
Vote Reporting Group - Terms of Reference

Establishing a framework for asset manager vote reporting in the UK to better meet the needs of asset owners and the wider market.

Objectives of the VRG

The FCA has established the Vote Reporting Group (VRG): an industry working group with the goal of proposing a comprehensive vote reporting framework and template for public consultation. The VRG has the following objectives:

1) To develop a recommendation on minimum vote reporting requirements for asset managers.

The VRG should develop a comprehensive vote disclosure framework, using the US SEC's Form NP-X as a baseline for a reporting template.

Design of the framework and template should consider:

- Relevant reportable elements of votes, such as:
 - whether there was a vote against the Board
 - votes against and for resolutions laid by shareholders
 - whether a vote was withheld
 - whether the vote was in line with the manager's published policy
 - vote topic categorisation
 - vote rationale
- The frequency of vote reporting
- The format, storage and dissemination of vote reporting
- How delegated voting may work
- Fund and mandate-level reporting
- Firm level aggregate data on voting activity

2) To develop a recommendation on ownership of the vote disclosure framework

The VRG should consider the most appropriate body to assume long-term 'policy' ownership of the vote reporting framework. As part of its recommendation, the VRG should recommend whether its vote reporting framework should inform future regulatory rules for consultation by the FCA, or be adopted as a voluntary set of industry guidelines.

The VRG should also set out how the voting disclosure template should be reviewed into the future, to ensure that the disclosures continue to meet the needs of asset owners and that they reflect the latest developments in vote reporting and the technology available to market participants.

3) To develop a recommendation on storage and dissemination of vote reporting data

The VRG should consider the most appropriate body to assume physical ownership of vote reporting data; ie, considering who will manage the reported data on a day-to-day basis, where those votes will be stored, and how data will be accessed. This may be an industry body (bodies) or an appropriate regulator.

Convening an industry group to develop these recommendations will have the benefit of bringing together the views and expertise of a range of market participants, resulting in a set of balanced, fair and well-considered proposals.

Indicative timeline and deliverables

There are two key deliverables for the VRG:

- An initial consultation report with its recommendations for a vote disclosure framework (including a vote reporting template) as set out under 'Objectives of the VRG' in these Terms of Reference – to be published within 6 months of the launch.
- A final report which considers wider industry views gathered through public consultation, to be published within 6 months of the publication of the consultation report.

Background

In September 2021, the Taskforce on Pension Scheme Voting Implementation (TPSVI) published its recommendations to government, regulators and industry to address identified barriers to the effective voting of equity shares by pension schemes. Several recommendations were targeted at improving vote reporting and monitoring.

The review was motivated by several identified trends:

- increased demand and focus on pension scheme voting (particularly in relation to ESG issues)
- increased focus on the outcomes of stewardship and voting
- reporting issues connected to disclosure, data, and forms of reporting

The review concluded that these trends were putting pressure on the current system of delegation of stewardship and voting by pension schemes to asset managers. The TPSVI found that trustees of pension schemes felt that their asset managers were not supporting them sufficiently in meeting their own stewardship-related obligations. As part of this, they considered that they did not have access to the data they needed to monitor their asset managers' performance. The TPSVI recommended several potential regulatory interventions to help asset owners monitor how votes were being cast on their behalf.

Recommendation 14 of the TPSVI review states that the FCA should 'set out a key set of aggregate data which all asset managers should be required to report at firm level on their voting and engagement activity.' Recommendations 8, 12 and 13 of the review also touch on key issues around the current state of vote reporting, including: fund and mandate level-reporting, the rationale for voting decisions and the disclosure of 'insignificant' votes.

To remedy some of the issues identified in the TPSVI review, the VRG will determine the key information that asset owners need on asset managers' voting activity to support them in meeting their own stewardship-related policies and regulatory obligations. Enhanced transparency of asset manager voting will support asset owners in their assessment of fund/mandate performance, helping them hold their asset managers to account. Consistent approaches to vote disclosure should reduce individual requests to asset managers for different information from asset owners and investment consultants.

