LCP's response to the Vote Reporting Group's Consultation

21 September 2023

This document sets out LCP's response to the Vote Reporting Group's (VRG) consultation published by the Financial Conduct Authority on 21 June 2023.

Who we are

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have around 1,000 people in the UK, including 160 partners and over 300 qualified actuaries.

The provision of actuarial, investment, covenant, governance, pensions administration, benefits advice, and directly related services, is our core business. About 80% of our work is advising trustees and employers on all aspects of their pension arrangements. The remaining 20% relates to investment consulting work for other asset owners, insurance consulting, energy, health and business analytics. LCP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

Our specialist Investment and DC practices advise on over £330bn in assets, across around 300 clients. The clients we advise range in size from under £10m to tens of billions of pounds. These clients have a range of needs from an effective vote reporting system: while the largest direct their own voting, most will rely on their investment managers' judgement and policies to execute their votes.

But current disclosure arrangements do not allow them to hold their managers accountable.

How these proposals might help our clients

We welcome the proposals laid out in the consultation.

Stewardship has long been an overlooked aspect of investing. However, the industry, and our clients in particular, now recognise more clearly than ever the role that effective stewardship can and must play in addressing systemic issues such as climate change and biodiversity loss.

The Department for Work and Pensions' (DWP) June 2022 guidance "Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement" has also helped to emphasise the need for enhanced practice in this area for pension trustee clients. But our experience in helping our clients to meet the new guidance has also exposed creaking stewardship reporting infrastructure, a situation which reflects a chronic lack of investment in the area.

We believe that the proposals can lead to the following outcomes:

Enhanced quality – While initiatives including the PLSA's[1] Vote Reporting Template have improved access to voting data for our pension trustee clients, important gaps remain. If successful, the VRG's proposals have the potential to markedly increase the availability of such data for our clients, improve the consistency of reporting between managers, generate much richer voting datasets, and in doing so, provide a much deeper understanding of the stewardship activity taking place.

Improved efficiency – The current modes of generating, disseminating and aggregating voting data multiply at every stage, as managers produce reporting for many data users, with those data users aggregating data from many

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[1] Pensions and Lifetime Savings Association

managers, each doing the same work to adjust for inconsistencies. Done right, these proposals can near eliminate that duplication and improve consistency, freeing up resources for more productive activity.

Better stewardship – Overall, we believe that the proposals will give our clients better data and more resources to hold to account those who carry out stewardship activity on their behalf and allow them to focus on improving stewardship outcomes.

However, we think the proposals can be developed further.

Our vision for the future

The proposals are a starting point, but we believe that they should go further to embrace technology and that, taken to their logical conclusion, they have the potential to transform the industry's approach to stewardship reporting.

Within our response, we outline how we would develop the proposals in two main ways:

1. **Developing the 'template' as a data standard**

   Whereas a template specifies the structure and format for data reporting, a data standard specifies the structure, format, representation, and definitions of the data itself.

   Successful implementation of a data standard, instead of what had been envisaged as a template, would mean that what might otherwise involve the transfer and management of data in an individual file per fund, can instead be automated into data flows between databases.

   This would result in improved data integrity, especially when combined with our second proposal. It would also, in a stroke, remove the multiplication of effort associated with the management of template files.

2. **Developing a registry as a 'single source of truth' for managers' voting data**

The proposals envisage the creation of a public registry. While we believe aspects of this proposal have merit, we see the proposed role as being too limited. In our response to question 27, we outline two options for implementing a registry or registries, which aim to fully realise the potential of modern technology for this purpose.

A data standard would markedly improve the consistency and fidelity of data held by each manager. However, even with such a standard, there are key aspects for which there is a single true value (eg the title of the resolution, its proponent and the management recommendation), but which each manager would input itself under these proposals. A 'single source of truth', which communicates the true values for use by all managers, combined with a data standard, would ensure maximal consistency between managers, maximising useability, and minimising the additional work required to standardise out small differences in reporting of the same values.

Rather than the role for a public registry as a simple repository for documents which is envisaged by the proposals, a registry could and should act as a central voting database in order to fully realise the spirit of these proposals.

We would like to see rapid progress on these important proposals and would not want the more ambitious aspects to cause delays. Therefore, we advocate the progression of the data standard as quickly as possible, with the registry being progressed in parallel or following on. However, we note that over the longer term, these projects should be closely linked.

We are pleased to respond to this important consultation and are happy to be quoted in the Vote Reporting Group's response.

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LCP's response to the consultation questions

Q1: Do you have any comments on the proposed field 'Name of issuer'?

