Shareholder engagement: practical steps for corporate secretaries

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CSIA
Corporate Secretaries
International Association

About Corporate Secretaries International Association

The Corporate Secretaries International Association (CSIA) is a Geneva-registered global organisation whose mission is '*to develop and grow the study and practice of Secretaryship, to improve professional standards, the quality of governance practice and organisational performance*'.

CSIA was established in 2010 as a not-for-profit organisation committed to improving the recognition and understanding of the practice of corporate secretaryship and the role of the corporate secretary. Its structure as an international federation of professional bodies enables it to effectively represent those practitioners who work at the frontline of governance.

CSIA is an inclusive, global organisation with eighteen national organisation members representing some 70,000+ corporate secretaries and governance professionals in more than 70 countries. Its ranks are collectively responsible for delivering a wide range of governance-related roles, which include corporate secretarial issues, governance structures, process and advice, advice on legal and commercial issues, compliance, risk management and professional administration.

CSIA's vision is to be *the global voice of corporate secretaries and governance professionals*. Its intent is to be heard and respected by the international business community as well as key government agencies and policy makers such as the World Trade Organisation (WTO), United Nations (UN), International Labour Organisation (ILO), Organisation for Economic Co-operation and Development (OECD), International Finance Corporation (IFC), World Bank and many others.

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Georgeson is the world's foremost provider of strategic shareholder services to corporations and shareholder groups working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our core proxy expertise is enhanced with and complemented by our strategic consulting services, including solicitation strategy, shareholder identification, corporate governance analysis, vote projections and insight into investor ownership and voting profiles. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide.

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Letter from the President

It is my pleasure to introduce Corporate Secretaries International Association's (CSIA) *Shareholder engagement practices for corporate secretaries*.

These practices are part of CSIA's commitment to improve governance standards by encouraging the adoption and application of good governance on a global basis.

This publication is the third by CSIA and follows the publication of *20 Practical steps to good governance* in 2010 and *Governance principles for corporate secretaries* in 2013.

Shareholder engagement is a significant topic in corporate governance today. Institutional investors are advocating that companies establish and disclose their practices for shareholder engagement. Corporations have long had routine processes for communicating with their investors, but some investors complain that they lack direct access to senior management or the board. And many corporations are concerned that they lack access to investor management to explain their position on significant issues, or that the investors have delegated their voting responsibility to proxy advisers with voting policies that do not take into account the circumstances of individual corporations.

CSIA agrees that companies and shareholders should communicate with each other about significant performance and corporate governance issues. Communication should be a two-way process.

To improve engagement between companies and shareholders CSIA has developed the following overarching recommendations and suggested practices for corporate secretaries and governance professionals.

I urge you to consider these recommendations and the practical guidance that accompanies them, when assessing how your organisation engages with investors and other stakeholders.

Kind regards

Katherine K. Combs

Katherine Combs
President
Corporate Secretaries International Association

April 2015

Letter from the sponsor

Computershare and Georgeson are partners with governance professionals around the world, and are proud to support the mission of the Corporate Secretaries International Association (CSIA).

Corporate governance as a whole is certain to improve if issuers and investors work together to improve communication and transparency. We frequently see positive outcomes from enhanced engagement efforts between our clients and their investors.

As the founding sponsor of the CSIA, we're delighted to be working with the CSIA executive committee to contribute our expertise to this forum and helping to spread CSIA's recommended practical steps for shareholder engagement to our clients and contacts globally.

We have been a strong proponent of enhanced engagement between issuers and investors, and look forward listening to the discussions about — and observing the impact of — the CSIA's recommendations in this document.

Sincerely,

Paul Conn
President, Global Capital Markets
Computershare

William Jackson
CEO
Georgeson

Recommendations for investors

1) Institutional investors should adopt and disclose their corporate governance and proxy voting policies, the extent to which they rely on proxy advisory services and how they fulfil their stewardship responsibilities, including management of conflicts of interest.
2) Institutional investors should have sufficient staff dedicated to corporate governance issues and proxy voting to analyse and make voting decisions on the proposals of the companies in which they invest, and to communicate effectively with corporate secretaries.
3) Investors with concerns about a company's corporate governance practices should first reach out to the corporate secretary to discuss their concerns; shareholder proposals, class action lawsuits, proxy contests and media campaigns are engagement tactics that should be used only after private dialogue and other means of communication have failed.
4) Investors should reach out to the corporate secretary before casting a negative vote on a significant corporate governance issue or, if the former is not feasible, send a letter soon after the fact explaining the reasons for the vote.

Recommendations for issuers/companies

1) Corporate secretaries should keep abreast of the corporate governance and proxy voting policies of their significant investors, understand if, and how, their company's corporate governance practices may be inconsistent with those policies, and explain any substantive differences between the two to their significant investors.

2) Corporate secretaries should keep their boards and senior management informed about corporate governance trends and any concerns investors may have about the company's corporate governance practices.

