes that encouraging UK institutional shareholders to disclose how they have voted their shares is vital to improving the efficiency of the investment chain and boosting UK productivity.

The ISC framework fulfils our shared preference for industry to adopt an effective voluntary 'comply or explain' code of practice, and I encourage all members of the ISC to consider its recommendations seriously.

Ultimately, the framework can only be judged on its effectiveness once implemented. I would therefore be grateful if the ISC could keep the success of the framework under review, with a first report starting after the first year of operation, in Autumn 2008, and publish annual statistics on compliance.

Yours sincerely,

**ED BALLS MP**