The Institute of Chartered Secretaries & Administrators

Shareholder engagement

The state of play

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Foreword

One of the causes most often cited as leading to the 2008 financial crisis was the lack of shareholder monitoring of how financial institutions were conducting themselves in the pursuit of profits. To remedy this, and considering the extraordinary increase in the participation of institutional investors in the ownership of listed companies, many jurisdictions developed policy responses to try to incentivise investors to exercise their rights to monitor the firms they invest in and to encourage issuers to embrace the engagement process.

In the last few years many jurisdictions have introduced formal codes of conduct for investors, sometimes known as Responsible Investment or Stewardship Codes. Others have introduced specific pieces of legislation — directed at both issuers and investors — and some have left it to the market to determine the framework for better engagement.

Our Institute sees continuous improvement in shareholder engagement as in the public interest. We wanted to document current engagement practices and see if any conclusions could be drawn that could contribute to public policy recommendations on how to promote an effective dialogue between investors, particularly institutional ones, and issuers.

We are grateful for the assistance in undertaking this work that we received from colleagues at the OECD, in particular Héctor Lehuedé and Alejandra Medina for their valuable insights and their contributions to the design, execution and analysis of the survey. The ICSA and OECD both have the ambition to continually improve the policy framework for corporate governance and the ICSA sees this report as part of that process.

We also would like to thank the numerous companies that responded to our survey and the investors and issuers' representatives who took the time to answer our follow-up questions through one-on-one interviews.

We are pleased to provide this report on shareholder engagement for the benefit of issuers, their investors and policy-makers. Understanding how engagement takes place under different frameworks that may influence its quality, degree and effectiveness is crucial to designing policies that can lead to better decision-making, better capital allocation and a better overall outcome for our community.

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About the ICSA

The Institute of Chartered Secretaries and Administrators (ICSA) is the premier global qualifying organisation for professionals aspiring to become a Chartered Secretary and or a Chartered Governance Professional. With over 125 years of history, we assist company secretaries, governance advisors, non-executive directors and others in the development of their skills, knowledge and experience. The Institute is an international organisation with offices in nine countries and 29,000 members living and working in over 80 countries. Most importantly, it brings its influence to bear on international trade bodies, governments, regulators, NGO's and companies to represent the views and current thinking of those involved in governance.

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1. Executive summary

Purpose of the research

The primary purpose of the research was to investigate the nature of engagement between issuers and investors, and the extent to which it had changed in the last five years — whether in its frequency, the form it takes, the organisations and individuals involved or the subjects being discussed. We also hoped to identify what factors had contributed to any changes.

In the last decade or so, policy-makers in many jurisdictions have taken actions that have been intended to stimulate engagement between issuers and their shareholders. The secondary purpose of the research was to see whether there was evidence that these actions had achieved their objectives.

Methodology

The main component of the research was a survey of company secretaries or equivalent corporate representatives in listed companies in ten different markets (Australia; Brazil; Chile; Italy; Japan; Hong Kong (China); South Africa; Sweden; United Kingdom; and United States) and across eight business sectors. The markets and sectors selected represent different regions, levels of development, regulatory frameworks and company ownership structures. From the selection of 742 listed companies invited to participate in the research, including large and small firms, 116 responded to the survey.

After the survey was completed, we interviewed selected respondents to gain a more in-depth understanding of their experience of engagement. We also interviewed some institutional investors operating across different regions to see whether the survey findings matched their own experience.

The quantity of engagement

There is clear evidence that the quantity of engagement has increased in the last five years, and that this is true for companies of all sizes and in both developed and emerging markets. In total, over 60 per cent of respondents reported increased engagement, with only a handful reporting that it had reduced. The majority of respondents also reported that they devote more resources to engagement than in the past.

Who initiates engagement

The responses to the survey suggest that the specific engagements are initiated fairly equally by issuers and investors in most markets. When issuers initiate engagement, they most frequently target investors with the largest current or potential holdings in the company and those they believe might take a hostile position; while for investors the main considerations are the value of their investment and whether they have concerns about the performance or governance of the company.

The nature and quality of engagement

Over 70 per cent of issuers responding to the survey considered that the quality of their engagement with investors had improved to some extent compared to five years before. While the majority of engagement is still ‘event-driven’, taking place in advance of the general meeting or around the publication of financial results, there is some evidence that engagement is becoming more of an ongoing process, at least in more developed markets. This is reflected in the reported increased use of emails and face-to-face meetings as methods of engagement.

Issuers reported that the CEO, the CFO, the IR department and the chair were most frequently involved in engagement, as they had been five years before. Many issuers reported that, on the investor side, ESG teams had emerged during that period as a third point of contact alongside fund managers and analysts. Some raised concerns that this made engagement more complicated, as it was not always clear who would be making the investment or voting decision for the investor.

In terms of the issues addressed through engagement, the survey results suggest that, while the most frequently discussed issues — performance, strategy, capital structure, M&A activity and leadership — have not changed, there are more issues on the agenda than was the case five years before. Issuers in all markets reported an increase in discussions with investors on the impact of technological change, while ESG issues are now much more prominent in developed markets.

Reasons for the change in the quantity and quality of engagement

When asked what factors they considered had been responsible for the increase in engagement, one third of large issuers and issuers in developed markets pointed to international trends, which may reflect the nature of their ownership base.

The next most frequently cited reasons were changes in the issuer's ownership base and — perhaps as a consequence of that in some cases — changes in the issuer's approach to engagement. These two factors were also most frequently cited as the reason for changes in the issues on which they engaged.

Less than 20 per cent of issuers that responded to the survey identified regulatory change or political pressure as a reason for changes in the quantity or nature of engagement. This suggests that many of the policy interventions of recent years are not perceived by issuers to have had a direct effect. In the interviews, however, some issuers stated that these interventions may have had an indirect impact by acting as a catalyst for change.

A similar view was expressed by the investors we interviewed. The majority stated that they had increased their own engagement primarily because of greater client demand for more active oversight and, in some cases, more focus on ESG factors; but also acknowledged that some interventions had indirectly contributed. Stewardship codes, for example, were broadly welcomed, but seen as a means of raising awareness rather than changing behaviour.

A number of issuers and investors expressed concerns that interventions might not always be responded to in the way that policy-makers hoped; if they created a compliance or box-ticking mind-set in issuers, investors and advisors, this could create more problems than it solved. It was suggested by some investors that it might be more productive for policy-makers to focus on removing barriers to engagement so that those issuers and investors that want to engage can do so more effectively, rather than trying to get those that do not wish to increase their levels of engagement to do so.

2. Introduction

The market economy relies on investors allocating resources among competing firms in pursuit of the best return on the capital they provide. In a frictionless market, shareholders are assumed to fully inform themselves about the alternative investment options, which leads to sound price formation and sufficient monitoring of corporate performance. In doing so, investors perform a social function that improves the effectiveness of capital allocation across the economy, fostering value creation and economic growth.

Since shareholders are expected to serve these functions in the real world, they have been given rights, including to access information, voting, election of directors and the ability to transfer their shares freely. However, frictions like agency problems and informational asymmetries impose a cost to investors trying to collect sufficient information to exercise their rights in an informed manner. In addition, monitoring is costly and since the benefits in doing it cannot always be directly measured, some investors do not have the incentive to pay for it.

Today's shareholders can involve institutional investors (such as pension funds, investment funds and insurance companies), other collective investment vehicles, hedge funds, governments, controlling companies, and individuals. While each of them has exactly the same rights over cash flows and over the firm's decisions, they may differ in their investment strategies and thus engage with the company differently and in search of different outcomes.[1] In addition, intermediaries such as asset managers have commercial objectives that may not be fully aligned with those of asset owners, thus adding a further layer of complexity to the engagement process.

Institutional investors have become particularly relevant in the OECD area as they have more than doubled their total assets under management in less than 20 years, from USD 36 trillion in 2000 to USD 84 trillion in 2017.[2] Most of this growth is explained by the transformation of pay-as-you-go pension systems into funded plans and the establishment of mandatory and voluntary private pension pillars in many jurisdictions. Commodity prices have also led to the creation of sovereign wealth funds that have become important investors on their own. The increased popularity of the modern portfolio theory to pool capital into large diversified portfolios, which can take advantage of economies of scale and enhance the risk-return relationship, is also responsible for the increase in collective investment vehicles. Many of those now use widespread index tracking and passive investment strategies that have dramatically reduced costs and convinced retail investors to benefit from the economies of scale and risk diversification they offer.

In the last decade, and in many cases in response to the corporate failures revealed by the global financial crisis, many jurisdictions introduced either a form of stewardship code, a set of industry-based guidelines or have undertaken some changes to their legislative framework aiming to improve shareholder engagement, particularly between issuers and institutional investors. Some of these measures are directed at investors, and others at issuers, but all reflect a view that more active monitoring by shareholders will generally increase issuers' accountability and long-term performance.

1 Investors have different business models and ownership strategies, catering to diverging objectives, while companies take varied approaches as when to tap the capital market and how to respond to investors' and regulators' demands after going public. For some institutions, engagement in corporate governance is a natural part of their business model, while others may offer their clients a business model and investment strategy that does not include or motivate spending resources on active ownership engagement. See Celik, S, and Isaksson, M; '*Institutional investors and ownership engagement*'.

2 See OECD Institutional Investors Database.

This relatively substantial increase in the amount of guidance or law poses the question: have these new codes or legislative changes had any positive impact on the effectiveness of engagement and output from it? Furthermore, are investors and issuers on the same page when it comes to their response? Do they share the same priorities or the same views on what is more important than in the past? And…do they have a common view that there has been any positive change in engagement?

Investors are already disclosing the number of engagements they have with investee companies, which in of the case of some large institutional investors can involve more than 1,000 interactions (from emails and routine phone calls to one-on-one meetings).[3] They are often private meetings with no record of the issues discussed, so in the absence of eventual case studies or examples offered by some of the investors in their reports, disclosure ends there. Investors often argue this is an effective way to promote their agenda within an environment of trust that avoids confrontation and proxy fights. Reports such as the UN-supported PRI *Engaging on anti-bribery and corruption — a guide for investors and companies*[4] showcase some of these efforts, often addressed to environmental, social and governance (ESG) issues as well as general investors' concerns about financial performance.

Box 1. The view of the *G20/OECD Principles of Corporate Governance*

Because of the developments described in this section, the recently revised *G20/OECD Principles of Corporate Governance* have a new chapter focusing particularly on institutional investors, stock markets, and other intermediaries.

It sets out that the corporate governance framework should provide sound incentives throughout the investment chain to contribute to good corporate governance. For this, it notes the adoption of codes on shareholder engagement and encourages a continuing dialogue between investors and firms. For investors that have developed and disclosed a corporate governance policy, it calls for the appropriate allocation of human and financial resources for its effective implementation.

See www.oecd.org/corporate/principles-corporate-governance.htm.

On the issuers' side, boards and senior managers have also stepped up their engagement efforts with investors. Some guidance for issuers is also available to foster a meaningful dialogue with investors. For example, Governance Institute of Australia's publication *Improving engagement between ASX-listed companies and their institutional investors: Principles and Guidelines*[5] offers a framework to facilitate good engagement processes leading to a dialogue that could address key issues, including strategy, risk and long-term performance. Furthermore, under market and political pressure to do better, many companies have listened to the advice that an active and sustained engagement strategy may be the best defence against hostile activity.[6] All this has led to an increase of engagement activity by many issuers.

3 See *At BlackRock, Vanguard and State Street, 'Engagement' Has Different Meanings*, by Sarah Krouse, WSJ, 20 January 2018.

4 See PRI, 2016, *Engaging on anti-bribery and corruption: A guide for investors and companies*.

5 See Governance Institute of Australia, 2014, *Improving engagement between ASX-listed companies and their institutional investors: Principles and Guidelines*; 2014; www.governanceinstitute.com.au.

6 See Michelsen P and Zaba D, 2017, *The Rise of Investor-Centric Activism Defence Strategy*, Harvard Law School Forum on Corporate Governance and Financial Regulation, 25 October 2017.

In order to contribute to a better understanding of the engagement process, The Institute of Chartered Secretaries and Administrators (ICSA) agreed to document issuers' views of the engagement process and practices under different frameworks. The ICSA is in a unique position to access corporate insiders involved in the engagement process across jurisdictions. Its members are central to the engagement process and operate side-by-side with boards and senior managers in structuring the dialogue with investors.

After the survey was completed, we interviewed selected respondents to gain a more in-depth understanding of their experience of engagement. We also interviewed some institutional investors operating across different markets to see whether the survey findings matched their own experience. The final goal was to document current engagement practices and see if any conclusions could be drawn that could contribute to public policy recommendations on how to promote an effective dialogue between investors, particularly institutional ones, and issuers. The objectives were to establish:

- whether there has been an increase in direct engagement between issuers and investors over the last decade by measuring, for example, the frequency of contact between boards and investors, the channels they use, the people involved, and the level of resources devoted to engagement by issuers and investors
- whether over that period there has been a change in the nature of engagement, particularly in the range of topics covered and whether, in the view of issuers and investors, engagement has become more or less constructive
- whether there is evidence that policy interventions (or market-led initiatives) have facilitated or improved the level or nature of engagement; and whether other aspects of the engagement framework have influenced the process as well.

3. Overview of the regulatory landscape

In all capital markets there are inter-related factors that influence the extent to which engagement between issuers and investors takes place, the willingness and ability of both parties to engage, and the nature of that engagement.[7] They include:

- the size and market capitalisation of the company, and its ownership structure — for example, whether there is a controlling shareholder or differential ownership rights
- the size and liquidity of the market itself, and the presence and mix of different types of investors — for example, institutional and retail investors, domestic asset owners such as pension funds, foreign investors, activist investors, and the state
- the level of demand from investors' clients for particular investment approaches — for example active or passive management or ethical and ESG funds
- the level of resources available to investors and issuers for engagement, particularly during the busy general meeting 'season'
- the existence of supporting infrastructure — for example, representative and professional bodies, advisors and guidance
- the national business traditions and culture – which can, for example, affect the willingness to challenge or be challenged
- the existence of practical barriers to engagement, such as difficulties in shareholder identification (for issuers) and cross-border voting (for investors)
- the regulatory framework.

The core elements of the typical regulatory framework relevant to engagement are reporting requirements on issuers and shareholders' rights and duties.

In principle, shareholders' rights — for example, to vote on certain matters and to table resolutions at the annual general meeting — incentivise issuers to engage with them, while the information that is published by issuers provides the agenda for discussion. In turn, fiduciary and contractual duties on asset owners and managers should ensure they oversee their investments diligently, including through engagement where necessary.

The different components of this framework may be set out either in law or in listing rules, and in many markets there is a mixture of both. Since the 1990s, they have been complemented by corporate governance codes, which are now present in most markets. Some of these codes place specific obligations on issuers to engage — albeit on a 'comply or explain' or 'apply or explain' basis — and most of them expect issuers to disclose certain information that is not usually required by law or listing rules, thus broadening the potential agenda for engagement.

7 OECD, 2011, *The Role of Institutional Investors in Promoting Good Corporate Governance, Corporate Governance*, OECD Publishing and Çelik S and Isaksson M, 2014 'Institutional investors and ownership engagement' OECD Journal: Financial Market Trends, Vol 2013/2.

The absence of one of more of these core elements can be a barrier to effective engagement; however, their presence alone does not guarantee it will happen, given the significant influence of the other factors identified above. This partly explains why, in recent years, we have seen a variety of public policy and market-led initiatives that are either directly or indirectly intended to require, encourage or enable engagement.

These initiatives do not all have the same underlying objectives, but by and large their aim is either to ensure issuers take account of the interests of their owners or to improve their corporate governance by making them more accountable, or to encourage institutional investors to be diligent stewards of the assets for which they are responsible.

In the remainder of this chapter we illustrate the three broad approaches — requiring, encouraging and enabling engagement — using examples from the different markets covered in this study. Appendix 2 contains a high level summary of the approach taken in each market, and some of the other factors influencing the nature and extent of engagement in that jurisdiction.

3.1. Requiring engagement

There are relatively few mandatory obligations on either issuers or investors that explicitly require them to engage with each other. However, as noted above, in all the markets we studied there are common elements of the regulatory framework that incentivise one or both parties to engage.

The design of the different requirements determines the extent of the incentive. For example, while shareholders vote on the appointment of directors in all ten markets, and can nominate their own candidates if certain thresholds are met, the level of shareholder involvement in the nomination process varies considerably. In Italy, the minority shareholders are entitled to elect at least one director from their 'slate', while in Sweden the nomination committee is directly appointed by the shareholders. In Chile, public pension funds (under a defined contribution national scheme) are legally obliged to attend shareholders' meeting and to vote. For board elections they are encouraged by law to consult with other non-controlling shareholders and try to coordinate their votes.