We believe data integrity is critical to ensuring the success of the project. We note that a free text field is likely to lead to inconsistencies, which we currently see regularly in holdings data. We already see examples such as "Accenture plc." versus "ACCENTURE PUBLIC LIMITED COMPANY" when comparing data provided by different managers.

However, if our recommendation to use widely recognised unique identifiers for firms (see Q5) is adopted, this is less likely to be a major issue.

Over the long term, we would like to see a role for the central repository in supplying values for fields which one would expect to be common between all submissions (see our response to Q31).

Q2: Do you have any comments on the proposed field 'meeting date'?

We believe the 'Meeting date' field format should specify use of ISO 8601 rather thank the UK-specific date format proposed. ISO 8601 is a worldwide standard which is precisely defined and eliminates ambiguity, for example between European and American representations. Any user's software can then render it to the appropriate format based on user's location settings.

Q3: Do you have any comments on the proposed field 'meeting type'?

No comments.

Q4: Do you have any further comments on the proposed field 'country'?

We believe that the 'Country' field should specify use of the internationally recognised ISO 3166 country codes standard. This represents best practice for recording data in this category and ensures consistency between users.

Q5: Do you have any comments on which reporting identifier should be used in the vote reporting template?

We view the proposed field name 'Reporting identifier' as being unclear. We would prefer a field name of 'Issuer identifier', which better reflects what is expected to be reported.

The identifier provided in this field will be critical to the usefulness of the data provided. We therefore propose that it should be subject to more stringent data validation than the proposed free text approach. Our preferred approach is to specify use of a unique, globally recognised identifier, for which the International Securities Identification Number (ISIN) is likely to be the most appropriate given its universal use for equity securities.

Q6: Do you have any suggestions on a suitable resolution identifier?

We recognise that the way in which resolutions are labelled can differ between companies and between jurisdictions. Therefore, the approach of using an alphanumeric list to validate the response may have merit, in helping to avoid some of the differences in format that might arise from a free-text response (eg 1a versus 1.a.).

We suggest that this value is supported by an additional field which reports the number of the resolution corresponding to its order in the company circular, and for which integers are the only valid input, with a single instance of each integer value per AGM.

We note that the reference to a 'drop down alpha-numeric code' appears to envisage manual data entry. Our preference is that the output of this consultation should be a data standard. We explore this further in our response to Q31 ("Developing a data standard, rather than a 'template'").

This is a field for which the expectation is that the response would be the same from all reporting providers. Please see our response to Q31 for our recommendation to address this.

Q7: Do you have any comments on the proposed field 'resolution title'?

The 'resolution title' field is useful for two main reasons: as an identifier for the resolution (as noted in the discussion under 3.37), and to provide some information about the resolution's content.

While the proposal for a free text field is necessary to incorporate the range of potential values, it is very likely to lead to inconsistent reporting between different managers; this is something we regularly see in current reporting. For example, we have seen the same resolution stated in the company's proxy statement as "Shareholder Proposal Requesting a Report on the Company's Operations in China" and reported by managers as "Report on Risks Related to Operations in China"; and "Shareholder Proposal Regarding Report on Corporate Operations with China". While each of these provides useful information allowing the resolution and its topic to be identified, this is likely to be inefficient to parse on a large scale.

We have an approach to allowing better identification of resolutions in our answer to question 6, whereby each item at a meeting is given a unique (for that meeting) integer value based on its position in the order listed on the company circular, proxy statement or equivalent. If our proposed approach is adopted, it will be less necessary for the resolution title to fulfil the role of identifier.

This is another field for which all managers which voted at a company meeting will be inputting the same data. The issues we outline above demonstrate how this is likely to make the resulting data less useful. We describe our desire for the creation of a service which can ensure consistency between common values in Q31.

Q8: Do you have any comments on the proposed field 'resolution type' or 'resolution category'?

We welcome the approach to categorising resolutions by type and restricting the range and values for responses to help ensure consistency.

However, in order to provide the most meaningful information to our clients, we would like to see more detailed resolution categories/types. For example, unbundling "Environment or climate" into "Climate", "Biodiversity" and "Other

environmental". We believe that this best reflects the way in which our clients will use this information, particularly in identifying votes which correspond with their stewardship priorities.

We do see a risk that different managers will construe the issue at hand in a vote differently from one another, particularly where the vote is on a shareholder resolution. This potential for inconsistency could be addressed by assigning the category centrally through a registry (see Q31).

Q9: Do you have any comments on the proposed field 'proponent' and the two field data options?

Reporting on the proponent for each resolution is essential to produce meaningful, useful data for our clients and therefore important to include.