3) Corporate secretaries and designated members of senior management, as appropriate, should engage in regular communication with significant investors and have established channels through which investors can communicate with company management and the board. Corporate secretaries should proactively inform investors of significant changes in the company's corporate governance practices.

4) Corporate secretaries should also communicate regularly with retail investors, and should, if practicable, utilise available technology to enable shareholders to communicate with senior management and the board, and to participate virtually in the annual meeting of shareholders.

5) Communications (of some form) with investors should be regular and routine. Companies should not wait until a crisis, or a serious issue develops before engaging in a dialogue with investors. That said, companies should also respect investors' desire to use their time judiciously, which may mean declining a meeting request if they have no current concerns. Companies should be open to including one or more members of their board in their engagements, depending on the circumstances (for example, executive compensation).

6) Companies should designate and disclose the identity of persons charged with the responsibility of communicating with investors. With respect to corporate governance issues, the corporate secretary usually performs this role for companies. Service providers can assist corporate secretaries in performing these functions: depending on the process, processes could be performed in-house or outsourced.

7) Companies should establish a shareholder engagement policy as appropriate and publish it on their website. The corporate secretary is usually charged with the responsibility for drafting such a policy based on the relevant corporate governance practices, submitting the policy to the board or relevant board committee for approval and implementing the policy.

Shareholder engagement practices

The following are practical steps corporate secretaries and governance professionals should take to engage with the investors of their companies regarding corporate governance practices or issues, to the extent permitted by national corporate law. These steps envision a routine, continuous process of engagement with institutional shareholders, with the mutually beneficial purposes of 1) learning the investors' voting processes and policies regarding corporate governance practices, 2) updating investors about the regulatory environment in which the company operates, 3) informing investors about the company's corporate governance and executive compensation practices, 4) understanding any concerns or issues investors may have about the company's practices and 5) having a dialogue about those concerns or issues.

During the period preceding the company's annual meeting of shareholders (AGM), such engagement may also include any management or shareholder proposals for action at the meeting, or other topics covered in the proxy statement. Companies should also communicate regularly with their retail shareholders through their websites, shareholder hotlines and dedicated email addresses, and by utilising available technology to facilitate communication and engagement during annual meeting season. Service providers can assist corporate secretaries in performing these processes; depending on the process, it can be performed in-house or outsourced.

1. Identify and maintain current records of your company's largest investors, their governance point of contact and voting policies

a. Obtain and maintain a list of your company's largest shareholders from your share registrar, transfer agent or proxy solicitor, showing the number of shares held and the type of ownership (registered or beneficial). Obtain the name and address of the persons designated by each institutional investor to handle proxy voting and engagement on issues of corporate governance (this is usually someone other than the analyst). Sometimes the proxy solicitor will have this information, but you may have to rely on other sources.

b. Obtain from each institutional investor's website copies of their policies or position statements regarding optimum corporate governance practices and voting policies on particular issues. Also search for press releases, shareholder proposals or other public statements or filings by that investor regarding corporate governance issues. Note any disclosed subscriptions with proxy advisory firms, such as ISS or Glass Lewis, and try to determine whether the investor delegates voting authority to the firm, or merely considers the firm's opinion in making voting decisions. This information is increasingly noted on major institutional investors' websites.

2. Understand investor concerns about corporate governance

a. Read everything you can about 'hot button' issues investors and intermediaries (proxy advisers) have about corporate governance practices (for example, executive remuneration, staggered boards, dual classes of stock, combined chair/CEO).

b. Take note of shareholder proposals other companies are receiving and the degree of investor support for them via filed proxy statements and AGM voting results, proxy solicitor alerts and trend reports, etc. Review the recommended voting guidelines and policies of intermediaries, such as proxy advisers.

c. Review your company's governance practices in light of investors' and proxy advisory firms' concerns about those practices and develop your company's justification of any practice that may be of potential concern to them.

d. Join organisations where you can meet and hear the views of investors, such as the Council of Institutional Investors or International Corporate Governance Network. Seek opportunities to explain the companies' point of view on topics under debate.

e. Engage with proxy advisory firms on proposed revisions to their voting policies to understand and potentially attempt to influence their point of view (for example, advocate for a case-by-case rather than one-size-fits-all approach) and anticipate potential adverse recommendations.

f. Network with other companies facing similar issues to better understand potential alternative approaches to managing investor concerns or — depending on the nature of the issue — to develop a unified approach.