Outcomes that the FCA is seeking to achieve

In initiating the VRG, the FCA's overarching aim is to build an industry consensus on a comprehensive vote reporting framework for asset managers in the UK.

Current vote disclosure practices do not provide comprehensive and granular information on voting, especially at the fund or mandate level, to enable investors and broader market participants to hold asset managers to account on their voting practices. This can lead to higher monitoring costs for asset owners in respect of their asset manager relationships, insufficient challenge to investee companies in the real economy, and lower long-term financial returns for investors. Asset managers also have to respond to numerous disparate requests from asset owners and investment consultants on vote reporting.

With more comprehensive vote reporting, at fund and mandate level, asset owners will be better enabled to make more informed decisions regarding strategic asset allocation and asset manager selection and engagement. This can in turn be expected to achieve better value for money for asset owners' beneficiaries resulting from lower oversight and monitoring costs.

Beyond this, publicly accessible and comparable voting disclosures would shine a spotlight on the voting practices of asset managers and may result in greater overall scrutiny of asset managers' behaviour. To the extent that greater transparency improves stewardship practices across the industry, there should also be flow-on benefits to investee companies in the real economy through higher quality engagement and market discipline. Effective exercise of voting rights enables capital providers to hold directors to account for the governance and stewardship of investee companies.

Consideration of stewardship outcomes as a key performance indicator is becoming increasingly important as asset owners seek to ensure that their strategies are aligned with the net zero transition. The framework can help to support wider regulatory developments in this area, such as the Government's ambition for whole-of-economy Sustainability Disclosure Requirements, and the work of the Transition Plan Taskforce.

Good voting practices (as part of broader asset manager stewardship) can help to secure better and more sustainable financial returns for investors and support real economy outcomes. It is therefore important that asset owners can hold asset managers to account on their voting practice – with benefits that stretch beyond the needs of their direct clients.

The VRG should keep these broader outcomes in mind when developing its recommendations.

Membership

- Please refer to FCA webpage on Vote Reporting Group.
- Original members of the Group are encouraged to attend all meetings (and relevant sub-group meetings) and to try to minimise occasions where they may have to send an alternative. This will ensure greater consistency of input and discussion of the VRG.

Engagement

The VRG will publish on a public website these Terms of Reference and a summary of the meetings. The Chair will accept informal feedback and proactive comments from the asset management community, asset owner community and other key stakeholders at any stage (the term 'community' includes the entire value chain). Seeking wider industry feedback is encouraged. Where necessary, outreach and engagement may be facilitated by appropriate industry bodies.

Guidelines

The VRG should aim to gain agreement on minimum vote reporting requirements for asset managers through the form of a vote reporting template and framework. Alongside this, the VRG should consider the practical elements of vote reporting on an on-going basis when making their recommendations (e.g., cost, feasibility, technology and data availability).

The VRG should follow these guidelines:

- The key overarching consideration of this work should be to enable asset owners to better oversee their delegated asset managers' voting activities on their behalf, in line with the findings and recommendations of the 2021 TPSVI review. The recommendations should support the benchmarking of asset managers' voting against asset owners' policies, enabling asset owners to hold their asset managers to account.
- More broadly, the VRG should also have consideration for the wider benefits of a more comprehensive vote reporting framework in the UK, including how the proposals will help to improve wider scrutiny of asset managers' stewardship activities, as well as aiding asset owners' strategic asset allocation and promoting good outcomes among investee companies in the real economy.
- The decision-usefulness of the information will be enhanced if votes are appropriately categorised and voting rationales are provided. These should feature as key reportable items in the VRG's recommendations.
- The VRG should take the costs and benefits of their recommendations into account. The feasibility and cost of the proposed vote reporting should not discourage the widespread adoption of the framework. As part of this, the VRG should consider the costs and benefits to any of their proposals, considering the capability of different sizes of asset manager and the tools available to them.