While shareholder rights themselves are not a new phenomenon, in some markets the range of matters on which shareholder approval is required has been extended, broadening the agenda for engagement between the issuer and its shareholders. The most notable example is the spread of 'say on pay' votes, which now exist in the majority of the jurisdictions we studied. Some of these votes have a binding effect while others are only advisory. In Australia, while the vote itself is advisory, the 'two strikes' rule requires issuers to give shareholders the option to put the entire board up for re-election if the company receives more than 25 per cent of votes against two successive resolutions.

As noted, most national corporate governance codes set out, to varying degrees, the expectations for issuers to engage with their shareholders. At the time of writing, the UK is consulting on an addition to its code which would compel issuers to consult with their shareholders when there has been a vote of 20 per cent or more against any resolution, and to report publicly on the outcome of that engagement.

As well as issuers, investors in some markets are increasingly becoming subject to mandatory disclosure requirements touching on their approach to engagement.

For example, the European Union's Shareholder Rights Directive,[8] which will come into effect in 2019, will require asset managers and some classes of asset owners operating in the EU to 'publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy… [and on an annual basis] how their engagement policy has been implemented, including a general description of voting behaviour, an explanation of the most significant votes and the use of the services of proxy advisors'. The same directive will also require those EU countries that have not already introduced 'say on pay' votes to do so.

8 See European Union's Shareholder Rights Directive, available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828.

An alternative or complementary approach is to incorporate engagement — or at least incentives to engage — into the fiduciary duties of asset owners, in the expectation that this will be reflected in their approach to their direct investments and in the mandates they award to asset managers. One such example is Regulation 28 of South Africa's Pension Funds Act,[9] which was revised in 2011 to require pension funds to give 'appropriate consideration' to any factors which may materially affect the long-term performance of their assets, including ESG factors.

3.2. Encouraging engagement

In addition to interventions that require or create an expectation of engagement, action has been taken in many jurisdictions to encourage or incentivise companies or investors to voluntarily engage. Many of these initiatives have been introduced by market participants such as stock exchanges or representative bodies, not just governments and regulators.

Initiatives aimed at issuers broadly fall into two groups. The first aims directly or indirectly to encourage engagement by promoting the perceived benefits. Examples of this approach include creating segments or indices on stock exchanges which issuers can only take part in if they agree to sign up to higher standards of governance, disclosure and/ or shareholder rights (for example, the Novo Mercado in Brazil).[10] Issuers participate in the belief that this will better enable them to attract and retain investment.

The second group of initiatives is that which emphasises the perceived threat to issuers of not engaging with investors in the belief that this will incentivise issuers to do so. An example of this is the corporate governance principles issued by the Investor Stewardship Group (ISG),[11] a coalition of US-based institutional investors who have told issuers that they will assess how issuers have applied the principles when making their voting decisions.

At the same time, the ISG issued a set of Stewardship Principles[12] addressed to institutional investors to encourage investors to exercise greater stewardship over the companies in which they invest, including through engagement. This is one example of the use of voluntary codes and principles addressed to investors, one of the main policy developments in recent years.

The first national stewardship code was introduced in the UK in 2010,[13] and at the time of writing similar codes exist in 19 countries — including eight of the ten jurisdictions studied as part of this research — with more under development.

The ownership of these codes and principles varies. Some have been developed by regulators (for example, Japan and the UK), others by stock exchanges (for example, Hong Kong) or investor groups (for example, Italy and Australia). However, the content is very similar. All of them set out the different processes that signatories are expected to carry out, including monitoring, engaging and voting and reporting to clients. A minority also specifies some of the investment considerations that signatories should commit to assessing as part of their stewardship, for example the South African code which specifies that signatories should take account of ESG factors.

9 See Regulation 28 of South Africa's Pension Funds Act, available at https://www.fsb.co.za/Departments/communications/Documents/Memorandum%20to%20explain%20the%20revised%20regulation%2028.pdf.

10 See BMF Bovespa Novo Mercado website available at http://www.bmfbovespa.com.br/en_us/listing/equities/listing-segments/novo-mercado/.

11 See the Investor Stewardship Group Corporate Governance Principles, available at https://isgframework.org/corporate-governance-principles/.

12 See the Investor Stewardship Group Stewardship Principles, available at https://isgframework.org/stewardship-principles/.

13 See the UK Stewardship Code available at https://www.frc.org.uk/investors/uk-stewardship-code.

In addition to national codes and principles, there are a number of multinational initiatives and organisations that promote similar objectives. Examples include the UN-supported Principles for Responsible Investment,[14] the International Corporate Governance Network's Global Stewardship Principles[15] and the European Fund and Asset Management Association's Stewardship Code.[16]

3.3. Enabling engagement

The final category of interventions and initiatives are those that aim to enable engagement to take place, either by removing real or perceived barriers or by providing some form of practical assistance to issuers or investors seeking to engage.

The increasingly globalised nature of investment and the complex nature of the investment and voting chain have created barriers as well as opportunities. As noted, the difficulties of shareholder identification and exercising cross-border voting can be significant deterrents to engagement for issuers and investors respectively.

The EU Shareholder Rights Directive,[17] due to take effect in 2019, contains new obligations on issuers, investors and intermediaries in respect of both matters, and is one example of how regulators are attempting to reduce barriers.

Another European example of an attempt to remove barriers is the publication by the European Securities and Markets Authority (ESMA) of guidance on collective engagement.[18] Collective engagement by investors on governance and related matters can be a very efficient and effective approach, particularly for minority shareholders or in jurisdictions where ownership is typically dispersed, but investors frequently cite concerns that they will be considered to be acting in concert as a reason for not participating in collective engagement. In 2013, ESMA published a 'White List' of circumstances in which investors could cooperate without being guilty of acting in concert.

Initiatives to facilitate collective engagement are among the examples of actions intended to provide practical assistance to those wishing to engage. For example, in the UK, the Investor Forum was set up in 2014 to provide a platform for engagement between individual issuers and groups of investors. In addition, is quite common in many jurisdictions for market participants such as stock exchanges and representative bodies to publish guidance or provide training to companies or investors on how to engage effectively. Examples include publications by Governance Institute of Australia (2014),[19] and the Council of Experts advising the Japanese Financial Services Agency (2018).[20]

14 See the UN Principles of Responsible Investment, available at https://www.unpri.org/about-the-pri.

15 See the ICGN Global Stewardship Principles, available at https://www.icgn.org/sites/default/files/ICGNGlobalStewardshipPrinciples.pdf.

16 See the European Fund and Asset Managers Association's Stewardship Code, available at http://www.efama.org/Publications/Public/Corporate_Governance/EFAMA%20Stewardship%20Code.pdf.

17 See the European Union's Shareholders Rights Directive, available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828.

18 See the EXMA Guidance, available at https://www.esma.europa.eu/document/information-shareholder-cooperation-and-acting-in-concert-under-takeover-bids-directive-%E2%80%93.

19 See the Governance Institute of Australia, *Improving engagement between ASX-listed companies and their Institutional Investors: Principles and Guidelines*; available at https://www.governanceinstitute.com.au/media/678497/improving-engagement-asx-listed-companies-institutional-investors-guidelines-final.pdf.

20 See the Japanese Financial Services Agency 2018 Guidelines for Investor and Company Engagement, available at https://www.fsa.go.jp/en/news/2018/follow-up/201880601.html.

4. The quantity and quality of engagement

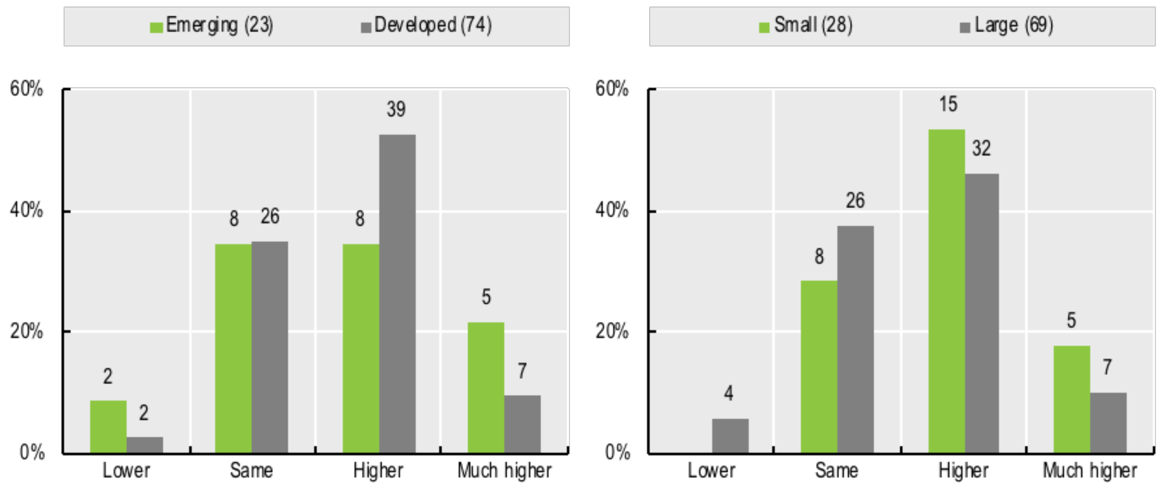
For the last decade or so, within their individual business models, incentives and ownership strategies, investors have in general increased their engagement and many of them, particularly the largest ones, actively report about these activities. Some of this reporting relates to mandatory requirements or commitments that are required by voluntary initiatives such as stewardship codes or UN-supported Principles for Responsible Investment, but some have chosen to provide more frequent and more detailed reports. To give just one example of many, BlackRock publishes quarterly reports on its engagement and voting activity for three different regions (the Americas, Asia Pacific and EMEA).

Our survey was aimed at documenting the experience of issuers that sit on the other side of the table in the engagement process. This section of the report presents the results obtained regarding the frequency and perceived quality of that engagement. It shows how issuers have responded to the investors' increased availability for dialogue and how they prioritise their own efforts to engage.

4.1. Frequency of engagement

A starting point is the unambiguous confirmation that issuers have perceived a measurable increase in the quantity of the engagement as compared to five years ago (which was the time frame considered throughout the survey for comparison).

Figure 1. Frequency of engagement (now compared to five years ago)



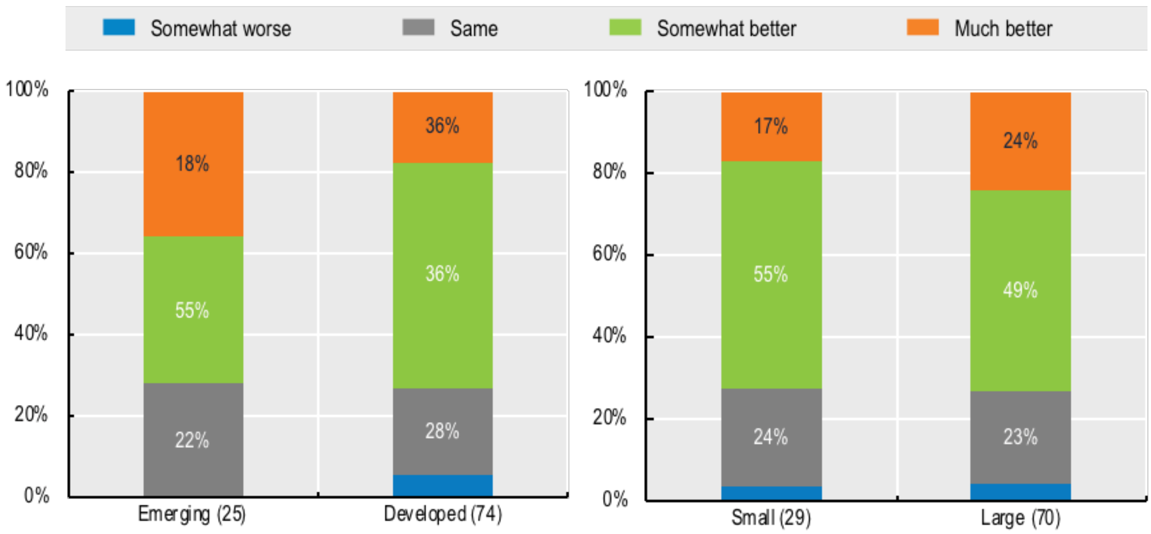
Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology and the classification of firms into regions and sizes. Source: ICSA Survey on shareholder engagement 2017.

As Figure 1 shows, about 60 per cent of the total sample reported that engagement had increased. The figures varied between large and small issuers, and those in developed and emerging markets. The rest reported that engagement has mostly stayed the same, with only a few companies mentioning it had decreased. Figure 1 presents these results showing the responses from issuers grouped by jurisdiction of origin into developed or emerging and by size into large and small (this approach is used throughout the report).

4.2. Quality of engagement

Over 70 per cent of issuers surveyed, were of the view that the quality of their engagement with investors had improved as compared to five years ago (Figure 2). This was consistent between large and small issuers and developed and emerging markets. There was also a similar sentiment amongst the issuers and investors that we interviewed.

Figure 2. Issuers' perception of quality of engagement (now compared to five years ago)



Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

On the other side, many investors cited an improved environment for engagement, not as much on a issuer by issuer basis but by jurisdiction. For example, one investor said…*'In those jurisdictions where engagement is more common, then the level of questions can be much higher. Expectations differ from jurisdiction to jurisdiction. But certain topics like climate change are more universal.'*

To get a better understanding of why both issuers and investors consider that engagement has improved, it is necessary to look at how engagement happens in practice and how this has changed in the last five years. We therefore sought answers to these questions:

- Which investors do issuers engage with?
- Who initiates the engagement?
- What criteria do issuers use for selecting engagement targets?
- When does engagement take place?
- What form does engagement take?
- Who takes part in engagement?
- What resources are allocated for engagement?

The results are described in the next chapter, exploring the nature of the engagement.

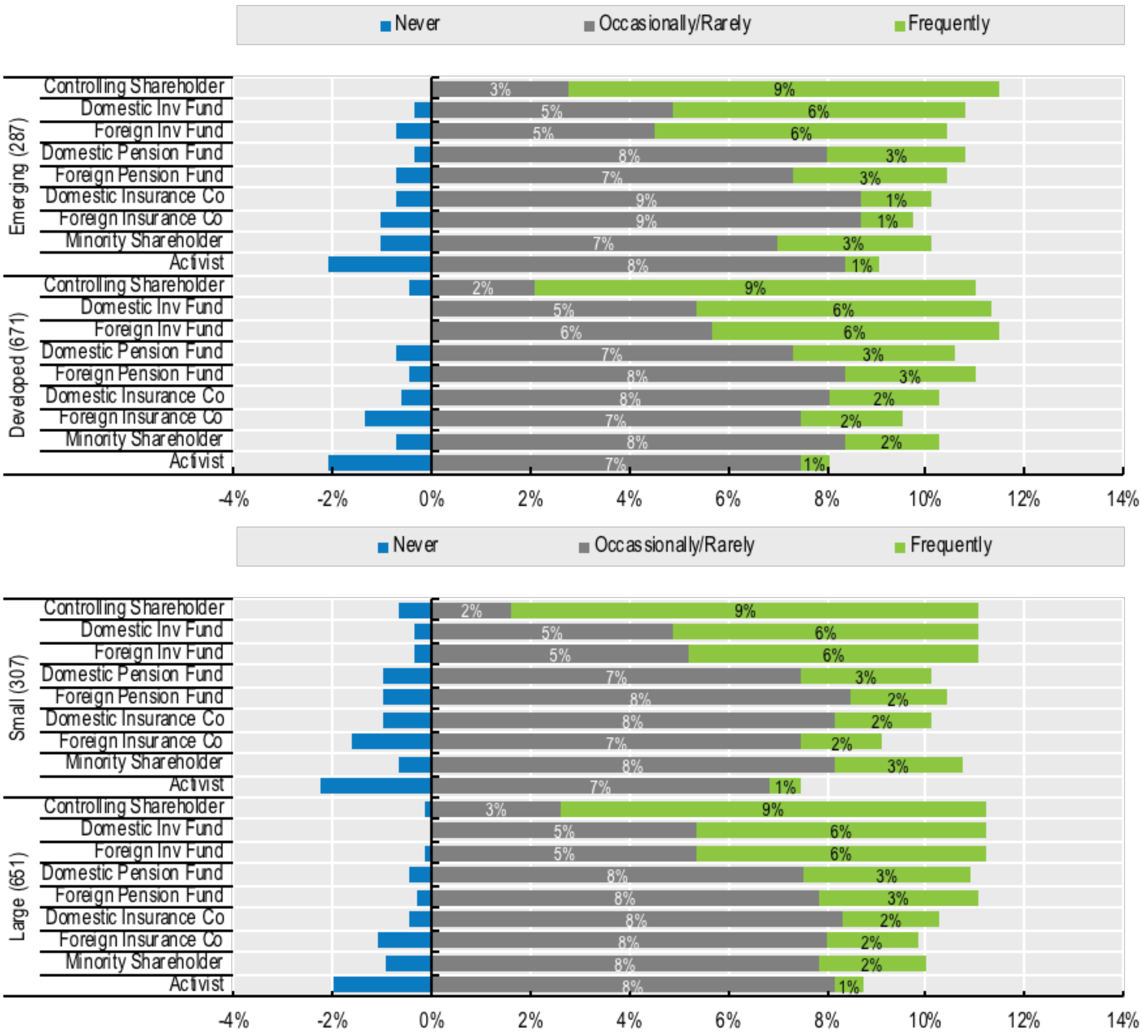
5. The nature of engagement

5.1. Which investors do issuers engage with?

In order to better understand the dynamics of the engagement process we asked issuers to describe their experiences when they were at the receiving end of the engagement, but also when they were the party seeking to engage. For this, we provided them with a list of different types of investors and asked them to mention how often they had interaction with each.