This is a field for which the expectation is that the response would be the same from all reporting providers. Please see our response to Q31 for our recommendation to address this.

Q10: Do you have any comments on the proposed field 'company recommendation'?

Reporting on the company's recommendation for each resolution is essential for meaningful, useful data for our clients and therefore important to include.

This a field for which the expectation is that the response would be the same from all reporting providers. Please see our response to Q31 for our recommendation to address this.

Q11: Do you have any comments on the proposed field 'asset manager instruction'?

This field would benefit from clarification as to what value is meant to be reported. We would like to ensure that all potential voting opportunities are captured in managers' responses, and a distinction made between the vote that the manager submitted and whether the vote was successfully executed.

We suggest that the field should be relabelled as 'Vote successfully submitted', so that it is clear that the reporting reflects what was actually executed.

A further option of "No instruction submitted" should be included to enable asset owners to understand where their voting rights have not been exercised. Ideally this would be supported by an additional field with standardised rationales to indicate why the manager did not vote (eg 'ineligible – insufficient holding period', 'out on loan', 'ineligible – late filing').

We note that there can be confusion over the term 'eligible', where for example an inability or failure to complete the relevant paperwork can result in a shareholder being 'ineligible' to vote. Requiring reporting on votes for which the manager was 'eligible' to vote therefore misses votes not submitted in such circumstances.

To address this, supporting guidance should clarify that the field should be completed for all "voting opportunities". Within this definition, we would include all votes in which the security held by the portfolio nominally entitles the owner to voting rights, regardless of the specific circumstances in which the security was held, including where it was out on loan.

Managers will naturally need to complete separate submissions where voting behaviour was different for part of their portfolio. This is a further rationale for an additional field reporting % fund / mandate AUM to which the vote relates.

Q12: Do you agree with the proposed principles set out in 3.28 for when a vote rationale is required?

We are concerned that the proposal to require both standardised and narrative rationales for all votes that meet the given criteria, regardless of company size, is significantly more activity than even managers with relatively high levels of disclosure typically undertake at present.

While standard rationales should be relatively straightforward and therefore applicable to all companies, we suggest that narrative rationales should only be expected where holdings meet some minimum threshold, eg representing some minimum percentage of the fund's assets.

However, we also would not like the minimum requirements to deter managers from disclosing as much as they are able to. Therefore, any accompanying guidance should clarify that managers may submit rationales for votes which do not meet the criteria.

With regard to the specific criteria suggested, we believe these are mostly sensible and agree they are useful. However, "change of company strategy" could be construed differently by different managers. We therefore propose that any supporting guidance should include a clear definition, or at a minimum, positive and negative indicators, of what constitutes a resolution which seeks to change a company strategy.

Alternatively, since 'Resolution category' is a field for which the expectation is that the response would be the same from all reporting providers, we believe a centralised approach may be more appropriate. Please see our response to Q31 for our proposals in this regard.

Q13: What is your preference for the level of disclosure in the field 'standardised rationale category'?

Voting rationales reported by managers at present are often short and uninformative. We therefore see the introduction of standard rationales for reporting as an important step toward giving our clients the transparency they need to provide effective oversight.

However, none of the three options presented in para 3.23 would provide sufficient flexibility for managers to report fully on the issues which influenced their decision.

Increasingly, shareholder resolutions in particular raise a range of complex issues, such that there may well be three or more factors affecting a manager's voting decision. We would like managers to be able to demonstrate all of the most important factors they considered in deciding their vote, rather than a limited subset.

We therefore see it as important:

a) To provide a larger range of more specific standardised rationale categories; and
b) For managers to be able to choose as many categories as they wish within the 'standardised rationale category' field.

We do not see a need for managers to report the weight given to each rationale category.

Q14: Do you have any suggestions on what categories should be included in the field 'standardised rationale category'?

We do not have any suggestions on what categories should be included in the field 'standardised rationale category'.

Q15: Do you have any comments on the proposed 'narrative rationale' field?

Within the proposed framework, narrative rationales will be important to allow users to more fully understand how managers have arrived at their voting decisions. This is necessary because the current proposals for standardised rationale categories, even if expanded by our proposal for more detailed categories (see response to Q13), will provide a thematic perspective (eg 'climate', 'biodiversity') but not directional or qualitative perspectives (eg 'targets are insufficiently ambitious').

In practice there is some level of standardisation within the narrative rationales currently being reported by managers, particularly where their vote is in line with the management recommendation. And indeed, we acknowledge that given the number of votes which take place every year, some level of automation is likely to be necessary within the rationale reporting process, and therefore whatever additional information is requested through this field must be able to operate at scale.

