CADWALADER

UK Financial Regulator Proposes Reporting Template to Enhance Transparency of Shareholder Voting

September 12, 2023

By Jason Halper
Partner and Co-Chair | Global Litigation

By Simon Walsh
Special Counsel | Global Litigation

Amid ongoing scrutiny over proxy voting (particularly in relation to ESG-related resolutions), the UK's financial regulator, the Financial Conduct Authority, has launched a consultation aimed at developing a vote-reporting template for asset managers. In a June 2023 **consultation and discussion paper**, the FCA's Vote Reporting Group detailed its proposal for a "voluntary, standardized and comprehensive vote-reporting template" designed to facilitate communication and promote transparency from asset managers about their voting activity. The stated objectives of the framework include giving asset owners access to more consistent and comparable data for their own timely and accurate decision making, as well as increasing reporting efficiency for asset managers themselves.

Established as an independent working group by the FCA in November 2022, the Vote Reporting Group comprises diverse stakeholders, including members representing insurers, investment consultants and managers, NGOs, pension funds and proxy advisers, with the FCA serving as the secretariat. BlackRock, State Street, the UK Sustainable Investment Finance Association, pensions administrator Railpen, and asset manager Legal & General Investment Management (LGIM), as well as NGO ShareAction and the UN-supported investor network Principles for Responsible Investment, are among the group's members. The group's **purpose** is to develop proposals for improving shareholder vote reporting by asset managers operating in the UK, including a robust and standardized framework developed for and by industry.

The FCA asserts that increasing transparency and standardizing reporting requirements around vote-reporting will enable greater accountability and ultimately, deliver long-term, sustainable value for investors. With a standardized framework, according to the Vote Reporting Group, investors can benefit from useful data points that they can use to provide support for, or to question, the businesses in which they invest. Similarly, greater transparency around voting enables investors to choose asset managers whose stewardship reflects their values.

The proposed framework would require asset managers to report on company recommendations and their instructions for each vote, as well as explain in narrative form the reasoning and context behind the vote, and how the vote fits in with their overall voting policy. The information would be required for all shareholder resolutions, including environmental and social proposals, in cases where the asset manager rejects or abstains from non-sustainability-related resolutions, and to votes relating to major decisions such as changes in company strategy, M&A or other special business. In putting together these reporting requirements, the Vote Reporting Group noted—and sought to balance—concerns from industry related to legal and compliance sign-off on voting rationales, as well as disclosure costs, with the benefits of standardized disclosure.

Public consultation of the proposed reporting framework runs through September 21, 2023.

Taking the Temperature: The Vote Reporting Group's consultation and discussion paper reflects a growing trend we have commented on toward shareholder engagement in connection with climate change, sustainability and other ESG-related issues. In the UK, for example, we recently reported on UK pension schemes threatening to vote against chairs of oil companies allegedly failing to meet climate pledges. In this year's AGMs, however, shareholder support for environmental and social proposals, including from the world's largest three asset managers, fell to the lowest in nearly six years. Although it is difficult to identify a single reason for this development, relentless resistance to ESG investing on the part of "anti-ESG" state and federal officials could be a factor (we have discussed this on several occasions and provide a detailed summary here).

In a related trend, certain U.S.-based asset managers have rolled out initiatives to permit beneficial owners greater say in how their investments are voted. We reported at the end of last year that Vanguard was implementing a program to offer "a number of proxy voting policy options for individual investors" in several of its equity funds. Blackrock's program permits institutional clients invested in certain funds in the U.S., U.K., Ireland and Canada to, among other options, "apply their preferred voting policy, meaning the client has either one that they have designed themselves or has chosen a third-party policy, in a consistent way across a broader share of their overall portfolio allocation."

For the most part, the push for greater transparency in vote reporting on the part of asset managers is in line with broader climate trends in the UK. The FCA has stepped up its Green Finance Strategy. The UK Pensions Regulator also has launched a new initiative to tighten regulation around ESG data published by trustees. As with asset managers, the Pension Regulator's underlying regulatory concern (as discussed previously) is that climate change reporting is left intentionally vague. The push from the FCA is somewhat at odds with a further delay to the introduction of its widely-anticipated Sustainability Disclosure Requirements which, having originally anticipated being published during H1 2023, are now expected to be published in Q3 2023.