When asked to report which categories of investors seek to engage with their companies and how often that took place, the answers followed a similar pattern for large and small firms in both developed and emerging markets, with only a small degree of variation for some categories of investors. Figure 3 presents the results for different categories of investors and the issuer's assessment of how often they attempt to initiate engagement.

Figure 3. Investors that attempt to engage and frequency of the attempts

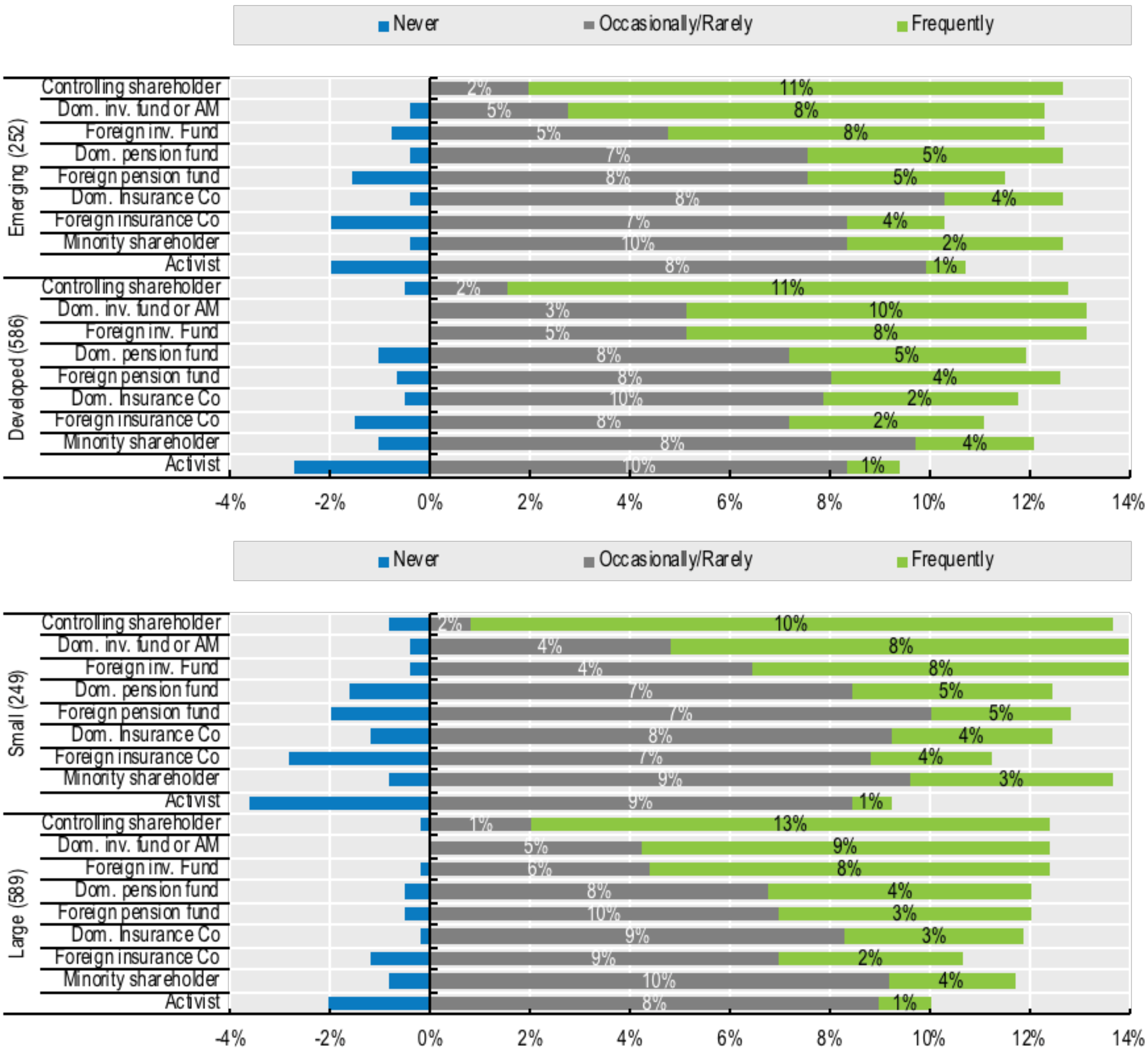


Note: Horizontal axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey on shareholder engagement 2017.

The results show that in all cases controlling shareholders and investment funds (domestic and foreign) are the categories of investors that reach out the most to issuers (*frequently*), while activists, foreign insurance companies and minority shareholders initiate engagement the least (*occasionally/rarely or never*). Pension funds, both foreign and domestic, as well as domestic insurance companies hover between those two groups.

Institutional investors interviewed for this report confirmed that there was an increased interest in engagement on the part of many investors. Some believed that this increased engagement by investors is essentially client driven. In their view the main factors behind this are a general increase in interest in ESG issues by asset owners, on the one hand, and collective initiatives such as the UN-supported Principles for Responsible Investment, on the other.

Figure 4. Investors the issuer attempts to engage with and frequency of the attempts



Note: Horizontal axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey on shareholder engagement 2017.

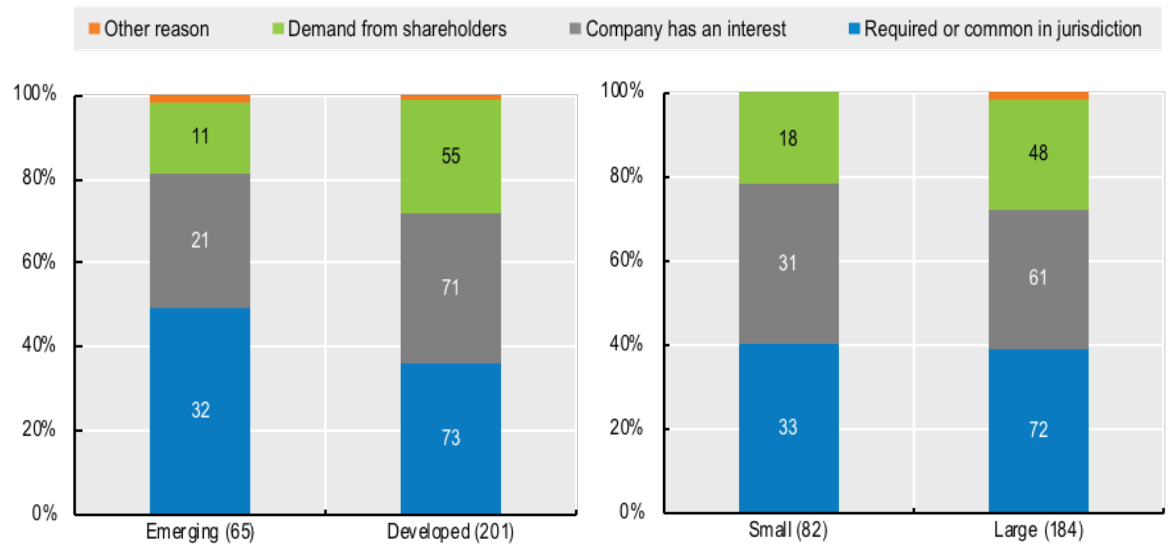
In order to explore the appetite for engagement by issuers, we asked issuers to report which investors they try to engage with and how often. Their responses diverge little from the answers obtained from investors in the previous question. They also mostly seek to initiate dialogue with the controlling shareholder and investment funds (domestic and foreign), as well as to a lesser extent with pension funds, domestic insurance companies and minority shareholders. Foreign insurance companies and activist are the types of investors they seek to engage with the least. Figure 4 presents the results for the categories of shareholders that the issuer attempts to initiate engagement with.

Large institutional investors interviewed for this report confirm that there is more interest from issuers to engage with them than in the past. Given their position in many markets and significant assets under management, issuers want to secure the support of their largest shareholders, particularly regarding remuneration voting which is in many jurisdictions the result of policy interventions regarding 'say on pay'. With many large institutional investors holding hundreds or thousands of companies in their portfolios, however, the demands on their time can often outweigh their available resources.

5.2. Who initiates the engagement?

In our survey, we asked those issuers that engaged with investors why they did so. A significant percentage of them said that they did so either because it was required or expected of them (Figure 5). The reasons why this might be the case — including the possible impact of market interventions from regulators, exchanges and others — are explored in the next chapter.

Figure 5. Reasons for issuers to regularly engage with shareholders



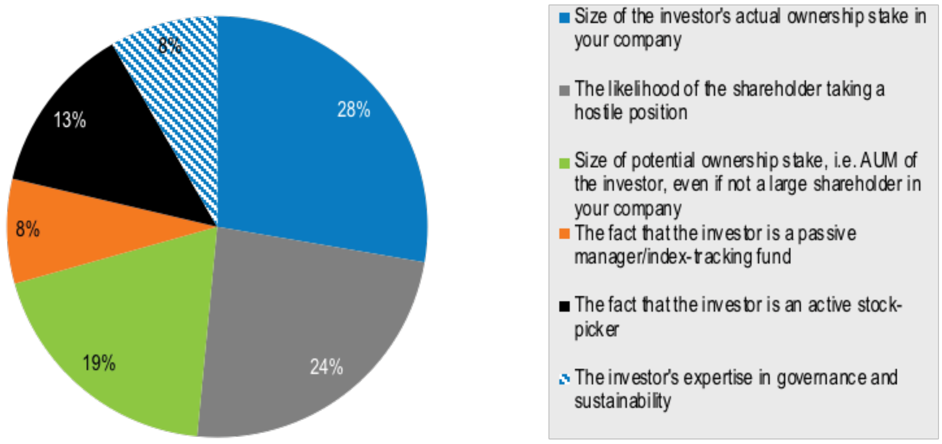
Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

The next most frequently given reasons for engagement were because issuers saw it as being in their own interest to do so, or because of demand from shareholders. For large issuers and those from developed markets, the percentages giving these as reasons were roughly the same. However, a smaller percentage of small issuers or issuers from emerging markets gave shareholder pressure as a reason. This might suggest that issuers in these groups are less likely to be seen as priorities for engagement by investors.

5.3. What criteria do issuers use for selecting engagement targets?

To explore more about issuer-driven engagement, we asked issuers which criteria they used to determine which shareholders to engage with and how often. The issuers' responses show that the main criteria are the size of their current stake (28 per cent) or potential holdings in the company (19 per cent), together with the likelihood that the investor may take a hostile position against the company (24 per cent). Active investors are preferred to passive ones, and to those with particular expertise on ESG issues. Figure 6 presents the results.

Figure 6. Criteria used by issuers to determine who to engage with and how often



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey on shareholder engagement 2017.

Our interviews with investors suggest that they make a similar assessment when determining which issuers to engage with, and this is borne out by other research. For example, the priorities for engagement that were most commonly identified by UK based institutional investors surveyed in 2017 were issuers in which they were a large shareholder; those issuers about which they had significant concerns; and their actively managed holdings.[21]

Some investor interviewees identified other 'screening' processes which they used to decide which companies to target. These included selecting priority sectors or markets based on, for example, their relative importance to the investors' overall portfolio or exposure to economic or other risks, but also the likelihood of being able to achieve their objectives through engagement.

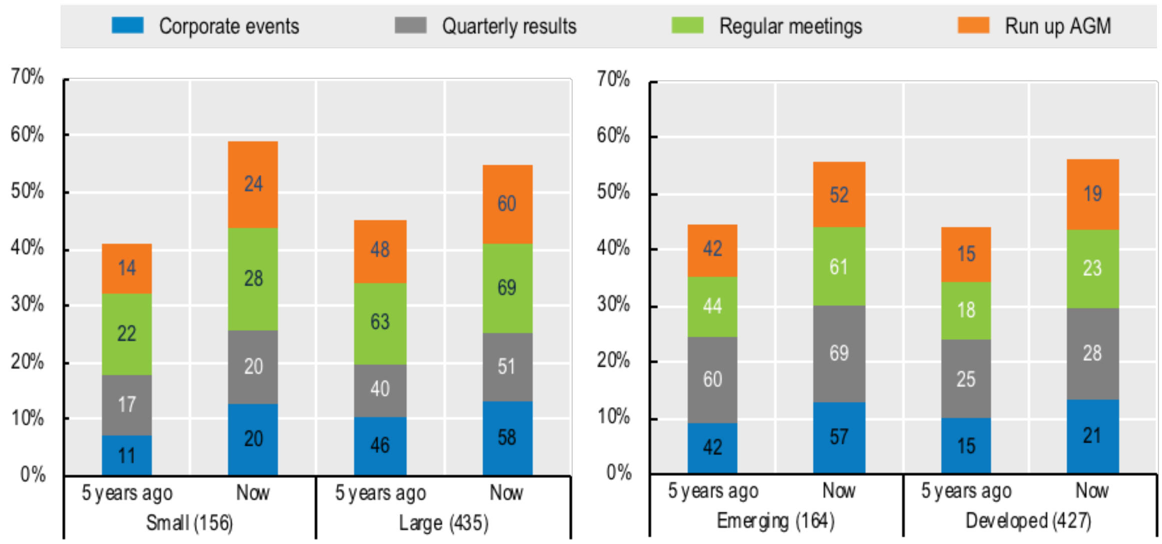
One global investor told us that they carried out only limited engagement in emerging markets. This was partly because each of those markets accounted for a relatively small percentage of their overall portfolio, but it was also because they found it difficult to have an impact in markets containing many issuers with controlling shareholders or which had weak voting or information rights for shareholders.

21 See 'Stewardship in Practice 2016'; The Investment Association and the Pensions Lifetime Savings Association; 2017.

5.4. When does engagement take place?

There is a perception that direct engagement between issuers and their shareholders is 'event driven' and only takes place either in the run-up to the annual general meeting or around the publication of annual and quarterly financial results (Figure 7).

Figure 7. Timing of the engagement (now compared to five years ago)



Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

While that may once have been the case, and while those are still likely to be the most intense periods of engagement for most issuers, the results of our survey suggest that engagement is now more of an ongoing process that takes place throughout the year. In both developed and emerging markets, the largest increases were in regular meetings with investors and corporate events or roadshows.

This was borne out by most of the issuers we interviewed, one of whom reported that: '*We have moved from an annual set-piece event (although it still happens for now) to more frequent ad hoc engagement — which seems to work for both the company and shareholders.*'

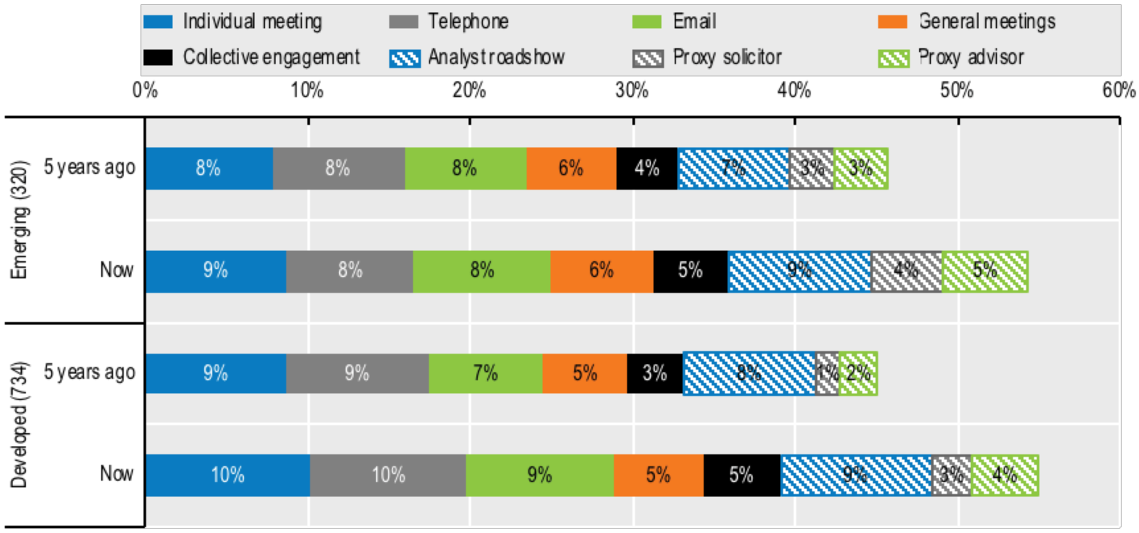
The findings on changes (and increases) of when engagement occurs is consistent and supports the findings that over 60 per cent of all issuers, both large and small, and in developed and emerging markets, report an increase in quantity as outlined in the previous chapter.