However, we regularly see managers reporting rationales of the form 'Not in the interests of shareholders' or similar. This does not provide useful information for our clients to understand the issues at stake or how these have been considered by the manager in arriving at their voting decision. We see this project as an opportunity to improve the quality and not just quantity of rationales provided.

Small additions to current wording, particularly in rationales commonly used by managers to justify voting against shareholder resolutions, could significantly enhance their usefulness, without adding a substantial burden. For example, by providing a one- or two-word expansion to existing wording.

As noted in our response to Q12, we believe there should be some minimum criteria to indicate which votes should be supported by a narrative rationale. This serves to reduce the overall burden on managers, which hopefully will mean that managers are not deterred from completing the template, and that when they do, their responses are higher quality.

Q16: Do you agree with the approach of including standard data and free text box fields for the field 'is the vote decision in line with voting policy'?

Following the introduction of the DWP's stewardship guidance in June 2022, our pension trustee clients are expected to consider whether voting behaviour has been in line with the policy in place but there is not currently an adequate mechanism to allow them to do so efficiently. The inclusion of this field will serve this purpose.

However, the wording of the question is ambiguous in its current form. For example, managers will often have detailed policies which are interpreted by proxy advisers when they advise on each vote, but managers also often have higher level policies which lay out principles for making decisions, which can allow wide discretion in the vote that is cast. For example, a manager's high-level voting policy may allow discretion where the manager has reason to believe that an issue will be resolved shortly after the date of the vote.

We believe this field is intended to capture instances where managers have exercised discretion in this way; and times when the vote executed was wholly out of line with the manager's policies (eg through error). We therefore recommend that this field is supported by more specific guidance on the circumstances in which a manager should answer "no".

Relatedly, it would be beneficial to separate the responses captured by this field into two elements: a Yes/No response; and an optional free text response which can be used to explain 'No' responses.

Q17: Do you have any comments on the field 'what type of engagement with the issuer is linked to the vote decision'?

Voting should rightly be considered as one part only of a broader process of engagement with a company. Attempting to ascertain further information about the engagement process undertaken by the manager in the lead up to a particular vote is therefore likely to help our clients better understand the scope of stewardship activity being undertaken on their behalf.

As currently conceived, this field does not provide information about the extent to which a topic has been raised with a company through each of the engagement methods listed. For example, the manager might have had one or more meetings devoted to a single engagement topic, or the same topic might have formed only

a small part of the agenda at a single meeting, and this difference would not be captured. Nonetheless, we support inclusion of this field given the importance to asset owners of understanding the link between voting and engagement.

Two changes would improve the data collected through the proposed field:

- Clarification in any supporting guidance that the activity being reported should relate to engagement undertaken prior to the vote only. This ensures that users can compare like for like.

- An optional free text field should be included to allow managers to provide additional information about their engagement activity where they wish to do so.

Q18: Do you have any further comments on the proposed fields for the vote reporting template?

In addition to the changes we have proposed in response to other questions, we believe these three additional fields would be useful:

'Manager name'. Free text alphanumeric field, with supporting guidance indicating that managers should put measures in place to ensure that a consistent name is used for their entries, eg such that entries are always "Manager Name", rather than "Manager Name Investment Management", "Manager Name Ltd.", or "MN".

Currently, the proposals do not provide any means for identifying the manager to which the voting data relates. Including this field ensures that this contextual information is always present in the dataset. This will be critical if our proposal for a registry is adopted.

'Fund identifier'. A unique identifier (eg fund ISIN) specifying the fund holding the assets for which the voting data is being reported.

Currently, the proposals also do not provide any means for identifying the fund / mandate to which the voting data relates. Including this field ensures that this contextual information is always present in the dataset. This will be critical if our proposal for a registry is adopted.

'Voting policy identifier'. A unique identifier indicating the voting policy used. We expect components of this identifier would include a manager identifier, a proxy adviser identifier (or null indicator), and a unique element to identify a specific policy.

While this field is most useful for providing meaningful results in respect of client-led voting policies, such an identifier would be useful for users to understand exactly which policy was applied, to compare results from policies which have managers or proxy advisers in common.

'% AUM in the fund / mandate to which the reporting relates'. As suggested in para 3.48, and as we note later in our response to Q22, reporting the % AUM to which the reported data relates in respect of each company would help all clients, not just those using a non-standard voting policy, to contextualize the responses provided.

'What next steps have been taken or are planned?' with valid responses: 'Engagement', 'Monitoring of company actions', 'Other', 'None', and free for optional additional detail.

