

Ethos Foundation
Place Cornavin 2
P.O. Box
CH-1211 Geneva 1
T +41 (0)22 716 15 55
F +41 (0)22 716 15 56
www.ethosfund.ch

BPP Group Review Committee
Independent Chair
Chris Hodge

By email: consultation@bppgrp.info

Geneva, December 15 2017

2017 REVIEW OF THE BEST PRACTICE PRINCIPLES FOR GOVERNANCE RESEARCH PROVIDERS

Dear Mr. Hodge,

The Ethos Foundation is composed of 226 Swiss institutional investors, the majority of which are pension funds regulated by the Swiss federal law on occupational benefits and which invest a substantial part of their assets in Swiss shares listed on the stock market SIX Swiss Exchange. Since 20 years, Ethos Foundation, by the way of its company Ethos Services, advises its members and clients on the exercise of their voting rights at the annual general meetings of Swiss listed issuers.

Ethos currently provides voting recommendations to more than 200 Swiss institutional investors. Ethos Foundation is thus directly concerned by the present consultation.

Why Ethos has not subscribed to the Best Practice Principles until now

Ethos generally supports best practice principles and self-regulation mechanisms. However, in the case of the Principles for governance research providers (thereafter "*the Principles*"), Ethos considers *the Principles* to be insufficient to be supported by Ethos which applies far higher standards in terms of avoidance of conflict of interest which is key for the credibility of proxy voting activities.

While Ethos Services SA and the Ethos Foundation is aware of *the Principles* since its launch, we decided not to be signatories. In fact, Ethos considers that *the Principles* should aim at preventing conflict of interest rather than just documenting them. The credibility of the proxy advice activity is a stake and Ethos had decided not to support a code that does not protect the reputation and the quality of proxy advice services.

In our opinion, *the Principles* have until now not proven to be effective. *The Principles* did not prevent one of the signatory from developing consulting services to issuers in parallel to its proxy voting activities. Such development is negatively perceived by the market and may push further regulations on proxy advisor which is exactly the opposite goal initially pursued by *the Principles*. The development of consulting services for issuers by proxy advisors significantly impair the credibility of the profession.

Other professional activities such as the audit profession have been regulated to avoid incompatible mandate. Indeed, an audit firm cannot keep the books of its audited client. Ethos considers that the same should apply in the proxy voting field where proxy advisor should not offer consulting advice to analysed companies in particular on topics that are part of the General Meetings agenda.

While some type of conflicts of interest cannot be avoided and should be clearly documented (clients that are controlled by a listed company, or clients proposing resolutions), the possibility to offer advisory services to both shareholders and issuers is absolutely avoidable, and almost all proxy advisers have eliminated such conflict of interest by self-regulation. However, we strongly regret that the same principles are not adopted by all advisers.

In our opinion, the so-called "Chinese wall" between proxy voting teams and consulting teams are not an effective response to distortions caused by conflicts of interest. Furthermore, we believe that "comply or explain" rules are not strong enough to solve all the problems generated by conflicts of interest. Despite any "Chinese wall", analysts can easily identify the listed companies using the researcher's advisory services. On the other hand, listed companies may decide to purchase the advisory services of the researcher to increase the possibilities of a favourable voting recommendation. We even have been informed by some issuers that one proxy firm strongly recommended an analysed company to use the consulting services proposed by its firm in order to gain a "yes" vote.

In light of this negative developments, we urge the BPP Group Review Committee to review *the Principles* which should prompt signatories to avoid conflict of interest. *The Principles* should also include a list of services that are incompatible with proxy voting activities as it is the case in other profession such as auditing. This concerns in particular providing consultancy services to issuers on executive remuneration and corporate governance while simultaneously providing voting advice to investors on the same issuers.

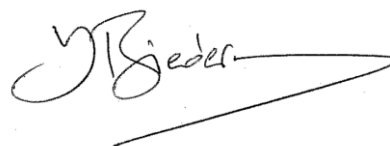
We hope our comments are useful for your deliberations. Should you wish to discuss this matter further, please don't hesitate to contact us.

Yours sincerely,



Vincent Kaufmann
CEO

vkaufmann@ethosfund.ch



Yola Biedermann
Head of Corporate Governance
and Responsible Investment

ybiedermann@ethosfund.ch