5.5. What form does engagement take?

The evidence from the survey suggests that issuers are now making greater use of a wider variety of engagement mechanisms, even though the most frequent methods of engagement are the same as they were five years previously.

Figure 8 shows the channels of communication used in the engagement now and five years ago. Respondents to the survey were asked to identify all the channels they used now and previously, and the figure shows the number of times each channel was mentioned as a percentage of the all responses. It illustrates that, while the balance between different engagement mechanisms is much the same, there is greater use being made of some methods and greater levels of engagement overall.

Figure 8. Modalities of engagement (now compared to five years ago)



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

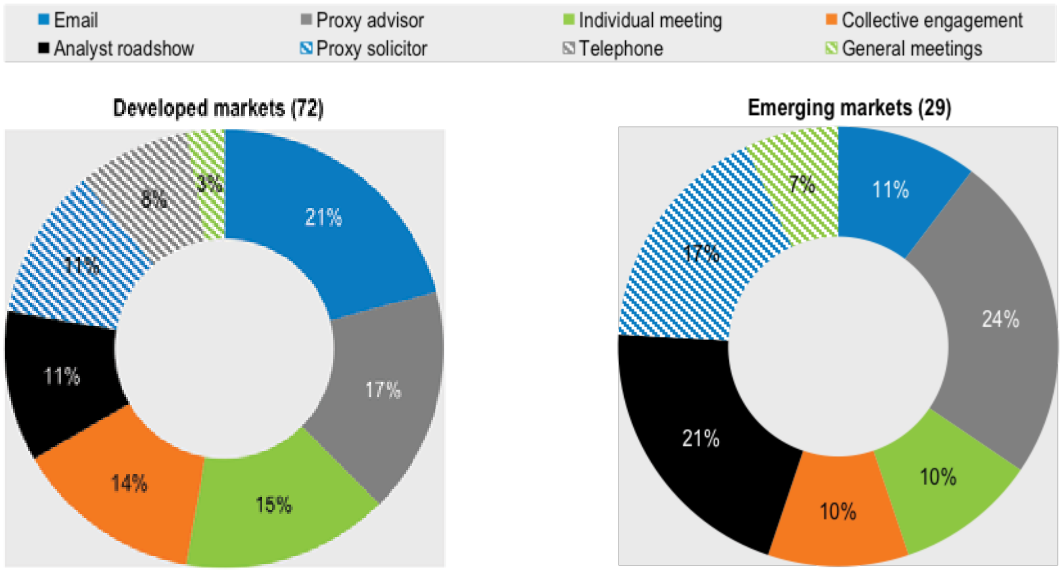
Overall, issuers made greater use of a wide range of channels to engage but notably there was a greater percentage increase across a number of channels in emerging markets. In emerging markets, the top channels to show an increase in usage for issuers were the use of proxy advisors and analyst roadshows. For issuers in developed markets the top channels with an increase were emails and individual meetings. Issuers in developed and emerging markets did cite an increased involvement with proxy advisors, but this probably reflects their being on the receiving end of the contact as opposed to initiating it.

Figure 9, looks in more detail at the subset of respondents that said they changed their methods of engagement in the last five years, whether by introducing new methods or stopping old ones. For each method of engagement, the figure shows what percentage of the total answers related to which method.

In developed markets the change is spread fairly evenly across many different methods, with email (21 per cent) being the most frequently mentioned. One issuer we interviewed advised that email is particularly useful in reaching large numbers of shareholders when some form of corporate action is underway, or when the company has a dispersed shareholder base. In developed markets individual meetings and collective engagement also saw an important rise.

In emerging markets, analyst roadshows and proxy advisors together accounted for 45 per cent of the increases. Proxy advisors were also the second most common change in developed markets as well. They saw less of an increase in analyst roadshows, but this may just mean that they were already widely used five years ago.

Figure 9. Change in the modalities of engagement (now minus five years ago)



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

Some of the issuers we interviewed did mention an increase in informal engagement. One noted that to continuing with formal channels such as annual one-on-one meetings or roadshows. '*We have moved from an annual set-piece event (although it still happens for now) to more frequent ad hoc engagement — which seems to work for both the company and shareholders.*'

As part of the survey we invited issuers to mention which of the various types of engagement with investors they regarded as most effective in fostering a dialogue that adds value to their company. The overwhelming majority mentioned individual meetings, one-to-one, as the most effective and sought-after type of engagement. The possibility to interact with each other and the chance to discuss issues such as strategy and other long-term considerations were mentioned among their advantages.

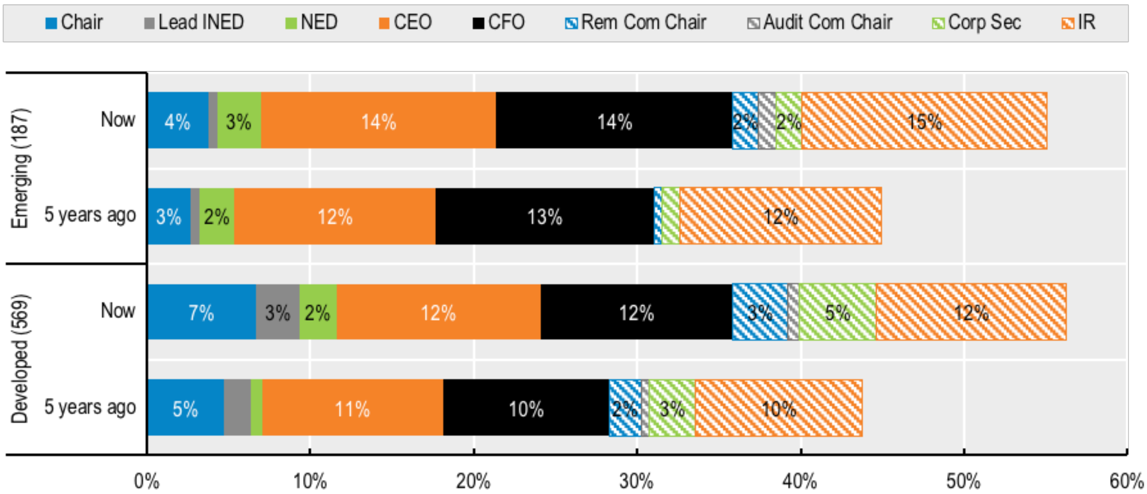
Views on the impact of proxy advisors among those companies were mixed. While some were critical, other mentioned an improvement in working with proxy advisors, particularly because as they perceive the proxy advisors have increasing resources and because they can work more effectively with them.

The style of engagement adopted by investors will vary depending on a number of factors, including their own resources and the location of the investee company, and whether they are priority and/or active holdings. In our interviews with investors, we were told that in their home markets and markets where they had a local presence they generally preferred to engage directly with issuers. In markets with which they were less familiar or had smaller holdings, they would make greater use of intermediaries such as proxy advisors or organisations that could represent investor views.

5.6. Who takes part in engagement?

In general, it is still the CEO, CFO, investor relations department (IR) and the chair, who dominate the engagement with institutional investors — across both developed and emerging markets (Figure 10), but the levels of partaking in the engagement have increased as compared to five years ago for all the company representatives. While there has been some increase in the participation of the CEO, CFO and IR, it is explained more by the overall rise in engagement activity rather than by a shift in who engages from other categories. For example, Figure 10 shows in emerging markets the CEO takes part in the engagement 14 per cent of the time from the level of 12 per cent five years ago.

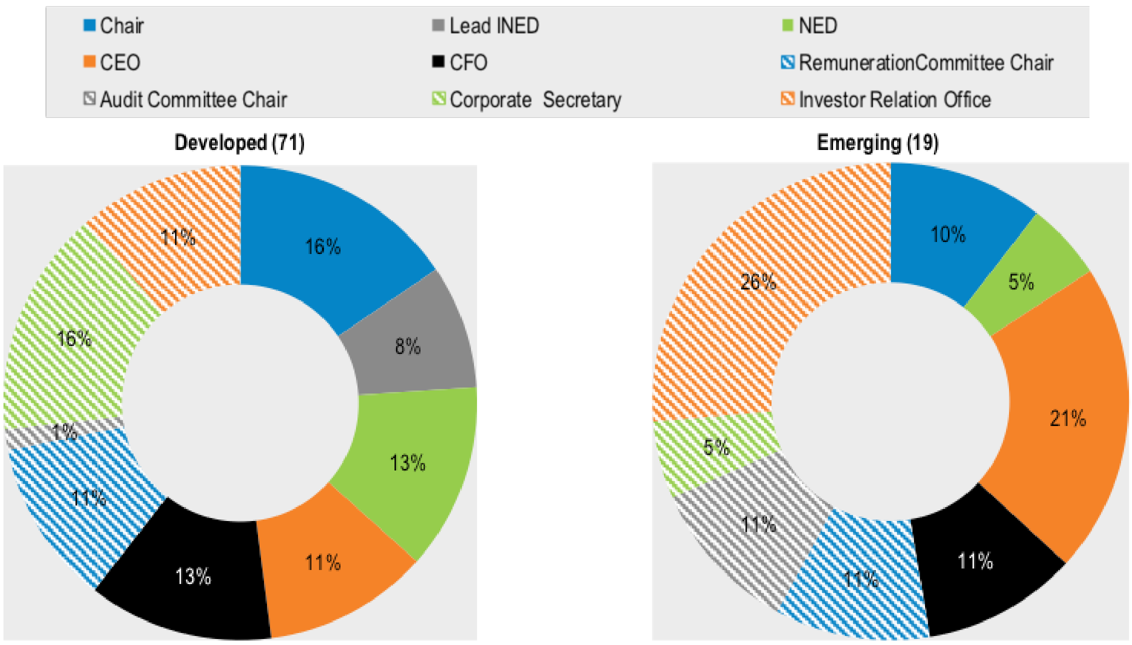
Figure 10. Company staff involved in the engagement (now compared to five years ago)



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

Figure 11 tracks the responses only of those issuers that reported an increase in the participation of the one or more company representatives in the engagement now compared to five years ago. It shows whose participation has increased the most. According to the survey results, in developed markets the issuer's staff experienced the greatest increase in their participation in the engagement with institutional investors were the chair, CFO and NED. In emerging markets, it was the IR and the CEO.

Figure 11. Changes in issuer staff involved in engagement (now minus five years ago)



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

The investors we interviewed noted that the people within the company who they engage with can differ from jurisdiction to jurisdiction. For example, one investor with investments in Japan commented that… '*as investors you rarely get to see board members, so you cannot be sure the messages will reach them*'.

Box 2. The role of the company secretary in engagement

In terms of who managed the process internally within issuers it appears to be dominated by the investor relations team, the CFO and the CEO's office.

Most issuers interviewed cited that the company secretary continued to have responsibility for the AGM and all matters leading up to it. In addition, the company secretary became involved in specific issues usually revolving around governance, regulatory or compliance issues, but investor relations had a more key oversight role in most companies interviewed.

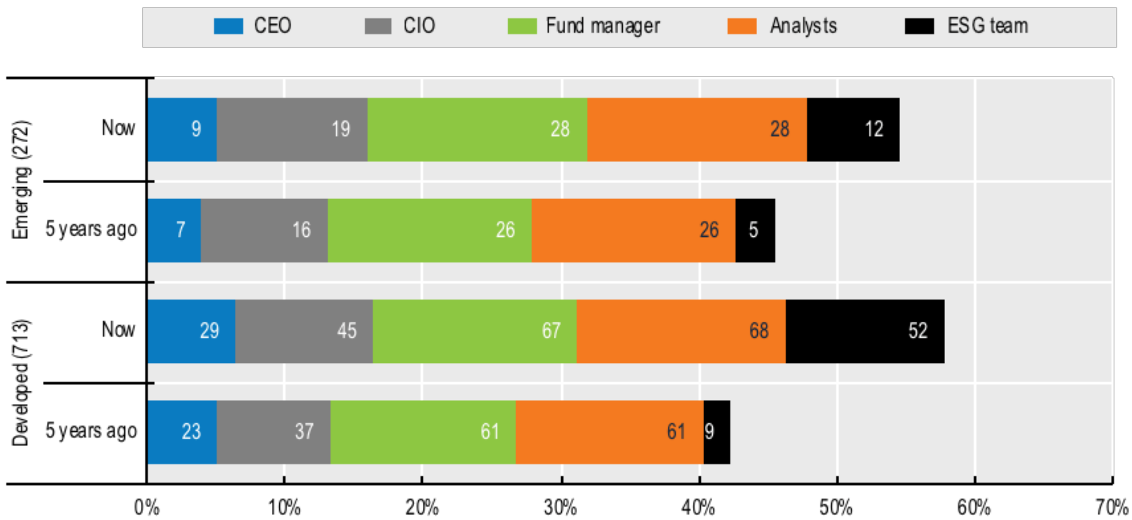
As the company secretary usually has a close working relationship with the chair and other independent NEDs it is surprising that they were not cited as being more involved.

One issuer noted…'*The company secretary role in engagement is increasing, although it is by no means the key contact.*'

While the roles involved have largely remained the same, some issuers did mention that internal resources devoted to engagement were often unchanged, regardless of the increase in engagement events and/or topics covered.

We also asked issuers to report who were their counterparts for the engagement from the investors' side. Again, we asked for current practices and for changes from five years ago to now. Figure 12 presents the results for developed and emerging markets, showing how fund managers and analysts remain the main counterparts, but also showing an important growth of ESG teams, particularly in developed markets.

Figure 12. Investor staff involved in the engagement (now compared to five years ago)



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

Views on the emergence of ESG teams alongside the fund managers and analysts as a third point of engagement within institutions were mixed. We heard criticism from some issuers that this could make it more difficult for them to identify who was the right person. One interviewee commented that '*we can go into a room and not know whether the person who really makes the investment or voting decisions is there*'. It is hard to gauge how widespread this frustration is; for example, a survey of directors of US companies found that 85 per cent of them believed that the right investor representatives were present at meetings.[22]

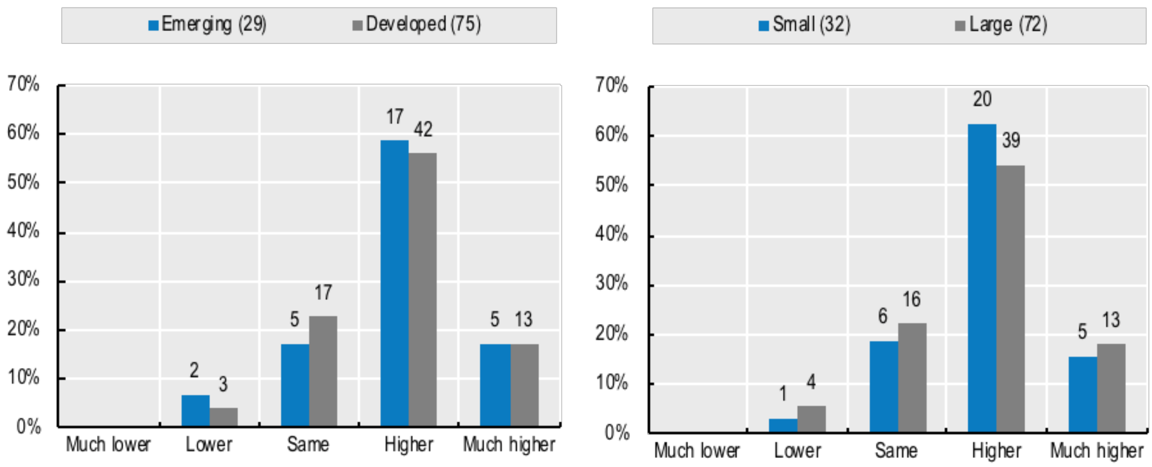
The institutional investors that we spoke to used different approaches that reflected their investment strategies, available resources and other factors. For example, one interviewee from an institution with both passive and active holdings told us that the ESG team would take the lead on engagement with passive holdings, for which there was no assigned manager, but would only play a supporting role to the fund manager for active holdings.