Our pension trustee clients are expected to state what actions have been taken or are planned when reporting their own 'most significant votes' in their annual implementation statement. The addition of this field would make this information easier for our clients to obtain. It would also allow our clients to better hold managers to account for their proposed actions.

'Vote considered significant?' with valid responses 'Yes', 'No'.

Our pension trustee clients are required to report what they consider to be their 'most significant votes' in their annual implementation statement. Managers are well placed to identify more significant votes, and we believe that their judgement will be useful in helping trustees to identify the votes which they themselves consider most significant for their scheme.

We note that this classification would be more useful for asset owners if done at fund level rather than at the manager firmwide level (otherwise a vote might be flagged as significant in a fund with only a small holding, or a fund may have very few votes identified as significant) but recognise this would likely be challenging for asset managers to provide.

Q19: Do you agree the vote reporting template should adopt a quarterly vote reporting frequency?

As we lay out in our response to Q31, we believe that the project is better conceived as the creation of a data standard, such that all managers choose to maintain data in consistent formats which can be transferred over APIs[2] and reported on flexibly, potentially in real time. In this conception, a manager could simply run a report for any required period or set up an API so that external users, including a centralised database, could do this themselves. This would also help to accommodate eg clients with 5 April year ends, who otherwise have to wait over 3 months for 5 days of data on a quarterly reporting cycle.

If for some reason this is deemed impractical, we think reporting of annual data on a quarterly basis is likely to best accommodate our clients' needs. This reflects that clients typically operate on a quarterly cycle, with most scheme years (and therefore annual reporting periods) ending at the end of a quarter.

Q20: Do you have any further comments on the frequency of vote reporting for the vote reporting template?

If the 'data standard' approach we are advocating is adopted, guidance should be provided on the timescales within which data should be ready for reporting following each vote. We defer to asset managers on what timescales are likely to be practical.

Similarly, within the 'template' framework, some expectations should be published for the availability of data following the end of each quarter. This should be no more than 3 months following quarter end, and ideally no more than one month.

Q21: Do you have any comments on how client-led voting should be reflected in the vote reporting template?

Client-led voting can take a range of forms. While most asset owners rely on their managers' policies, the largest schemes typically take ownership of their own voting, deciding how each vote is cast. In these cases, the asset owner will be able to clearly identify how their voting matched their policy.

However, the awareness of the potential impact of effective stewardship has grown significantly in recent years and will continue to do so. As part of this process, asset owners are increasingly likely to want to take greater ownership of voting decisions for their assets. Given resource constraints, few asset owners will likely want to consider each vote themselves and so some will instead formulate a bespoke voting policy to be implemented by their asset managers, or select a non-standard voting policy from options made available by the asset manager(s). In such cases, the asset owner will not know (without additional reporting) how each vote has been cast. While relatively few schemes do this currently, we believe this will become more common and therefore any approach to vote reporting should consider this likely development. Improved reporting from managers will be critical for these asset owners to meet their own reporting obligations.

As noted above and laid out in our response to Q31, we believe that the project is better conceived as the creation of a data standard, such that all managers choose to maintain data in a consistent format. In this conception, and following our other recommendations, particularly with regard to reporting on % AUM relating to each vote (Q18), managers should already be holding the relevant data in a format that is robust in those instances where reporting on how voting on a non-standard policy has been conducted.

As we note in response to Q18, our proposals imply the need for at least three further definitions or 'fields': 'Manager name'; 'Voting policy identifier'; and a 'Fund identifier'. This would ensure that the data retains meaning outside the

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[2] API = Application Programming Interface, a mechanism that enables two software components to communicate with each other using a set of definitions and protocols.

specific context of having been provided by a particular manager in response to a request about a specific fund or mandate.

The focus of the exercise should be to produce a viable reporting standard as quickly as possible. However, while some respondents may argue that this requires a sole focus on the main use case for this reporting, we believe that making the standard robust to the situation laid out above requires limited additional effort and is unlikely to delay implementation.

Q22: Do you have other views on how the Group seek to address the development of client-led voting?

As noted in our response to previous questions, we support the suggested extra field on %AUM in the fund / mandate to which a vote relates (per para 3.48 of the consultation).

We also suggest an additional field to show the percentage of the holding that has voted in a particular way. This should be as a percentage of the overall holding of that security for the fund (eg an entry of "80%" where the vote being reported was made in respect of 4% of fund AUM and the total holding is 5% of fund AUM. Nb: we would expect at least one more entry in the data relating to the same resolution showing how the other 20% voted – where the voting rationale may, for example, explain that this was directed by a client using split-voting.

That would also allow us to better understand the extent to which a manager's influence has been weakened by allowing its votes to be split, which is an important factor for us in measuring the effectiveness of a manager's stewardship.

