

Invitation to Tender (ITT):

Assessing shareholder engagement and reporting following significant votes against a resolution

Provision of Research Services

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Assessing shareholder engagement and reporting following significant votes against a resolution

1 Background and context

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. We seek to promote transparency and integrity in business; our work is aimed at investors and others who rely on company accounts, audit, and high-quality risk management. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.

This project concerns shareholder votes of 20% or more against resolutions at company Annual General Meetings (AGMs). We are interested in how such votes are reported and the level, and quality, of engagement that subsequently takes place between company boards and investors.

The relevant Principles and Provisions from the FRC's Codes are as follows:

Principle D, Corporate Governance Code:

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Provision 4, Corporate Governance Code:

When 20% or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.

Principles 9 to 11, Stewardship Code:

- *Signatories engage with issuers to maintain or enhance the value of assets.*
- *Signatories, where necessary, participate in collaborative engagement to influence issuers.*
- *Signatories, where necessary, escalate stewardship activities to influence issuers.*

These principles set out the expectations for signatories of the Stewardship Code to engage with the companies in which they have invested.

Principle 12, Stewardship Code:

- *Signatories actively exercise their rights and responsibilities.*

This Principle asks signatories to actively *exercise their rights and responsibilities* as asset owners or asset managers and includes a requirement for signatories to provide examples on the outcomes of resolutions they have voted on over the past 12 months.

2 Project description

2.1 Purpose

The aim of this research project is to assess:

- The level and quality of companies' reporting against Provision 4 of the Corporate Governance Code and the usefulness of this reporting to shareholders.
- The level and quality of engagement between companies and their shareholders following a vote of 20% or more against a proposed resolution.
- How this engagement has impacted companies' subsequent actions and subsequent shareholder stewardship, including engagement and voting.

This research project will support the work of the Corporate Governance and Stewardship team in the FRC, as well as the broader aims of the FRC, to understand and promote good governance and best practice. The output from this research may be used in an FRC publication(s) and where this is the case the contribution of the contracted research team will be cited and acknowledged appropriately.

2.2 Outputs and deliverables

Two outputs will be delivered to the FRC from this project:

- A. A structured data file (readable in MS Excel), containing the following information:
- i) Companies that have had votes of 20% or more cast against a board recommended resolution¹, with details of:
 - The resolution(s) voted against (and category of resolution(s))
 - The date of the AGM
 - The percentage of votes that were against the resolution(s)
 - ii) For companies in (a) above, which of them issued a statement, when announcing voting results, explaining the actions they intend(ed) to take to consult shareholders in order to understand the reasons behind the result(s)?²
 - iii) For companies in (a) above, which of them issued an update statement(s) no later than six months after the shareholder meeting? Did the update statement(s) include:
 - Details of engagement with shareholders that took place after the voting result(s)
 - The views of shareholders, including the reasons behind the result(s)
 - Actions planned, or taken, by the board to address their views
 - iv) For companies in (a) above, which of them provided a summary in their next annual report disclosing:
 - The engagement with shareholders following the vote
 - The views received from shareholders, including the stated reason(s) behind the vote against

¹ The information on AGM voting results, including votes of 20% or more against resolutions, should be noted in the minutes of companies' AGMs, and publicised on the Investment Association (IA) public register.

² According to Provision 4 of the Corporate Governance Code, companies should explain such actions. However, we are aware of instances where companies have provided statements in the IA's Public Register detailing the voting results but without explaining the actions planned.