5.7. What resources are allocated for engagement?

Finally, we asked issuers about the resources they allocate to the engagement process and if they had evolved over the last five years. A majority of respondents declared that resources were now higher than before, and the rest were evenly divided between claiming that resources have remained the same or that they are now much higher.

It is interesting to note that a couple of issuers that had increased resources said it was because they had a new chair who had much greater experience in engagement rather than an increased demand for engagement from investors. Overall, these answers hold for firms from emerging and developed markets, both large and small. Figure 13 presents the results.

Figure 13. Resources allocated towards engagement (now compared to 5 years ago)



Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey on shareholder engagement 2017.

22 See 'The Governance Divide: Boards and Investors in a Shifting World'; PWC; 2017

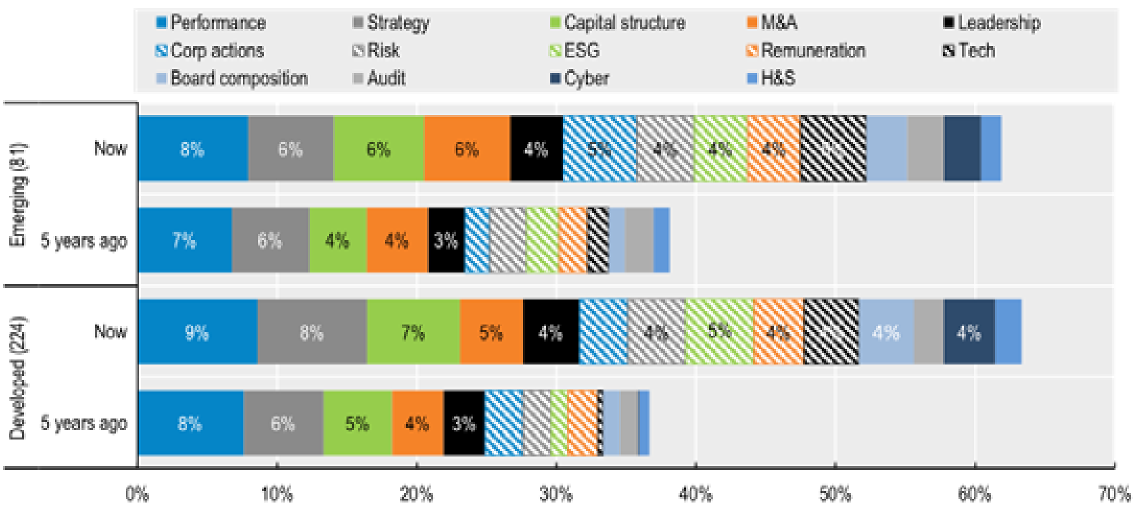
6. What is discussed during engagement

6.1. Topics of the engagement

Our survey found that while the topics on which issuers and investors engage the most remain the same as they were five years ago, more engagement is also taking place on other issues than was previously the case. This suggests that the increased quantity of engagement has enabled issuers, investors or both to bring other issues they consider important to the table which they may not have felt able to do previously.

In the total sample, the top five topics discussed were performance, strategy, capital structure, M&A and leadership. The same issues, in the same order, also comprised the top five issues five years previously. The first three issues are also the top three in both developed and emerging markets when taken as a group (Figure 14).

Figure 14. Topics discussed during engagement (now compared to five years ago)



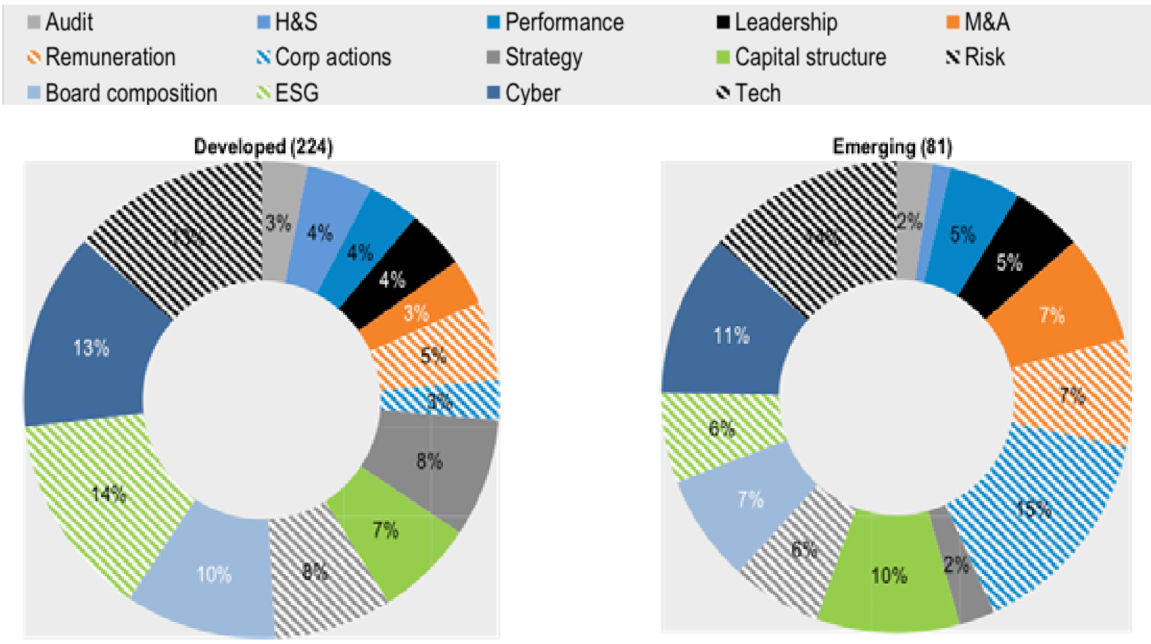
Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

Figure 14 shows the topics discussed now compared to five years ago. Issuers were asked to list all relevant topics discussed five years ago and/or now. The bars represent the frequency a topic was mentioned now and/ or five years ago. For example, in emerging markets capital structure now represents six per cent of all topics discussed versus four per cent five years ago.

6.2. Evolution of topics discussed

Figure 15 tracks the topics that are discussed more now than five years ago. Unlike Figure 14, it does not show the volume of discussion, but rather change from five years ago. For example, for emerging markets, capital structure as a topic has attracted ten per cent of the additional discussion for all topics from five years ago to now. In the case of M&A, in line with a documented shift in activity from developed to emerging markets,[13] the results show that the topic has attracted seven per cent of the additional discussion in emerging markets, and only three per cent in developed ones.

Figure 15. Changes in topics of engagement (now as compared to five years ago)



Note: See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

These findings confirm that business fundamentals[24] — financial performance and the strategies and structures to continue to deliver that performance — remain of paramount importance. However, there is evidence that other factors affecting the issuers's performance — whether internal issues or external threats and opportunities — are now being discussed to a much more significant extent than before.

As Figure 15 shows, the greatest increases over the last five years in terms of the amount of engagement relate to the potential impact of technological change on the issuer, together with threats to cyber security, risk in general and board composition. This holds true in both developed and emerging markets.

23 See OECD (2017), *OECD Business and Finance Outlook 2017*, OECD Publishing, Paris.

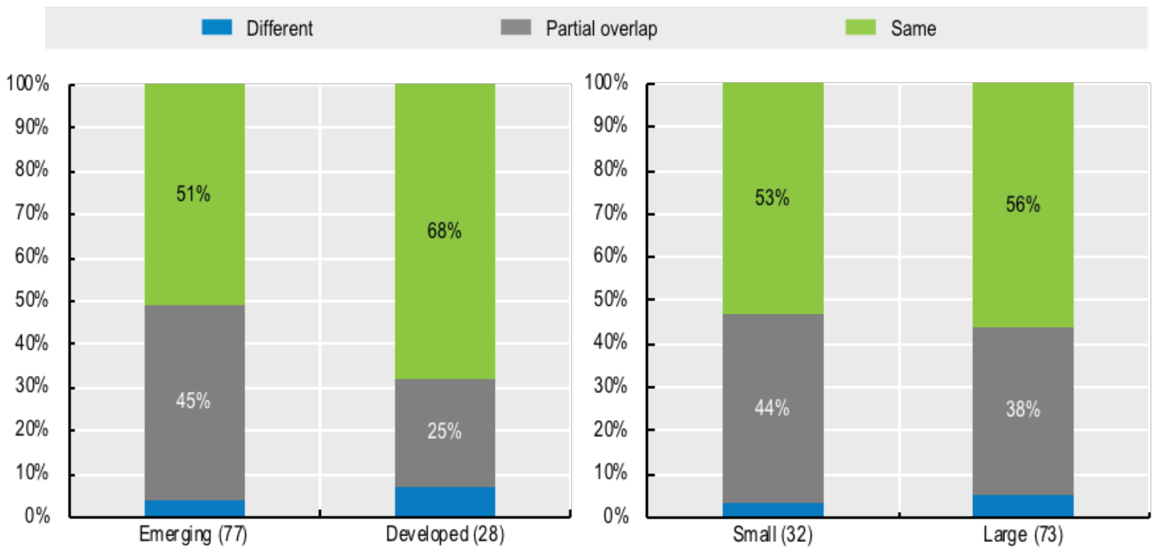
24 These findings are consistent with other research. For example, a global survey of institutional investors carried out in 2018 asked them to state which factors informing their voting decisions. The factors identified as being of highest importance were: business strategy; board composition; and — in joint third place — financial performance and the company's ESG policies and practices. See 'Institutional Investor Survey 2018'; Morrow Sodali.

In developed markets, we observed increased engagement on ESG considerations generally, which may suggest that ESG teams within investors may have primarily focused on issuers located in developed markets rather than those in emerging ones. In emerging markets, corporate actions and capital structure are increasingly discussed now with respect to five years ago. Since issuers in emerging markets have increased their amount of debt in their balance sheet during the last years,[25] it does not come as a surprise that a topic that impacts shareholders' returns has gained importance in the discussion.

6.3. Coincidence in topics selected for engagement by issuers and investors

Consistency in the topics that are discussed in engagement across markets is also evident when comparing the agendas of issuers and investors. It is encouraging that over 90 per cent of respondents said that the issues that both parties wished to discuss were either the same or that they overlapped. This was largely true for both the 'traditional' topics of engagement and those that were considered more important than five years before, such as ESG, technology and cyber-risk, as Figure 16 shows.

Figure 16. Coincidence on desired topics for engagement between issuers and investors



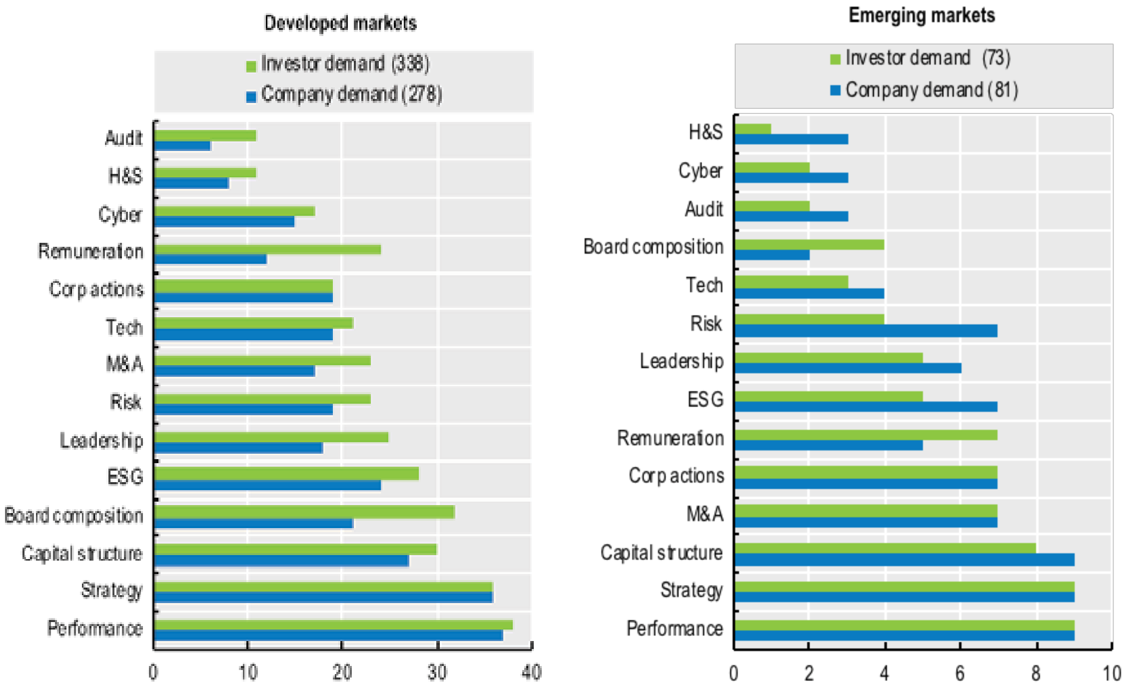
Note: Vertical axis represents percentage of total responses. See section Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

There are, however, some areas of difference. Figure 17 shows the demand for engagement on particular topics in developed and emerging markets, distinguishing between the demand from issuers and from investors. It appears that — when considered in order of priority — governance factors such as leadership and board composition and broader ESG considerations are higher priorities for investors in developed markets than in emerging ones.

It is difficult to draw firm conclusions as to why this might be the case, but it may perhaps be linked in part to the relatively dispersed ownership structure of issuers in many developed markets compared to many emerging ones. Investors may feel that the greater ability they have with these issuers to influence factors such as the composition of the board means that there is more value in engaging on the topic.

25 See OECD (2017), *OECD Business and Finance Outlook 2017*, OECD Publishing, Paris.

Figure 17. Demand for specific topics of engagement by issuers and investors now



Note: Horizontal axis represents number of responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

7. Observations and findings

7.1. State of engagement practices

Reviewing the evidence set out in Sections 4 to 6, it is clear that the amount of engagement between issuers and investors has increased in the last five years, for issuers of all sizes and in markets at all stages of development. It is also clear that the majority of issuers believe that the increase in quantity has, on the whole, been accompanied by an increase in quality. The detailed picture is, of course, more nuanced than that.

The level of engagement has not increased uniformly across all issuers, investors or jurisdictions. While both issuers and investors now devote more resources to engagement than five years ago — and involve a wider range of individuals within their organisations — they still need to be prioritised. For issuers, this means targeting investors with significant holdings or who they believe might take a hostile position; for investors, the prime considerations are the value of the holding as part of their overall portfolio, the seriousness of their concerns, and whether there is a realistic prospect of a positive outcome.

The means by which engagement takes place have also changed to some extent over the last five years. A significant part of the increase in the overall quantity of engagement can be linked to the greater use of email and proxy advisors; when it comes to improving quality, though, issuers much prefer face-to-face meetings. It is encouraging to note that these meetings have also increased, and that there is now more effort going into engaging on an ongoing basis throughout the year, rather than just in the run up to the general meeting or around the publication of results.

The evidence also suggests that one benefit of the increased amount of engagement has been that it has created room for issuers and investors to discuss a broader range of subjects. While discussions are understandably still dominated by the business fundamentals — strategy, performance and capital structure — subjects such as technology and various ESG issues now appear to be firmly on the agenda.

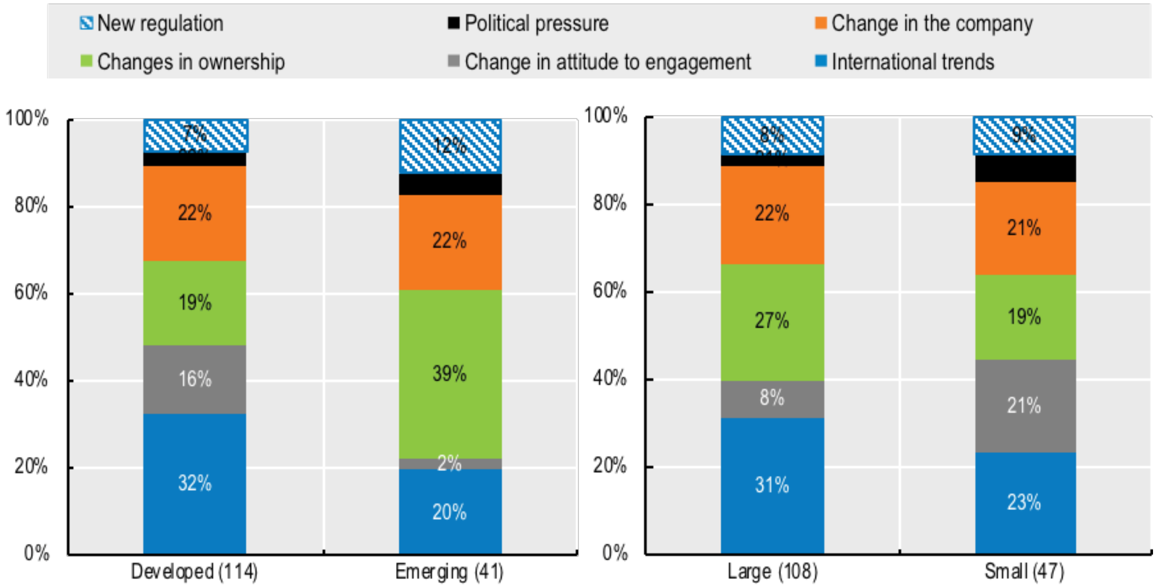
In this section, we aim to identify which of the factors described in Section 3 have been among the drivers of this increased and expanded engagement and to what extent, if at all, this may be attributed to the result of public policy interventions.