3. Draft and maintain a summary of your company's corporate governance practices

a. Your summary should cover:
   i. **Board of directors:** for example independence requirements, skills, expertise, diversity, orientation and continuing education, lead director or independent chair requirement, term limits, age limits or other retirement policies, succession planning, board renewal mechanisms.
   ii. **Board structure:** size, committees (and independence and other requirements of membership), terms (annually elected or classified)
   iii. **Board compensation:** policy and amount
   iv. **Board policies:** regarding conflict of interest, stock ownership requirements
   v. **Recent changes in governance practices:** especially those made in response to shareholder recommendations

b. Against your local landscape and regulatory environment, highlight practices that may be considered problematic by intermediaries (proxy advisory firms) or activist investors, the rationale for their concern, and explain the company's justification for them. Include information about what other companies are doing to address the concerns.

c. Regularly share your summary with senior management and members of the corporate governance committee, or other board committee responsible for corporate governance. Recommend changes in the company's governance practices, as appropriate, based on your research including knowledge of best and common governance practices, investor and proxy adviser guidelines/policies, activism trends, shareholder proposal trends and AGM season statistics. At least annually, prepare a report to the corporate governance committee on corporate governance trends, hot topics, practices your company's investors may deem problematic and the results of the shareholder engagement process.

4. Regularly reach out to institutional investors' designated contacts regarding corporate governance and proxy voting

a. If you do not already have a relationship with an investor's designated contact for corporate governance engagement, send a letter or email first, introducing yourself and expressing desire to discuss your company's corporate governance in a conference call or in-person meeting, if convenient. Note that some of the major institutional investors such as BlackRock and Vanguard may decline a meeting offer if they have no specific concerns simply for the sake of efficiency.

b. Initiate contact before you have an issue, or a proposal on which you are seeking support. You want them to know your name and already have a relationship with you before you ask for their help on an issue. Avoid seeking your first discussion during the proxy season when their time is limited.

c. Ask if there are any issues they wish to discuss with you on the call. Be fully prepared (obtain any necessary authorisation from senior management) to discuss those topics on the call; invite other members of management to participate in the discussion, if useful (for example, investor relations, executive compensation, risk management, sustainability). On significant issues or issues where management is 'conflicted' (for example, executive compensation), investors may request or expect that a member of the board also participate on the call (for example, chair of governance committee or compensation committee).

d. During the call, seek clarity on any potential issues you see in the investor's disclosed proxy voting/ governance guidelines. Explain how the company's practices conform to the investor's guidelines and justify any practices that may appear or are inconsistent with them.

e. During the call, ask about the investor's voting decision-making process. Ask whether the investor subscribes to one or more proxy advisory services (and, if so, which one) and how they consider the voting recommendations of such advisers. Most will say they review the recommendations but make independent voting decisions, but some may disclose that they lack the internal resources to review and make voting decisions on all companies in which they invest and must rely heavily or entirely on the recommendations of the proxy advisers. Request that they inform you of the reason, if they decide to vote against management's proposals at any time in the future.

f. Ask about how the investor engages with companies on governance issues, when the investor would next like to hear from you, and the form and frequency of regular conference calls in the future. Some want to hear from you each year at the beginning of the proxy season; others prefer a letter advising them of significant changes in your governance practices (with the opportunity for a subsequent meeting to discuss any areas of concern).

g. Highlight changes in your company's governance practices or key executive/director positions since your last discussion. Discuss any management proxy proposals, and your position on any shareholder proposals contained in the proxy statement. Request feedback from the investor — they will not usually inform you in advance of how they will vote, but will let you know if they have any 'concerns'. Ask about the investor's views on current trends in corporate governance and their expectations of the company.

h. Document the attendance and issues discussed on the call. Maintain a chronological record of contacts with each investor, adding new information or updating contact information after each successive call. If an investor declines to schedule a discussion with you, note the reason given. Note that some of the major institutional investors such as BlackRock and Vanguard may decline a meeting offer if they have no specific concerns simply for the sake of efficiency. It is useful to review this record before the call to refresh your recollection of the discussions in prior meetings with the same investor.

i. Follow up after the call with a letter of thanks for the meeting, and responding to any inquiries.

5. Regularly inform retail investors about the company's corporate governance practices and welcome their input

a. Periodically communicate with retail investors concerning corporate governance practices. Some companies publish reports and include them in the envelope with each dividend cheque. Some organise 'investor days' or visits to company facilities and arrange for face-to-face communications with senior management and/or directors. Others maintain governance information on their corporate website. Some maintain (or are required by listing standards to maintain) an email address or hotline to receive shareholder comments or questions; respond to each communication; and regularly provide a summary of the issues for the corporate governance committee. If you use a call centre for shareholder transactions and questions, ensure that the script includes information about corporate governance topics and issues.

b. Use the AGM as an opportunity to engage in a dialogue with retail investors. Some utilise technology to enable shareholders to pose questions to be answered by management at or after the meeting (shareholder forum) or to enable shareholders who are unable to attend the meeting to observe it in real time (virtual annual meeting).

6. Develop a shareholder engagement policy and publish it on your corporate website

a. The policy should describe the means your company uses to engage with shareholders and the methods available to shareholders for communicating with the company, its officers and directors.

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