

The ECGS is a partnership of independent local market experts which have come together to provide specialist governance research and proxy voting advice, offering institutions access to unrivalled experience on corporate governance and responsible investment issues. The Managing Partner of ECGS is Proxinvest based in Paris. Other active ECGS Partners are DSW (Düsseldorf), Ethos Services (Geneva), Shareholder Support (Rotterdam). ECGS also employs local governance experts in Rome, Montréal and Melbourne. The ECGS acts solely in the interest of all shareholders and is free of conflicts of interests in the production and sale of its advisory services.

We appreciate the opportunity to express our views and remain available for further discussion on our proposals. Please do not hesitate to contact Pierre-Henri Leroy or Laureen Tessier by phone +33 (0)1 45 51 50 43 or email p.h.leroy@proxinvest.fr

ECGS fully supported the 2010 UK stewardship code presented by FRC and having considered the proposed revisions of the definitions of Stewardship, its purpose and the recommendations of the revised Code, Ecgs generally considers that the new wording is superior and that the respective responsibilities of investors have been correctly described.

Principle 1

The definition of stewardship

5. The FRC is aware that there is some confusion in the UK market and overseas as to what “stewardship” means. For example, there is a perception in some quarters that the Stewardship Code is solely concerned with socially responsible investment. The proposed revisions in the introductory sections and in the guidance to Principle 1 are intended to clarify what is meant by stewardship, its purpose and how it relates to governance.

ECGS certainly support the given definition of Stewardship.

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, remuneration and corporate governance, as well as voting. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

In our view, Stewardship must start by responsible ownership which means voting on all the shares held by asset managers and asset owners.

Principle 2

On conflicts of interest it is certainly better to promote an effective policy, rather than only robust policy, on managing conflicts of interest.

Good stewardship can indeed not be satisfied when a plain management of the conflicts of interest allows to act in the interest of the financial group while eventually betraying the interests of the clients or beneficiaries.

We therefore support the new requirement to “take all reasonable steps to put the interests of their client or beneficiary first and address how matters are handled when the interests of clients or beneficiaries differ”.

Principle 3

ECGS appreciates the improved definition of proper monitoring and the specific mention including to “identify problems at an early stage problems that may result in a significant loss in investment value.”

Principle 4

In the escalation process ECGS supports the explicit inclusion of the remuneration issue within the instances when institutional investors may want to intervene include when they have concerns.

ECGS certainly welcomes that discussions take place on a confidential basis between the investor and the issuer, however we question why such confidential discussion should be made a compulsory prerequisite of any one of the moves suggested: holding additional meetings, expressing concerns through the company’s advisers, meeting with the chairman, or directors; intervening jointly with other institutions on particular issues, making a public statement in advance of escalation... The current wording actually prohibits late-coming investors to join any step if they have not held discussions take place on a confidential basis. ECGS therefore recommends this to be presented as a recommendation or a must only for the initiator of such escalation.

Within the suggested possible escalation steps ECGS considers that meeting with any or all independent directors should be suggested instead of meeting only with all independent directors, which is a difficult objective and which should not appear as a must.

In this paragraph we recommend further as mentioned in 2010 to include some explicit mention of possible redress court actions. As mentioned in 2010, ECGS believes that taking legal action is a valid and sometimes necessary tool for investors when companies commit or committed damageable actions that breach the law and are against shareholders’ interests.

Principle 5 Collective engagement

12. Many statements by Code signatories on collective engagement focus only on membership of collective bodies. While this is welcome, it skirts round the main reason for this principle, which is to establish whether the signatory is willing and able to join forces with other investors at critical moments.

Institutional investors should be willing to act collectively with other investors where appropriate. ECGS appreciates the replacement of Collaborative engagement by Collective an the excellent explicit suggestion of “readiness to work with other investors through formal

and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. “

In our view, collective engagement is a crucial tool in improving corporate governance and companies' sustainable behavior. Actions conducted with investee companies from various countries, outside the investor's market should be encouraged. In addition, collaborative engagement should be certified by independent service providers, especially when asset owners or asset managers do not wish to disclose the names of the companies they have been engaging with or the various markets in which engagement has been conducted.

Principle 6

This excellent principle on voting and disclosure of voting activity includes a recommendation that “Institutional investors should disclose publicly voting records”

At ECGS we publish fully our voting advices resolution by resolution in line with this requirement. We observe that very few investors including signatories of the Stewardship code have been complying with this recommendation

ECGS believes that disclosure on the voting recommendations made should be mandatory for all categories: asset owners, asset managers and service providers. In addition, the voting disclosure should not only be based on UK investee companies but on every meeting that has been voted. The voting recommendations should be publicly available on a quarterly or yearly basis.

ECGS observes that some issuer groups have successfully stressed concerns about the impact of proxy agencies notably in France and at the European level (ESMA) At ECGS we consider as normal and appropriate that many investors appears to vote in line with voting advices received from proxy voting agencies and the issuer statement about investors being uncritical in following the recommendation of proxy advisors have not criticized these investors when for years, before the existence of proxy advisors they were uncritical in following the recommendation of the companies' boards, when this was conflicting with their own engagement activities.

As a proxy voting advisers, ECGS develops common voting policy principles which are publicly available. However, as ECGS also provides custom voting advice in line with client-specific policies, in such cases the voting recommendations often diverges from the advisory firm's voting policy. ECGS insures the coverage of the 500 largest companies in Europe for its client's base of institutional investors including funds, asset management companies, insurance companies, and individual shareholders associations.

While proxy advisors are made to analyze and inform, rather than substitute for investors, good stewardship should encourage the use of efficient service providers and should tend to reduce undue administrative or consultation burden on these independent analysts, in order to limit the cost of proper monitoring and voting.

ECGS members do not provide consulting services to issuers because a proxy advisory firm cannot serve both sides: the issuer management and the investors. ECGS believes that the improvement of the disclosure of conflicts of interests in each report is a must (not only existing contracts but also solicitation for contracts). The potentiality of a contract with an issuer is in itself a source of conflict of interest.

We believe further that investor in order to benefit from the best advisory service should be cautious about the conflicting situation of some professional association or private independent firm , providing proxy voting advice when the analyst group is reporting to or contracting with issuers covered by the voting advice.

Finally, on stock lending, ECGS fully approves the FRC to add a reference to stock lending to the Code. ECGS believes that the Stewardship Code properly defines recalling stock for voting purposes as best practice.

As independent voting advisors to institutional investors, we have been witnessing, since many years, the conflict of interests created by the share lending income opportunity at the time of the AGM proxy voting record date. Some major institutional shareholders have admitted not to exercise the voting right in order to maximize portfolio income, a practice which appears to maximize short term gains at the expense of corporate control.

Instead of allowing investors and companies to be the victims of rogue behaviour of a minority of operators, ECGS considers that the borrowing party and its intermediaries should also be exposed to the burden of any diligence requirements thereby making the borrowing more expensive for them. A minor side effect which many would consider as positive would be to somehow discourage short lending and dividend tax arbitrage.

JULY 12 2012