7.2. What are the drivers of improved engagement?

As part of the survey, we asked issuers about their perception of the drivers of the abovementioned changes in the engagement practices. We subsequently complemented their answers with the insights from interviews with selected issuers and investors.

Responses to the survey showed that issuers in developed markets believed that the most significant driver had been international trends for greater engagement; the same was true for large issuers across all markets (Figure 18). In emerging markets, by contrast, change in ownership was the most frequent reason given (by nearly 40 per cent of respondents). It is not possible to deduce from the survey why this was, but conceivably it is linked to a greater need or desire to attract external sources of capital by many issuers in those markets.

Figure 18. Cause of engagement change in quality and frequency from five years ago to now



Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

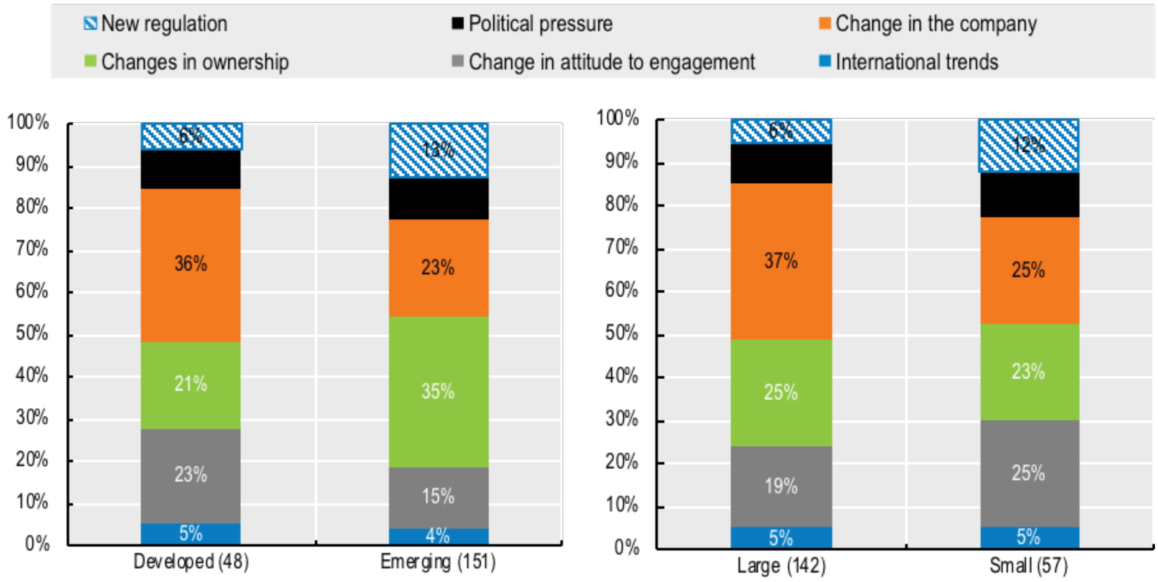
Overall, a large majority of responses from issuers from all markets and of all sizes indicated that the increased engagement, on their side, was driven by changes in the issuers' structure or attitude, whether prompted by changes in ownership, leadership or some other factor. By contrast, new regulation and political pressure was considered to have had a negligible impact on their attitude to engagement. However, it should be noted that the answers to these questions in the survey do not appear to be entirely consistent with the answers of issuers when asked why they undertook engagement (Figure 5). In that case, between 35 per cent and 45 per cent of issuers (depending on size and market) said that it was because it they were 'expected or required' to do so.

When asked to respond to a similar question, but this time in relation to the evolution of the topics that are discussed, respondents to the survey offered slightly different views (Figure 19). While changes in either the ownership or the attitude of the issuer were still the most significant drivers, international trends were mentioned by only a handful of issuers in any category. Political pressure and new regulation were mentioned marginally more often, but their influence was still seen as limited.

A tentative conclusion that might be drawn from the responses to these two questions is that while international trends, and international institutional investors, have contributed to the increase of the amount of engagement, the topics on which issuers and investors actually engage are more likely to be issuer or market specific.

In the interviews with issuers and investors we attempted to better understand and interpret what was behind this data. The interviews with issuers broadly confirmed the findings of the survey. While issuers acknowledged increased interest in engagement by investors, they attributed the increase in the level of engagement to their own efforts to reach out to shareholders.

Figure 19. Cause of change in issues discussed with investors from five years ago to now



Note: Vertical axis represents percentage of total responses. See Appendix 1 for a description of the methodology.
Source: ICSA Survey of shareholder engagement 2017.

A number of interviewees articulated the view that increased engagement was what a wise company ought to do as part of its overall business strategy and should not need anything external to prompt it to happen. One issuer said that a better informed shareholder base would generally bode well for the outcome of their general meeting.

Some interviewees identified specific triggers that prompted them to increase engagement. For example, one cited a change in their investor base as a catalyst (the impact of a change in ownership was also clearly evident from the survey results), while others attributed it to the impact of a new chair or CEO. In one case, the issuer described how a new chair with substantial experience in shareholder engagement had been appointed to the board precisely with the intention of fostering greater engagement.

Many of the investors we spoke to said that, on their side, increased client demand for active oversight and/ or investment approaches that take account of ESG factors had been the main driver for their own engagement. In some markets, at least, they had perceived a significant change among asset owners in recent years. One asset manager reported that: '*five years ago I was only asked to report on how we had voted, now I also get asked about which companies I have engaged with and what we discussed*'. The increased demand was attributed to a number of different factors, including the increased levels of interest and activity on the part of public pension funds (in some markets), the catalytic effect of initiatives such as the UN-supported Principles for Responsible Investment, and some of the policy interventions discussed in the landscape section.

The increase in client demand appears not to be a global phenomenon, with at least one investor telling us that they had not witnessed it in their home market. Nevertheless, with the percentage of shares owned by foreign investors increasing in many markets, increased demand for engagement from clients in one jurisdiction could result in greater engagement with issuers in many others. This could partly explain why over 30 per cent of large issuers and issues in developed markets mentioned international trends as a driver.

That said, a number of the investors with global holdings commented that the involvement of local investors was important for engagement to succeed, and that they often attempted to coordinate their engagement with leading local investors to maximise their chances of success.

7.3. Barriers to effective engagement

In the survey, we did not specifically ask respondents to identify whether there were barriers to effective engagement. However, a number of barriers and constraints were identified by the issuers and investors that we interviewed.

One factor mentioned by both issuers and investors were investors' resource constraints. With many major investors often holding thousands of firms in their portfolios it is only natural that their resources are stretched to engage meaningfully with all companies. Investors mentioned that they set their priorities in relation to the importance of the market in their overall portfolio; the size of the holding in the particular issuer relative to other shareholders, and issues such as the likelihood of a successful engagement outcome and the presence or absence of significant barriers to engage.

While these arrangements make sense for the institutional investors, and generally seem to work well for those issuers that are considered to be priorities for engagement, they are a source of frustration for other issuers. Some said that engagement often happened only indirectly, for example through proxy advisors, which they did not consider was a genuine dialogue with their shareholders. This observation is reinforced by the survey data on the modes of engagement, which showed a significant increase in engagement through proxy advisors, in all markets but particularly in emerging markets (Figure 9).

This might suggest that increases in the quantity of engagement are not always accompanied by an increase in the quality of engagement (as perceived by issuers). A similar observation might be made about the increased involvement of ESG teams within institutional investors (Figure 12). While this had enabled those institutions to undertake more engagement, some issuers felt that the resulting 'fragmentation' of engagement had in some cases made it more difficult for them to know where decisions were taken within the institution and to be certain what voting decision would be taken.

Both issuers and investors mentioned that resource constraints were exacerbated by the fact that most general meetings, globally as well as in individual jurisdictions, continued to be concentrated together in a short period of time. This hampered the quality of engagement. However, the survey shows that there has been an increase in ongoing engagement during the rest of the year (Figure 7), which should offer the opportunity for more considered engagement.

Finally, issuers and investors mentioned various barriers that they considered were built into the legal and market infrastructure, and which made effective engagement more difficult. These included challenges around shareholder identification, vote confirmation, and cross-border voting.

7.4. Did public policy interventions influence engagement?

In the interviews with issuers and investors, we tried to test out the view of the issuers we surveyed that regulatory and other policy interventions were not a major contributory factor to the increase in engagement. We wanted to find out if this view was shared and, if so, whether it was because the policy interventions had been ineffective, or whether they had made an impact but only an indirect one (for example, by contributing to an environment in which engagement was more likely to occur).

When issuers were asked in the interviews whether policy interventions had influenced their own behaviour, few if any considered that they had, bearing out the results of the survey. Instead, as noted above, they considered that they had chosen on their own accord to increase engagement as they could see the benefit of doing so.

Some issuers interviewed felt that policy interventions aimed at investors, for example stewardship codes, had been an influence on the behaviour of some investors. Some were concerned that they had been a malign influence. For example, one issuer saw initiatives encouraging investors to engage more as 'problematic' as many investors adopted a 'template' type of approach to engagement that was not always appropriate in the company's specific circumstances. There were also some issuers that spoke of the burden of compliance that came with some of these policy interventions.

A similar impression emerged from the interviews with investors. Most of the investors we spoke to did not consider that policy interventions had been drivers for change in their own approach to engagement, but some gave examples where they felt policy interventions had led to a change of approach on the part of issuers. Examples included the introduction of 'say on pay' votes in the US in 2012, and the Japanese corporate governance code, in 2015.

While these changes had helped to make issuers more willing to 'come to the table', investors did not see them as always leading to a change in mindset. The perception of investors was that, in some issuers, engagement was seen as something that needed to be done to win needed votes rather than something that could be genuinely beneficial. Willingness to engage by issuers was seen by investors as being a cultural issue, with one investor noting that engagement was always easier in markets where it was seen as the norm. Some investors felt that while regulation itself could not bring about a cultural change, it could help to create an environment in which such change could happen over time.

As one investor put it, '*while regulation like "say on pay" has an impact in getting issuers to address issues, it is investors that can change issuers' mindsets so they see ESG and engagement as activities that add value rather than being purely viewed as compliance. That is where US companies were in 2012, but five years on some are beginning to demonstrate genuine interest and understanding*'. The same investor felt that investor-led initiatives such as the Investor Stewardship Group in the US could help bring about that change.

Those investors who commented on the impact of policy interventions directed at them took a broadly similar view of their impact as those aimed at companies. They saw them as something that might help to create an environment where engagement was possible, but without a change of mindset on the part of investors or other actions to enable engagement to take place, their impact was limited. For example, one investor with holdings in South Africa felt that Regulation 28 had not had a significant impact on the investment approach of pension funds until the more recent governance scandals had led them to understand why it mattered.

More generally, many of the investors we spoke to did welcome the increasing number of national stewardship codes, while noting that they shared some of the same limitations as other policy interventions in terms of their ability to bring about real change. One investor felt that, in developed markets, the main impact of codes would be to raise the profile of stewardship rather than change behaviour, as many of those investors who signed up to codes would already carry out active engagement practices. Conversely, another investor considered that codes could have a greater impact in less developed markets with no tradition of engagement. There, as well as raising the profile of engagement activities, they could provide a framework for investors wishing to move to more active oversight.

The interviews also highlighted that for some investors the engagement with the regulators is also of a high priority. Some of them choose to devote part of their resources to engaging with regulators on the shaping of these policy interventions and the rules of the framework for corporate reporting and governance, as well as on general shareholder rights issues. They perceive this to be more effective use of their time and maybe a more efficient tool to bring about change at the corporate level than efforts to engage with individual companies.

7.4. Is there a need for further policy interventions?

In general, issuers did not welcome the prospect of further legislation or other policy interventions to improve engagement. As noted above, there was a general view that those issuers that choose to engage do so because they believe it is in their interest to do so. One interviewee commented on what they felt were the increased compliance costs and bureaucracy arising from these interventions, and questioned whether their shareholders were better off as a result.

The one example of possible regulation that some issuers felt would be desirable would be to tackle the lack of transparency about who are their ultimate owners, which caused frustration for issuers under a range of circumstances.

On the part of investors, the impact of interventions intended to encourage engagement was perceived as limited by both the willingness and ability of issuers and investors to engage, whether that be because of attitudes, resources or the existence of barriers.

One investor felt that the efforts of policy-makers would be better directed at removing these barriers to enable those who wished to engage to do so, rather than trying to convert those that do not wish to do so to the cause. The argument was that increasing client demand would bring about that change in any event and removing barriers would speed up progress. Many of the barriers mentioned by investors were specific to individual markets, but as noted included common challenges related to shareholder identification and cross-border voting.

Other investors considered that policy-makers could do more to promote better engagement by addressing issues in the way that the investment chain operated, to capitalise on the increased client demand for investment approaches that incorporated engagement. Among the issues identified were the way in which asset managers were incentivised, the nature of contracts and mandates between asset owners and managers, and the role of advisors such as investment consultants.

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Appendix 1: Methodology

This paper was developed from three main sources of information: desktop research, companies' surveys, and interviews with institutional investors and issuers. During the first stage of the project, we collected information about the jurisdictions under analysis with respect to their market environment, regulatory framework and their recent initiatives that affect shareholder engagement. This information is used throughout the report to support the analysis. Appendix 2 provides the jurisdiction summary tables containing the most relevant information. In the second stage we prepared and deployed an online survey targeted at issuers to collect their views with respect to shareholder engagement. In the third stage we also interviewed some institutional investors and issuers to obtain their views with respect to the main trends observed in the survey. Here we provide the methodology followed by the issuers' surveys in the first section, and the interviews with institutional investors and issuers in the second part.

Survey

Survey sample selection

The sample was constructed with the final aim of having a non-biased group of issuers. We first identified the jurisdictions that could provide us with a balanced sample and at the same time fit the following criteria. First, we wanted to have a global coverage with a balance between emerging and developed markets. Because jurisdictions differ in their approach on how to promote shareholder engagement, we intended to select issuers from different jurisdictions. Second, we selected jurisdictions where some regulatory change that affected shareholder engagement was introduced after the crisis. For example, in the United Kingdom the Stewardship Code was introduced in 2010 and revised in 2012 and in South Africa the Code for Responsible Investing in South Africa was introduced in 2011. In other jurisdictions, more informal industry-developed guidelines have been introduced, for example in Australia with Governance Institute of Australia's *Guidelines: Improving engagement between ASX-listed entities and their institutional investors* and the Australian Council of Superannuation Investors' *A Guide for Superannuation Trustees (2011)*. Finally, we gave preference to jurisdictions where ICSA has a local branch or the research team had good contacts that could facilitate access to corporate secretaries or investor relation officers for selected companies.

Taking into account the above-mentioned criteria we ended-up selecting the following jurisdictions: Australia, Brazil, Chile, Italy, Japan, Hong Kong (China), South Africa, Sweden, United Kingdom and United States. As the next step, we collected the list of all the publicly listed issuers with headquarters in those jurisdictions. In addition, we also gathered information about the industry (SIC codes) where these issuers operate and some financial measures such as market capitalisation, total assets and sales revenue. The main goal was to have a balanced sample in terms of industry composition as this also determines aspects of the financial and investment policies of issuers that can affect the way shareholders interact with the investee companies. From the initial sample we started by eliminating those with missing SIC codes and missing market capitalisation or a market capitalisation lower than USD 50 million. Firms with missing or zero revenue were deleted as well. We ended up with a sample of 9,045 unique issuers.

Next, we constructed jurisdiction-industry groups and ranked the issuers by market capitalisation (from the largest to the smallest) as of December 2016. We eliminated three industries where the total number of issuers was less than 50. From each jurisdiction-industry group we selected the first five largest issuers (those with ranking 1–5) and issuers with ranking between 16–20, where possible. Whenever the number of issuers by jurisdiction-industry group was less than 20 we continued selecting the five largest issuers and the last five of each group. We finally reached a sample of 742 unique issuers that was balanced by jurisdiction and industry (see Table 1).

The resulting sample is balanced in terms of jurisdiction and industry distribution, and targets large and small issuers within each jurisdiction. In general, large issuers represent a higher share in investors' portfolio compared to small firms. The relative importance in their portfolios may influence the amount of resources investors devote to engage with investee companies.