Q23: Do you agree with the approach to pre-disclosed voting intentions?

Pre-disclosure can be an important part of the engagement strategy for some managers, and there are clear examples where pre-disclosure has been effective in changing a company's approach.

Reporting pre-disclosure comes with a number of complexities, such as what exactly counts as pre-disclosure (eg on a website which can be indexed by a search engine, public announcement, or something else), and contextualising information to allow managers to communicate factors such as late-stage negotiations with the company, which might have caused them to delay

announcing their vote. We are also aware that some managers feel compelled by regulation, or by their approach to engagement with companies, not to pre-disclose votes.

Given these complexities and the potential for delaying the project while these issues are satisfactorily worked out, we agree that pre-disclosure should be kept out of scope of this exercise.

Q24: Do you have any further comments on the approach to pre-disclosed voting intentions?

We do not have any further comments on the approach to pre-disclosed voting intentions.

Q25: Do you have any comments on the ownership of the vote reporting template?

We note the ownership structure proposed in the consultation document. We believe it is worth exploring a range of different ownership and governance structures.

In our view, the key considerations will be to have appropriate representation of the main stakeholders, robust mechanism(s) to incorporate feedback from stakeholders, and effective decision-making on design and development decisions for the 'template' and registry.

We note that there are likely to be elements of the design and development processes for the template which impact choices made in respect of the registry and vice versa – the ownership and governance arrangements should be explicitly designed to reflect this.

Q26: Do you have any comments on how the oversight body could be established, the responsibilities of the body, and which organisations should be part of it?

We would like to see a corporate body established on a not-for-profit basis, with a requirement for representation of key stakeholder groups on its board, ie representation for asset owners (across a spectrum of sizes of investor); asset managers; investment consultants; and other service providers (eg proxy advisers, lawyers). The most pragmatic approach to this is likely to be to identify existing industry groups which represent each group.

The corporate body should be empowered to contract for services to aid in the development and maintenance of a data standard alongside a registry.

We note that existing organisations, such as proxy advisers, likely have skillsets which would align to the needs of this organisation, and by utilising the services of such firms, rather than 'reinventing the wheel', the ultimate product is likely to be operational over shorter timescales, cheaper and have better functionality. However, we see it as being important to contract in such a way that the service providers cannot entrench their position; they must ensure that any proposition built is 'portable' to a different provider.

Q27: Do you think that the vote reporting template should be publicly accessible?

Q27 and Q28 are very similar. We address two points below:

a) whether the contents of completed 'templates' should be made public; and
b) whether the 'template' itself should be made public.

In the first instance, we expect that the 'template' would be created in the absence of a registry (public or otherwise), in which case the standard, bilateral approach to data sharing between managers and other data users is likely to be applied to the 'template' data. For example, at present, data users, such as pension trustees or their consultants, request populated versions of the PLSA's vote reporting template from managers in respect of the relevant fund(s); the manager(s) provide(s) the completed template(s); data users would typically then populate their public reports with some of the data, but would not usually share the full dataset(s) publicly.

The process outlined above is clearly inefficient, both for the managers who must send the same information to many data users, and for data users, who must request information from many managers. We therefore support the creation of a registry to provide a single point of dissemination from the managers' perspective and aggregation from the data users' perspective.

If our proposal for the 'template' to be developed instead as a data standard is adopted (see our response to Q31), these transfers of data could be automated, and the data could be aggregated in a database open to advanced queries relevant to users' needs, rather than being retained in a very large set of individual files. This would be a step change in accessibility for data of this type.

Indeed, we see two potential models for a registry. The first is a single, centralised model, operated by a single provider or set of providers and funded by stakeholders through some combination of levies or subscriptions. The second is that, following the adoption of a data standard, a market for delivering these registry services may develop, such that companies offering these services compete on price and proposition. We have referred to 'registry' in the singular through our response, but the considerations we lay out are similar for both options.

While a registry could also, in principle, be made open to public access and to scrutiny from the widest possible range of stakeholders, we believe that on balance this is unlikely to be desirable. This is for two main reasons: cost, and the potential for undesirable impacts on reporting. It would also lead to a position inconsistent with the treatment of all other data of this type.

The setup and maintenance of a registry will incur costs. As we outline in our response to Q30, we believe that these costs should be shared in proportion to the benefit received from the public registry's operations. For managers, this benefit is mostly in the form of operational efficiencies. Data users would also see efficiency gains and in addition have an opportunity to innovate in their approach to monitoring managers and holding them accountable, and in communicating to members, clients or the wider public. As noted, we believe these benefits would justify the costs which we propose that these organisations should cover (see response to Q30).