- The approach to vote reporting through the US SEC's Form N-PX should be considered a useful baseline for the VRG to begin considering a UK vote disclosure approach.
- The VRG should consider the best vehicle for the storage and dissemination of vote reporting data, noting that this should enable users of the data to access and analyse the reported information as required using industry standard technology.
- The VRG should consider how the proposed vote reporting approach could operate into the future as voting infrastructure and underlying technology advance; eg, taking account of potential technological enhancements that simplify the voting infrastructure and support 'straight through processing'.

Frequency of meetings

The VRG will meet monthly to develop its recommendations and discuss progress. The VRG may establish sub-groups, reporting to the main VRG, to investigate specific issues. Any sub-groups will define their own schedule of meetings such that they can meet the timeline set by the main VRG.

Interaction with the FCA

The FCA has convened the VRG to build consensus among relevant stakeholders on a comprehensive vote reporting template and framework.

The FCA will provide the secretariat function and be an ex officio member of the VRG.

The FCA will consider the recommendations of the group and their interactions with/implications for FCA regulatory policy.

The FCA reserves the right to dissolve the VRG at any time, and will do so once the objectives of the VRG have been achieved and it is deemed that the relevant TPSVI recommendations have been met.

In addition, the FCA may as necessary and appropriate provide some analytical resource to assist with the drafting of the working papers produced by the sub-groups and the main VRG.

Confidentiality

Meetings will be conducted under the Chatham House rule, such that comments, dialogue and feedback within the VRG meetings will not be attributable to individuals or the organisations they represent or with which they are associated. Chatham House rule will also apply in any situation where a formal conversation occurs relating to the work of the VRG.

As noted in the 'Engagement' section of this terms of reference, discussion of the work of the VRG is encouraged for the purposes of facilitating industry engagement and gathering feedback. Members are permitted to share meeting papers with their staff and in the case of trade and industries bodies, their relevant stakeholders.

In the course of its work members of the VRG may obtain confidential information (whether or not in documentary form) relating to the FCA and its internal affairs, and/or confidential information about third parties. Members will undertake not to disclose any information which is confidential in nature, or which is provided in confidence, without authorisation.

Any confidential VRG material will be clearly labelled and communicated to members. Unnecessary involvement of third parties in handling confidential VRG material is strongly discouraged. In all cases where third parties see confidential VRG material, individual members are expected to accept responsibility for ensuring that those third parties are aware of and respect the confidentiality and sensitivity that attaches to the work of the VRG and the materials in question.

Competition law and other relevant law

Members of the VRG are expected to comply with and to ensure they understand their responsibilities under all applicable competition laws, including UK competition law. To the extent any VRG member is unclear of these, they should consult the legal and/or compliance teams at their respective institution for further guidance. Particular care will be exercised in order to ensure that VRG members and persons participating in meetings, familiarise themselves with the concept of competitively sensitive information and do not unilaterally disclose or exchange it under any circumstances. If, during an VRG meeting, a member has concerns about the discussion from a competition law compliance perspective, the members should make their concerns known and the discussion giving rise to such concerns should cease.

Members of the VRG are expected to comply with all other applicable laws.

Conflicts of interest

We recognise that some members will have commercial or other relationships with each other. The broad membership of the group, as well as the appointment of an independent chair is designed to mitigate the influence of any one individual. Members of the VRG should consider if any potential or actual conflicts of interest may impinge on their ability to objectively carry out their role in the VRG. Where a member identifies a material conflict of interest, they should make this known to the Chair and the Secretariat, who will then decide whether any mitigating action is required.

Governance

The role of the VRG is to provide insight and feedback to the FCA about vote reporting by asset managers, as described above. Where individual members of the VRG offer conflicting points of view and opinions, the Chair will endeavour to make recommendations that represent the consensus of the VRG and fairly consider the opinions of the various stakeholder groups represented. In situations where a consensus cannot be reached, the Chair will make the recommendation of the majority, but will capture dissenting points within the meeting minutes.

The FCA, DWP, TPR, FRC and any other observers will not submit formal views but will participate in discussions.

The VRG's recommendations will not bind its members.