Table 1. Selected sample, number of issuers

Country	Construction	Finance, Insurance and Real Estate	Manufacturing	Mining	Retail Trade	Services	Transportation, Communications, Electric, Gas and Sanitary service	Wholesale Trade	Total
Australia	10	10	10	10	10	10	10	10	***80***
Brazil	9	10	10	6	10	10	10	7	***72***
Chile	4	10	10	5	7	7	10	6	***59***
Hong Kong (China)	10	10	10	10	10	10	10	10	***80***
Italy	8	10	10	3	4	10	10	5	***60***
Japan	10	10	10	10	10	10	10	10	***80***
South Africa	8	10	10	10	10	10	10	10	***78***
Sweden	9	10	10	4	10	10	10	10	***73***
United Kingdom	10	10	10	10	10	10	10	10	***80***
United States	10	10	10	10	10	10	10	10	***80***
Total	**88**	**100**	**100**	**78**	**91**	**97**	**100**	**88**	***742***

Source: *Factset*

Survey respondents

Researchers at ICSA and OECD jointly prepared the survey with the aim of understanding how different policy interventions influence the quality, degree, and effectiveness of engagement from the issuers' perspective (see Appendix 3 for the survey instrument). The survey was sent out to the selected 742 issuers (Table 1) directed predominantly at the corporate secretaries and investor relations officers.

We received 128 responses, most of them complete and some partially complete. Out of those 128 responses, only two companies answered that they did not engage regularly with shareholders and so we dropped them from the sample. We also eliminated issuers that had not completed enough of the questionnaire to be considered 'partially complete' (less than five responses) and we were left with 116 issuers for the analysis (a response rate of 15.6 per cent). Tables 2 and 3 provide a description of the distribution by jurisdiction and industry of the issuers used in the analysis. As seen in Table 2 the responses are highly concentrated from Japanese and the British companies, where both countries account for 38 per cent of the responses. In terms of industries, finance, manufacturing and transportation concentrate more than 50 per cent of the responses. Based on this information, we suggest a careful interpretation of the results.

Table 2. Jurisdiction distribution of responses, as of the end 2016 (USD Millions)

Country	Companies	Assets	Market capitalization	Sales revenue
Australia	6	216,613	62,907	22,092
Brazil	12	489,527	62,530	99,669
Chile	14	184,250	52,427	52,744
Hong Kong (China)	7	670,552	406,680	242,438
Italy	5	645,964	66,596	119,954
Japan	23	7,168,690	592,292	758,440
South Africa	9	26,064	37,054	23,730
Sweden	16	664,744	189,416	94,988
United Kingdom	21	3,755,374	573,304	358,082
United States	3	285,382	323,204	158,158

Source: *Factset*

Table 3. Industry distribution of responses, as of the end 2016 (USD Millions)

Industry	Companies	Assets	Market capitalization	Sales revenue
Construction	13	175,367	81,054	80,996
Finance, Insurance and Real Estate	20	11,600,000	596,359	442,203
Manufacturing	20	770,783	500,056	499,841
Mining	9	82,775	34,118	54,100
Retail Trade	12	289,297	264,239	204,570
Services	13	137,948	135,080	74,646
Transportation, Communications, Electric, Gas and Sanitary services	19	897,251	703,176	473,920
Wholesale Trade	10	147,459	52,327	100,020

Source: *Factset*

Survey analysis

For the survey analysis, we classify responses according to the type of economy and to the relative size in their local market. Responses were first grouped based on the jurisdiction of their headquarters into developed markets and emerging markets using the IMF country definition. The second criterion used to classify them is size, and we used it to group the responses into small and large issuers. Throughout the analysis, we use these two classifications to analyse the responses. For each question, statistics were shown as share of the total answers collected for the emerging, developed, small or large segments.

Some questions in the survey allowed for multiple answers which potentially generated a number of responses larger than the number of issuers within groups. For example, in question 3 (see survey in Appendix 3) when asked the reasons why issuers engage regularly with shareholders, issuers were given the option to select up to three possible answers. Thus, the answers collected from the developed markets sample is 201 and from emerging markets 65, which surpassed the 81 issuers from developed markets and 27 issuers from emerging markets that answered the question of the survey. Responses were then presented as a percentage of the total answers for the developed sample and as percentage of the total answers for the emerging sample, not over the total number of issuers in each sample.

Table 4: Jurisdiction and size classification

Developed	Emerging
Australia	Brazil
Hong Kong (China)	Chile
Italy	South Africa
Japan	
Sweden	
United Kingdom	
United States	
Total=81	Total=27
Size	Number of companies
Small	39
Large	77

The survey had questions that provided the option to respond *Frequently*, *Occasionally*, *Rarely*, *Very Rarely* and *Never*. As we did not receive many responses selecting Occasionally and Very Rarely we presented only three categories regrouping the choices made by the respondents. The survey also included a question type that asked for a temporal comparison. In particular, questions 7–10 and 15–17 asked for a comparison between a situation five years ago and now. Respondents could say that something was relevant five years ago and now, and therefore in those cases we counted their response as now and as five years ago. But in many cases there was change from five years ago to now, and in those cases we showed the variation computed as the number of 'now' responses minus the number of 'five years ago' responses for a particular answer within the group over the total 'now' minus 'five years ago' for the group (small, large, developed or emerging).

Interviews with institutional investors and issuers

Investors

The view of issuers was collected in the survey and the main goal of the interviews was to reach out to learn about the opinion of institutional investors. The interviewees were primarily asset managers, but we also interviewed one sovereign wealth fund. They were selected either because they were global investors and able to compare their experience in many different regions and markets, or because they had significant investments in — and deep knowledge of — one of the jurisdictions included in our survey. We offered investors anonymity in their responses to facilitate a frank discussion.

Institutional investors were asked about their opinion with respect of the general views from the issuers' surveys and about their own approach to engage with investee companies. Questions included:

Do you agree with the *views of issuers* that…?

- The overall quantity and quality of engagement has increased in the last five years, at least in developed markets?
- This is mostly due to a change in the attitude to engagement on the part of issuers and/ or changes in investor expectations, rather than regulatory and policy initiatives?
- The increased interest from investors is largely coming from ESG teams or equivalent rather than investment managers?
- The range of topics discussed is broader?

With respect to your *own approach* to engage with investee companies…

- Have you changed your own approach to engagement in the last five years?
- If so, how is it different now, and what was the reason for your change in approach?
- Do you apply the same approach in to engagement in all markets in which you invest?
- If not, how does it differ and what factors determine the approach in each market?
- What are your views on stewardship/ corporate governance codes and similar initiatives — have they had an impact?
- If there was one thing policy-makers could do that would encourage or enable you to engage more, what would it be?

Issuers

As the online survey was aimed at issuers, the interest in interviewing issuers was then based on pursuing in greater detail their general views but also further exploring some of their more unique survey responses. Issuers were also chosen to represent as broad a geographic spread as possible. As with investor interviews we offered issuers anonymity of their responses to facilitate a frank discussion. All issuers were asked:

- In general, the views of other issuers were that….
  - The overall quantity and quality of engagement has increased in the last five years, at least in developed markets
  - This is mostly due to a change in the attitude to engagement on the part of issuers and/ or changes in investor expectations, rather than regulatory and policy initiatives
  - The increased interest from investors is largely coming from ESG teams or equivalent rather than investment managers
- With this in mind is there anything in the survey results that surprised you?
  - What are your views on stewardship/ corporate governance codes and similar initiatives? Have they had an impact?
  - If there was one thing policy-makers could do that would encourage or enable you to engage more, what would it be?
  - Has the role of the company secretary in the engagement process changed at all in the last five years?

Following the general question, some specific questions were then asked, such as:

- You identified ESG teams and proxy advisors as being more active in engagement now than five years ago. What impact has that had on the style of engagement?
- You mentioned at the end of the survey that you think there is still too much focus on short-term delivery of financial results, despite the range of topics discussed with investors being broader than five years ago. Is that across the board with all investors? And are you taking steps to influence a change?
- In general, your responses painted a picture of vastly greater engagement …and you have said there has been a change in attitude of your board/management. What do you think has driven that change of attitude?
- Do you apply the same approach to engagement with all types of investors?
- In your response in regard to who within your company engages with institutional investors you say that your CEO, CFO and NEDs engage but you did not mention your chair. This is differs from most responses. Can you please elaborate on why the chair is not involved?

Appendix 2: Jurisdiction facts

These summaries are only the views of the authors based on desktop research and interviews with experts in each jurisdiction.

Australia

Market structure			
Ownership structure of companies	**Dispersed**	Mixed	Concentrated
Presence of state as investor in listed market	**Minimal**	Average	Significant
Liquidity/size of market	**High**	Medium	Low
Existence of ESG indices	**Yes**	Emerging	No
Legal/regulatory tradition	Hard law	**Mixed**	Soft law
Level of interest shown by regulators	**High**	Medium	Low

Engagement policies aimed at companies		
Corporate governance code provisions	Yes	Principle 6 on communication with security holders
Ease of submitting shareholder resolutions	Hard	5% of votes or 100 shareholders
‘Say on pay’ provisions	Yes	Non-binding vote but two-strike rule
Involvement of shareholders in board selection	Low	Re-election of directors every three years

Engagement policies aimed at investors		
Stewardship code	Yes, two	FSC Standard 23: Principles of Internal Governance and Asset Stewardship 2017; and the Australian Asset Owner Stewardship Code, May 2018
Extent of involvement of proxy advisors	High	
Requirements to vote all shares for institutional investors	No	
Requirements to publish voting policy/record	Voluntary	FSC Standard 13 regarding ASX listed investments — mandatory for members
Explicit fiduciary expectations related to ESG issues	No	Though many investors take into account on a voluntary basis
Actions to encourage/remove barriers to collective engagement (acting in concert)	No	

Brazil

Market structure			
Ownership structure of companies	Dispersed	Mixed	**Concentrated**
Presence of state as investor in listed market	Minimal	**Average**	Significant
Liquidity/size of market	High	**Medium**	Low
Existence of ESG indices	Yes	**Emerging**	No
Legal/regulatory tradition	**Hard law**	Mixed	Soft law
Level of interest shown by regulators	High	**Medium**	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	Principle 6 on communication with security holders
Ease of submitting shareholder resolutions	Average	5% of votes or 100 shareholders
'Say on pay' provisions	Yes	Non-binding vote but two- strike rule
Involvement of shareholders in board selection	High	Due to controlling shareholders

Shareholder participation — investors		
Stewardship code	Yes, two	FSC Standard 23: Principles of Internal Governance and Asset Stewardship 2017; and the Australian Asset Owner Stewardship Code, May 2018
Extent of involvement of proxy advisors	Low	
Requirements to vote all shares for institutional investors	Voluntary	AMEC code Principle 5 encourages active voting
Requirements to publish voting policy/record	No	
Explicit fiduciary expectations related to ESG issues	Voluntary	AMEC code, Principle 3 encourages investors to take ESG issues into account
Actions to encourage/remove barriers to collective engagement (acting in concert)	Yes	AMEC code Principle 6 suggests investors establish collective engagement criteria

Chile

Market structure			
Ownership structure of companies	Dispersed	Mixed	**Concentrated**
Presence of state as investor in listed market	**Minimal**	Average	Significant
Liquidity/size of market	High	Medium	**Low**
Existence of ESG indices	Yes	**Emerging**	No
Legal/regulatory tradition	**Hard law**	Mixed	Soft law
Level of interest shown by regulators	High	**Medium**	Low

Shareholder participation — companies		
Corporate governance code provisions	No	Disclosures are to be made under law NCG 385
Ease of submitting shareholder resolutions	Easy	1% shareholding
'Say on pay' provisions	No	
Involvement of shareholders in board selection	Yes	Large shareholders such as pension funds often have the right to elect directors

Shareholder participation — investors		
Stewardship code	No	
Extent of involvement of proxy advisors	Low	
Requirements to vote all shares for institutional investors	Yes	Pension funds if they hold more than 1% equity in a company
Requirements to publish voting policy/record	No	
Explicit fiduciary expectations related to ESG issues	No	
Actions to encourage/remove barriers to collective engagement (acting in concert)	No	

Hong Kong (China)

Market structure			
Ownership structure of companies	Dispersed	Mixed	**Concentrated**
Presence of state as investor in listed market	Minimal	Average	**Significant**
Liquidity/size of market	**High**	Medium	Low
Existence of ESG indices	Yes	**Emerging**	No
Legal/regulatory tradition	**Hard law**	Mixed	Soft law
Level of interest shown by regulators	High	**Medium**	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	Part E of the code deals with communication with shareholders
Ease of submitting shareholder resolutions	Average	Minimum shareholding of 2.5% or 50 shareholders
‘Say on pay’ provisions	No	
Involvement of shareholders in board selection	Low	

Shareholder participation — investors		
Stewardship code	Yes	Principles of Responsible Investment introduced 2016
Extent of involvement of proxy advisors	Low	
Requirements to vote all shares for institutional investors	Voluntary	Encouraged by Principle 4
Requirements to publish voting policy/record	Voluntary	Encouraged by Principle 6
Explicit fiduciary expectations related to ESG issues	Voluntary	Engagement on significant ESG issues encouraged by Principle 2
Actions to encourage/remove barriers to collective engagement (acting in concert)	Yes	Encouraged by Principle 5. No significant changes to the acting in concert rules in the 2018 amendments to the Takeover Code

Italy

Market structure			
Ownership structure of companies	Dispersed	Mixed	**Concentrated**
Presence of state as investor in listed market	Minimal	**Average**	Significant
Liquidity/ size of market	High	**Medium**	Low
Existence of ESG indices	**Yes**	Emerging	No
Legal /regulatory tradition	Hard law	**Mixed**	Soft law
Level of interest shown by regulators	High	**Medium**	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	Article 9 on relations with shareholders
Ease of submitting shareholder resolutions	Average	2.5% shareholding
'Say on pay' provisions	Yes	Mandatory non-binding vote on remuneration policy (binding for finance sector)
Involvement of shareholders in board selection	High	All board members are appointed by shareholders.

Shareholder participation — investors		
Stewardship code	Yes	Italian Stewardship Principles 2016 issued by *Assogestioni*
Extent of involvement of proxy advisors	High	
Requirements to vote all shares for institutional investors	No	
Requirements to publish voting policy/record	Voluntary	The Stewardship Principles encourage IMCs to disclose their voting policy. This will be required under the new EU Shareholder Rights Directive.
Explicit fiduciary expectations related to ESG issues	Voluntary	The Stewardship Principles refer to ESG issues in Principle 3
Actions to encourage/remove barriers to collective engagement (acting in concert)	Yes	Stewardship Principle 4 recommends IMCs consider cooperating with due regard for rules on acting in concert

Japan

Market structure			
Ownership structure of companies	Dispersed	**Mixed**	Concentrated
Presence of state as investor in listed market	**Minimal**	Average	Significant
Liquidity/size of market	**High**	Medium	Low
Existence of ESG indices	Yes	**Emerging**	No
Legal/regulatory tradition	Hard law	**Mixed**	Soft law
Level of interest shown by regulators	**High**	Medium	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	Japan Corporate Governance Code 2018, Section 5 on dialogue with shareholders
Ease of submitting shareholder resolutions	Easy	1% or 300 votes held for 6 months
'Say on pay' provisions	No	Gross compensation must be authorised by shareholders
Involvement of shareholders in board selection	Low	Elected by shareholders under the Companies Act

Shareholder participation — investors		
Stewardship code	Yes	Japan Stewardship Code 2017
Extent of involvement of proxy advisors	Low	Emerging via two major foreign proxy companies
Requirements to vote all shares for institutional investors	Voluntary	Recommended by industry associations and Stewardship Code Guidance 5.1
Requirements to publish voting policy/record	Voluntary	Recommended by industry associations and Stewardship Code Guidance 5.2 & 5.3
Explicit fiduciary expectations related to ESG issues	Voluntary	Stewardship Code Guidance 3.3 recommends that investors take ESG issues into account in their decisions
Actions to encourage/remove barriers to collective engagement (acting in concert)	Voluntary	Stewardship Code Guidance 4.4 mentions potential benefits of collective engagement. The FSA published a legal clarification document on 'Joint Holder' (equivalent for 'acting in concert' in other jurisdictions).