However, we are concerned that opening the registry to the public for free would erode some of these benefits, and lead to a reduction in commitment to the project from key stakeholders. Firstly, a registry would need to anticipate a larger user base and therefore be funded to operate to serve that larger number of users (eg increased server space, helpline capacity) and likely through different mechanisms than would suffice for an arrangement that simply catered for the key groups of stakeholders (eg asset owners, asset managers, consultants). This would result either in higher costs or poorer service for the key stakeholders who we expect would fund the project. Secondly, significantly enhanced access relative to the current position may result in many additional queries to managers, dealing with which would require them either to increase resource or might spur them to cease contributing.

We are also concerned that making the disclosures available in the public domain might reduce the quality of disclosures made by managers, as they might naturally seek to avoid publishing anything that could be interpreted negatively. At the extreme, it might limit managers' willingness to participate in the project altogether. Both eventualities would result in poorer outcomes for data users.

We see no reason why the unpopulated 'template' should not be made public; indeed, we believe this is likely to lead to positive scrutiny and continuous improvement.

Q28: Do you have any comments on whether the template should or should not be publicly accessible?

Please see our answer to Q27.

Q29: Do you have any comments on the ownership of the public registry?

Please see our response to Q26.

Note that we expect that the design and development of a registry will be closely intertwined with that of the 'template'. Therefore, we believe that they should be considered together when determining the appropriate ownership structure.

Q30: Do you have any comments on the funding of the public registry?

A well-designed, well-run registry would benefit all key stakeholders: asset owners, asset managers, consultants; and in doing so ultimately benefit members and beneficiaries. The funding for a registry should be structured such that the costs are borne proportionally in line with these benefits.

We also see a shared financing approach as a means of ensuring that a registry develops in a way that serves all key user groups. We would be concerned that a less balanced funding model, for example relying simply on contributions from managers, would not only deter organisations from committing to the project, but also result in the end product being less suited to other users.

We believe that a financing mechanism constructed as an extension of existing industry levies (for example as an increase in the fees we, as consultants, pay to

the FCA) should result in the lowest administrative burden and create industry-wide buy-in.

We note that asset owners reasonably expect that managers' disclosure of voting information to them should, to a large extent, be covered by the charges that they already pay, and that any additional costs are ultimately borne by beneficiaries.

Q31: Do you have any further comments on the proposals laid out in this consultation?

Developing a data standard, rather than a 'template'

A template seeks to govern only the form of presentation for some underlying data. Although the need to present a prescribed set of information may lead one to redesign one's data architecture, this is a subsidiary effect, not a primary one. In contrast, a data standard concerns itself with the structure, format, and semantics of the data itself, ensuring consistency and interoperability across systems or platforms.

We outline below why we believe it is useful to think about data standards in the context of this consultation.

About data standards

Data standards are a set of guidelines that dictate how data should be stored, structured, and transferred. They serve as a common language that allows disparate systems to interpret and interact with each other, thereby promoting consistency and interoperability. These standards are prevalent across industries ranging from healthcare and finance to technology and government, ensuring that critical processes and information exchanges occur seamlessly and securely.

For instance, the eXtensible Business Reporting Language (XBRL) data standard is widely used for electronic communication of business and financial data. In the financial sector, the FIX (Financial Information eXchange) protocol sets the stage for real-time information sharing between asset managers, investment banks, and exchanges. Not only do data standards improve efficiency, but they also significantly improve data integrity and fidelity.

Open data standards, distinct from proprietary ones, are publicly accessible and freely usable. These can be particularly beneficial for fostering innovation and competition. Being open, they don't bind users to a specific technology or vendor, offering a level of flexibility often absent in closed, proprietary systems. Government data, for instance, often uses open standards to ensure transparency, enabling third-party developers to create applications that serve public needs. This approach neatly matches the intended use for the 'template' and therefore we propose that the 'template' should be reconceived as an open data standard.

Implications of a 'data standard' approach

Over the short term, it is likely that the 'template' will be developed as something like an Excel file, in the same way as other similar industry initiatives. Given the advantages of increasing the amount of data available in the short term, we see this as an appropriate stop-gap solution. However, file-based methods are deficient compared to a data standard which includes some data transfer protocol, in the following ways:

Flexibility: Pre-determined files (such as an Excel template) enforce a rigid structure, leaving little room for adaptability. In contrast, data standards are flexible and can evolve to meet changing needs.

Speed: File-based data transfer is slowed down by manual steps such as sending and importing, while real-time data exchange methods are generally quicker and more efficient.