South Africa

Market structure			
Ownership structure of companies	Dispersed	**Mixed**	Concentrated
Presence of state as investor in listed market	Minimal	**Average**	Significant
Liquidity/ size of market	**High**	Medium	Low
Existence of ESG indices	**Yes**	Emerging	No
Legal /regulatory tradition	Hard law	**Mixed**	Soft law
Level of interest shown by regulators	**High**	Medium	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	King IV Code on Corporate Governance for South Africa 2016 Part 5.5 on Stakeholder relationships
Ease of submitting shareholder resolutions	Easy	Easy to submit (2 shareholders) but not always easy to secure votes
'Say on pay' provisions	Yes	Non-binding vote on remuneration policy.
Involvement of shareholders in board selection	Low	Standard 3-yearly re-election. Otherwise only reactive involvement of shareholders if unhappy with a director

Shareholder participation — investors		
Stewardship code	Yes	Code for Responsible Investing in South Africa (CRISA) 2011.
Extent of involvement of proxy advisors	Average	
Requirements to vote all shares for institutional investors	No	
Requirements to publish voting policy/record	Voluntary	Encouraged by CRISA but not required
Explicit fiduciary expectations related to ESG issues	Voluntary	Pension funds – required to take account of ESG factors when making investment decisions (Pension Funds Act, Reg. 28) Asset managers — Responsible investing strongly encouraged (CRISA Principle 1) but not required
Actions to encourage/remove barriers to collective engagement (acting in concert)	Yes	Encouraged by CRISA Principle 3 Barriers not perceived

Sweden

Market structure			
Ownership structure of companies	Dispersed	Mixed	**Concentrated**
Presence of state as investor in listed market	Minimal	**Average**	Significant
Liquidity/size of market	High	**Medium**	Low
Existence of ESG indices	Yes	**Emerging**	No
Legal/regulatory tradition	Hard law	Mixed	**Self-regulation**
Level of interest shown by regulators	High	**Medium**	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	Swedish Corporate Governance Code emphasises active ownership by shareholders
Ease of submitting shareholder resolutions	Easy	Only one share required
'Say on pay' provisions	Yes	Both a binding vote on remuneration guidelines and the 'Leo Act' requiring 90% majority to approve share-based incentives
Involvement of shareholders in board selection	High	Elected by shareholders under the Companies Act

Shareholder participation — investors		
Stewardship code	No	
Extent of involvement of proxy advisors	Low	No voting by mail – shareholders must attend the AGM or send a representative
Requirements to vote all shares for institutional investors	No	
Requirements to publish voting policy/record	On request	EU Shareholder Rights Directive will apply
Explicit fiduciary expectations related to ESG issues	No	EU Shareholder Rights Directive will apply
Actions to encourage/remove barriers to collective engagement (acting in concert)	Not local	EU rules will apply

United Kingdom

Market structure			
Ownership structure of companies	**Dispersed**	Mixed	Concentrated
Presence of state as investor in listed market	**Minimal**	Average	Significant
Liquidity/ size of market	**High**	Medium	Low
Existence of ESG indices	**Yes**	Emerging	No
Legal /regulatory tradition	Hard law	**Mixed**	Soft law
Level of interest shown by regulators	**High**	Medium	Low

Shareholder participation — companies		
Corporate governance code provisions	Yes	UK Corporate Governance Code Section E
Ease of submitting shareholder resolutions	Hard	5% or 100 members with GBP 10,000
'Say on pay' provisions	Yes	Binding vote on policy every 3 years and advisory vote annually on remuneration report
Involvement of shareholders in board selection	Low	Annual election/re-election of directors

Shareholder participation — investors		
Stewardship code	Yes	UK Stewardship Code introduced in 2010
Extent of involvement of proxy advisors	High	
Requirements to vote all shares for institutional investors	Voluntary	Encouraged by Stewardship code Principle 6
Requirements to publish voting policy/record	Voluntary	Stewardship code works on comply or explain basis but could be made mandatory under s1277 Companies Act
Explicit fiduciary expectations related to ESG issues	Voluntary	EU Shareholder Rights Directive will require pension funds to disclose ESG policy
Actions to encourage/remove barriers to collective engagement (acting in concert)	Yes	Investor Forum for more effective collective engagement and statements on acting in concert by FSA and ESMA

United States

Market structure			
Ownership structure of companies	**Dispersed**	Mixed	Concentrated
Presence of state as investor in listed market	**Minimal**	Average	Significant
Liquidity/size of market	**High**	Medium	Low
Existence of ESG indices	Yes	**Emerging**	No
Legal/regulatory tradition	**Hard law**	Mixed	Soft law
Level of interest shown by regulators	**High**	Medium	Low

Shareholder participation — companies		
Corporate governance code provisions	No	Listing rules provide for shareholder approval for certain issues. New industry code not yet influential
Ease of submitting shareholder resolutions	Easy	Holding of 1% or $2,000 for one year (Rule 14a-8)
'Say on pay' provisions	Yes	SEC rules require non-binding vote
Involvement of shareholders in board selection	Low	Proxy access becoming common on private basis

Shareholder participation — investors		
Stewardship code	No	New voluntary industry initiative not yet in force for signatories
Extent of involvement of proxy advisors	High	ISS and Glass Lewis particularly influential
Requirements to vote all shares for institutional investors	No	
Requirements to publish voting policy/record	Yes	Required by law for some pension funds
Explicit fiduciary expectations related to ESG issues	No	Though most large institutional investors will have and publish ESG policies
Actions to encourage/remove barriers to collective engagement (acting in concert)	No	Though collective engagement has increased

Appendix 3: Survey questions

ICSA–OECD SURVEY OF ISSUERS ON SHAREHOLDER ENGAGEMENT / 2017

Dear colleague,

In recent years, regulators and policy-makers in many countries have taken action with the aim of increasing engagement between listed companies and investors. These have taken different forms — increasing shareholder voting rights, requiring more public reporting by companies, and encouraging or requiring investors to initiate engagement themselves through 'stewardship codes' and other means. To date, there has not been much assessment of whether these different approaches have been effective in achieving more extensive dialogue between companies and investors, or whether such dialogue is leading to positive outcomes for both parties.

Your company is one of a selection of about 750 companies from ten jurisdictions (Australia, Brazil, Chile, Italy, Japan, Hong Kong (China), South Africa, Sweden, United Kingdom, and the United States) that have been invited to share their views for this survey conducted in partnership between the Organisation for Economic Co-operation and Development (OECD) and The Institute of Chartered Secretaries & Administrators (ICSA).

Your confidential answers to this survey will help us understand the view of companies about the engagement process. The objective is to evaluate the impact of recent engagement initiatives and — if possible — identify which are most effective in promoting constructive dialogue between investors and companies. Understanding the direct experience of individual companies and investors is an essential part of such a study.

We estimate that completing the survey would take from five to 15 minutes of your time (the questions adjust to your answers). Your survey responses will remain anonymous and only aggregated data from the responses will be used in a report scheduled for publication in 2018 that we will be glad to share with you in case you are interested.

How to complete the survey:

All questions are optional other than the few that are marked with a red asterisk. Responses can be edited and reviewed at any point prior to submission by selecting save and exit at the bottom of the page. You can resume the survey simply by entering the survey link in your browser. The survey will timeout after 10 minutes of inactivity, so please make sure to choose save and exit to avoid losing your responses. The survey can only be completed once per individual respondent. Once you have submitted your responses you will be unable to review or edit them.

If you have any questions about this survey, please contact:

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A. ENGAGEMENT LEVEL

DEFINITIONS (for the purposes of this survey):

Engagement includes any direct communication with shareholders, including the general meeting, briefings and roadshows, and individual meetings at the request of either the company or the shareholder. It does not include indirect communication through market announcements, the annual report and accounts and so on.

Institutional investors include domestic pension funds, domestic insurance companies, domestic investment funds, foreign pension funds, foreign insurance companies, and foreign investment funds.

1)* Does your company regularly engage with shareholders? *Please select as appropriate*

- Yes
- No

2) Your company does not regularly engage with shareholders because [conditional to answer to 1) being No – and end of survey for these companies] *Please select all relevant options*

- Engagement is not required/common in our jurisdiction/sector
- We are a wholly owned company/subsidiary
- There is no demand from shareholders to engage
- The company has no interest to engage with shareholders
- Other:

3) Your company regularly engages with shareholders because: *Please select all relevant options*

- Engagement is required/common in our jurisdiction/sector
- The company has an interest to engage with shareholders
- There is demand from shareholders to engage
- Other:

4) Which shareholders do you try to engage with and how often? *Please select all relevant options*

	Frequently	Occasionally	Rarely	Very rarely	Never
Major/ controlling shareholders					
Domestic pension funds					
Domestic insurance companies					
Domestic investment funds / asset managers					
Foreign pension funds					
Foreign insurance companies					
Foreign investment funds / asset managers					
Minority shareholders					
Activists					

5) Which of the following criteria does your company use to determine which shareholders to engage with and how often? *Please check all relevant*

- Size of the investor's actual ownership stake in your company
- The likelihood of the shareholder taking a hostile position, e.g. on strategy, cash distribution, M&A etc.
- Size of potential ownership stake, i.e. amount of total assets under management of the investor, even if not a large shareholder in your company
- The fact that the investor is a passive manager/index-tracking fund
- The fact that the investor is an active stock-picker
- The investor's expertise in governance and sustainability
- Other:

6) Which shareholders are most likely to approach you and how often? *Please select all relevant options*

	Frequently	Occasionally	Rarely	Very rarely	Never
Major/ controlling shareholders					
Domestic pension funds					
Domestic insurance companies					
Domestic investment funds / asset managers					
Foreign pension funds					
Foreign insurance companies					
Foreign investment funds / asset managers					
Minority shareholders					
Activists					

B. ENGAGEMENT PROCESS

7) How does engagement with institutional investors take place now compared to five years ago? *Please select all relevant options for each time period, you can add one additional alternative in the box*

	Now	5 years ago
Individual meetings		
Telephone		
Email		
At the general meeting		
Collective engagement (where permitted)		
Analyst briefings and roadshows		
Through proxy solicitors (or other corporate consultants)		
Through proxy advisors (or other investor advisors)		
Other:		

8) When does engagement with institutional investors take place now compared to five years ago? *Please select all relevant options for each time period, you can add one additional alternative in the box*

	Now	5 years ago
In the run up to the annual general meeting		
Before/after interim and quarterly results		
In response to/advance of other events		
Regular meetings throughout the year		
Other:		

9) Who, within the staff of institutional investors, takes part in the engagement with your company now compared with five years ago? *Please select all relevant options for each time period, you can add one additional alternative in the box*

	Now	5 years ago
Chief Executive Officer (CEO/MD/PDG)		
Chief Investment Officer (CIO)		
Fund managers		
Analysts		
ESG teams		
Other:		

10) Who, within your company's staff, takes part in the engagement with institutional investors now compared to five years ago? Please select all relevant options for each time period, you can add one additional alternative in the box

	Now	5 years ago
Chairman (President of the Board of Directors)		
Lead Independent Director		
Non-executive directors / Independent non-executive directors		
Chief Executive Officer (CEO/MD/PDG)		
Chief Financial Officer (CFO/FD)		
Remuneration Committee chair		
Audit Committee chair		
Company Secretary		
Investor Relations		
Other:		

11) Overall, which of the following statements best describes your company's engagement: *Please select all relevant options*

- It consists exclusively of dialogue between investors and the CEO, the chair (if separate from the CEO), and management representatives
- It also includes regular contacts with other board directors, including non-executives (NEDs) and independent non-executives (INEDs)

12) Who, within your company, has responsibility in the engagement process and what is the nature of such responsibility? *Please select the relevant answer for each column*

	Now	5 years ago
Chairman		
Senior Independent Director		
NEDs and/or INEDs		
Chief Executive Officer (CEO/MD/PDG)		
Chief Financial Officer (CFO/FD)		
Company Secretary		
Investor Relations		
Other:		

13) How would you assess the amount of resources devoted by your company towards the engagement process today compared to five years ago? Resources are today: Please select the best answer

- Much higher
- Higher
- About the same
- Lower
- Much lower

C. TOPICS OF THE ENGAGEMENT

14)* Regarding the topics of the engagement, if you consider the topics your company would want to discuss with institutional investors and those that institutional investors would like to discuss with your company, your assessment is that: *Please select the best answer*

- They are the same topics
- They are different topics
- There is partial overlap

15) What topics does your company want to discuss with institutional investors now as compared to five years ago? [conditional to answer to 14) is not that the topics are the same] *Please select all relevant options for each time period, you can add one additional alternative in the box*

	Now	5 years ago
Corporate performance		
Remuneration		
Leadership (Chairman/Chief Executive officer)		
Strategy and culture		
Board composition/ succession		
Capital structure (including equity issues)		
Environmental and social issues		
Mergers and acquisitions		
Corporate actions and restructuring		
Risk management		
Reporting, audit and audit tendering		
Health and safety		
Technological disruption		
Cyber risk / Digitalisation		
Other:		

16) What topics do investors want to discuss with your company now as compared to five years ago? [conditional to answer to 14) is not that the topics are the same] *Please select all relevant options for each time period, you can add one additional alternative in the box*

	Now	5 years ago
Corporate performance		
Remuneration		
Leadership (Chairman/Chief Executive officer)		
Strategy and culture		
Board composition / succession		
Capital structure (including equity issues)		
Environmental and social issues		
Mergers and acquisitions		
Corporate actions and restructuring		
Risk management		
Reporting, audit and audit tendering		
Health and safety		
Technological disruption		
Cyber risk / Digitalisation		
Other:		

17) What topics you actually discuss the most with institutional investors now as compared to five years ago? *Please select all relevant options for each time period, you can add one additional alternative in the box*

	Now	5 years ago
Corporate performance		
Remuneration		
Leadership (Chairman/Chief Executive officer)		
Strategy and culture		
Board composition/ succession		
Capital structure (including equity issues)		
Environmental and social issues		
Mergers and acquisitions		
Corporate actions and restructuring		
Risk management		
Reporting, audit and audit tendering		
Health and safety		
Technological disruption		
Cyber risk / Digitalisation		
Other:		

18) If you have noticed a change in the topics you discuss the most with institutional investors over the last five years, what in your view has been the reason for the change? *Please select all relevant answers*

- International trends that have changed investor/community expectations
- Change in the attitude to engagement of our board/management
- A change in your company’s ownership base
- A change in circumstances in your company
- Political pressure
- New legislation or reporting requirements
- Other:

E. ASSESSMENT OF THE ENGAGEMENT

19) Regarding the quality of the engagement, overall, how satisfied is your company with the quality of your current engagement with shareholders? *Please select one of the alternatives*

- Very satisfied
- Satisfied
- Neither satisfied nor dissatisfied
- Dissatisfied
- Very dissatisfied

20) How is this perception of the quality of your current engagement compared to the perception your company had five years ago? *Please select one of the alternatives*

- Much better
- Somewhat better
- Stayed the same
- Somewhat worse
- Much worse

21) Overall, how has the frequency of engagement changed over the last five years? Now it is: *Please select one of the options*

- Much higher
- Higher
- About the same
- Lower
- Much lower

22) If the quality or frequency of the engagement has changed, to what do you attribute this? *Please select all relevant options*

- New legislation or reporting requirements
- Change in the attitude to engagement of your board/management
- A change in your company's ownership base
- International trends that have changed investor/community expectations
- A change in circumstances in your company
- Political pressure
- Other:

23) In which ways do you assess that the engagement your company has with investors is adding value to your company? *Please explain in one paragraph*

24) Which of the various types of engagement with investors your company has do you regard as most effective in fostering a dialogue that adds value to your company? *Please explain in one paragraph*

F. CASE STUDY ON MOST RECENT ENEGAGEMENT LEADING TO A RESOLUTION

25) Think of the last occasion on which your company engaged in advance with its shareholders on an issue that required a resolution at the general shareholders meeting. Of those shareholders that you contacted, approximately what percentage responded to your request and engaged with your company? *Please select one of the options*

- All
- A majority
- About half
- A minority
- None

26) How was the resulting engagement conducted? *Please select all relevant options*

- Meetings between shareholders and NEDs and/or INEDs
- Meetings between shareholders and other executive managers
- Email
- Individual meetings
- Meetings between shareholders and CEO and/or Chairman
- Through proxy advisors (or other advisors)
- Telephone/video conference
- Collective engagement (where permitted)
- Other:

27) What percentage of total votes cast supported the resolution? *Please select the option closest to the result*

- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%

28) Of those shareholders who voted against the resolution, how many notified the company of their intention in advance? *Please select the option closest to the percentage*

- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%

29) Overall, what is your company's assessment of the outcome of this engagement? *Please select one of the alternatives*

- Very satisfied
- Satisfied
- Neither satisfied nor dissatisfied
- Dissatisfied
- Very dissatisfied

THANK YOU!

The ICSA and the OECD thank you sincerely for taking the time to answer this survey!

In case you would like to make any observations to help our study, please use the space provided below *You can type your text in here*

If you would like to receive the report that will be produced with the results of this survey, please add your email address below and we will be glad to send you an electronic version when the report is published in 2018: *Please type your email address*

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