Interoperability: While pre-determined files often require conversion tools or manual adjustments for integration, data standards simplify the process of system-to-system integration.

Scalability: Scaling up file-based methods involves added complexities like additional storage and handling, whereas adhering to data standards makes scalability straightforward.

Error Handling: File-based methods lack immediate feedback mechanisms for errors, while standards-based methods usually offer automated error feedback.

Security: Pre-determined files can be more vulnerable to unauthorised access during transfer. Data standards often employ advanced security protocols for safer transmission.

Version Control: Managing versions can become complex in file-based methods, but it is more straightforward when using data standards, which often have automatic version control built-in.

Data Integrity: There's a risk of data corruption or loss during manual file transfers, whereas methods adhering to data standards often include checksums to ensure data integrity.

Automation: File-based methods are often less conducive to automation, while methods based on data standards can easily integrate with automated workflows.

Auditability: Tracking changes and transactions is cumbersome in file-based methods, but standards-based methods typically include comprehensive logs, simplifying auditing.

Our proposal is therefore that, over the longer term, data experts from key stakeholders are convened to establish the extent to which existing data standards can be used and begin the development of a standard appropriate to this use case.

Ultimately, the 'template' would be populated by running a query on data compliant with the new data standard.

A role for a registry as a 'single source of truth'

As conceived in the VRG's proposals, the public registry seems to act as a repository for completed template documents. As we have noted in our responses above, many of the inputs to those template documents should be common across all managers with the same holding(s), but there is no proposed mechanism for managers to check their records against others to ensure consistency. This results in a triple loss: multiplicated effort across asset managers, inconsistencies in the data held by the registry, and multiplicated effort again at data users, as each individually manipulates the data to make it consistent.

A 'single source of truth', against which all managers can validate their inputs and therefore make consistent submissions, would have clear benefits. We propose that, over time, a registry should take on that role.

This implies a broader set of required functions from the registry and will likely have implications for which service providers are used. For example, the registry would need to have access to a source of data on all company meetings in advance of them taking place, including the resolution title, management recommendation, etc., and would ideally also, following the meeting, be able to obtain the result. All this would be done in a way that manager data can be validated in real time. Proxy advisers already offer services providing much of this information, and therefore may be best placed. However, the fees available for running the registry under our proposal (see our response to Q30) might attract new entrants to the market, focussed on the services which asset owners really need.

Our proposal for a developing a registry clearly also rests on the adoption of our proposal for the development of a data standard. Without this, it is very difficult to realise the full benefits of this model.

Necessary clarifications

We would like to ensure that the scope of the proposed 'template' is reflected in its development and clearly stated in any supporting guidance. In particular, we think the following clarifications would be useful:

-   That the template could and should be used for any portfolio which contains listed equities, including multi-asset portfolios of which equities might only be a small part.

-   That 'look-through' reporting is not required, ie where a fund holds another fund containing listed equities, it is expected that the top level fund would only report on equities held directly and not those in any underlying funds. Over time, implementation of a data standard and registry could make this feasible.

-   Where the manager gains equity exposure through holding instruments that may provide no right to vote, such as a derivative, the manager should provide information on the % of fund/mandate AUM (by exposure of the derivatives) that does not have voting rights.

-   We would like to see the FCA encourage investment managers to complete the voting data information for: all UK domiciled funds that hold listed equity securities; all segregated mandates holding listed equities managed by an FCA authorised investment manager; and for all non-UK funds where the sub-advisor is an FCA authorised firm.

Evolution of the 'template' and interaction with similar initiatives

The UK pensions and investment industry has introduced a number of stewardship data initiatives over recent years, of which the closest in scope to that proposed in this consultation is the PLSA's Vote Reporting Template. While the Vote Reporting Template is similar in scope, we do not think that the proposals in this consultation should immediately replace the Vote Reporting Template.

The PLSA's Vote Reporting Template was designed with a regulatory purpose in mind, and for the moment serves this specific purpose better than the proposals. For example, by describing the exact statistics required by pension schemes for reporting in their implementation statements, including encouraging managers to complete a more substantive commentary explaining their voting activity on significant votes.

Over time, we expect to see improvements in the 'template' produced under these proposals, and in that development, we expect the case for operating the two systems in parallel to fall away. However, we do not believe that the ambition for such developments should delay the initial implementation.

We acknowledge that this is, at present a UK-only initiative. Albeit, given the international nature of the UK's investment industry, one which may have wider-reaching impacts. Looking forward, we hope and expect that a data standard implemented successfully in the UK could be adopted by managers across the world, and that in time an international registry may emerge.