- What impact shareholders' feedback has had on the decisions the board has taken or resolutions it has proposed
 - v) Observed patterns including, but not necessarily limited to:
 - Companies that received 20% or more votes against a resolution on *multiple occasions*.
 - Companies that received 20% or more votes against the same category of resolution on *multiple occasions*.
- B. A qualitative analysis, including supporting data tables as appropriate, providing:
- i) An assessment of the quality of companies' reporting against Provision 4 of the Code, including the information provided:
 - When announcing voting results
 - In the subsequent update statement
 - In the next annual report
 - ii) An assessment of the quality of reporting of engagement with shareholders by companies that faced a vote of 20% or more against a resolution.
 - iii) An assessment of the quality of engagement with shareholders by companies that faced a vote of 20% or more against a resolution (both before and after the relevant AGM).
 - iv) An assessment of the impact on actions taken, or changes made, by companies (e.g. policy, structure, strategy) as a result of engagement with, and feedback from, shareholders following a vote of 20% or more against a resolution.
 - v) Examples of best practice, and poor practice, in the above.
 - vi) An assessment of any views of investors (that are in the public domain) on the reporting of a vote of 20% or more against a resolution.

2.3 Scope

The research will include all companies that were constituents of the FTSE 350 index on 1 January 2019 and will cover all AGMs of those companies in 2019, 2020 and 2021.

2.4 Approach

The data needed for this research is available from the following sources:

- The Investment Association's public register
- Companies' AGM notices
- Companies' statements/updates/announcements (including those of AGM voting results)
- Companies' annual reports
- Other information sources (e.g. media coverage, stock exchange announcements, stewardship reports, dialogue with IA, etc). Please specify in your proposal.

The successful bidder will need to establish criteria/scale to reliably assess:

- Quality of reporting by companies in the areas listed
- Quality of engagement between companies and shareholders

These criteria should allow for comparisons between companies and between time periods (within the scope of the research sample). In your proposal please provide an outline of the criteria/scale you would use.

2.5 Liaison arrangements

The FRC team should be consulted on key decisions in the research design and its implementation. This will include regular project progress updates via Microsoft Teams and email. The FRC team will review and sign-off the data structure for part A of the deliverables and the assessment criteria for part B.

2.6 High-level project timeline

<i>Date</i>	<i>Deliverable / milestone</i>
w/c 07-02-2022	Kick-off meeting to review sampling methodology and data collection strategy
w/c 28-02-2022	FRC to sign off the data structure model for part A and the criteria/scale for part B
w/c 18-04-2022	Interim findings presentation/discussion
w/c 27-06-2022	Draft versions of deliverables
22-07-2022	Receipt by FRC of the final data file and analysis

2.7 Cost and financials

The tenderer should provide a fixed fee for the work, exclusive of VAT, inclusive of all expenses. Tenderers should detail their costs in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless the scope materially changes from what is set out / agreed. Changes to the scope / cost of the project must be mutually agreed.

The FRC does not anticipate tender bids over £45,000 excl. VAT

2.8 Your tender response

The proposal should be no more than 7 pages in total, excluding annexes, and include:

- A succinct summary of the proposal, including an estimated timeline of project milestones.
- Details of the proposed approach. This should include a high-level overview of the data collection strategy, and the analytical approaches to be adopted by the project.
- An outline of the proposed criteria/scale for assessing the quality of reporting and engagement.
- An estimated timeline of project milestones.

- Your organization's experience of similar projects and relevant research capability.
- The arrangements to be put in place for managing this work and quality assuring outputs.
- A budget, including a breakdown of time and costs per activity, in line with the principal project objectives outlined above.
- Details of personnel to be involved, including their role for this project and their relevant experience.
- CVs for the project team should be included in an annex, along with any additional information about your organization that you consider relevant.
- Bids should identify any real or perceived conflicts of interest.

2.9 Tender evaluation

Bids will be assessed against the following principal criteria:

- (25%) Understanding of our requirement (supported by relevant experience, track record and / or transferrable knowledge).
- (30%) The suitability of the approach (including methodology and management). *We will pay particular attention to the criteria proposed for the assessment of reporting and engagement quality.*
- (25%) Experience / relevant experience of the proposed personnel.
- (20%) Pricing / cost of your proposal.

3. References

The FRC reserves the right to take up references. You will be required to provide references in the Tender Response Document. References must be relevant to the FRC requirement and in the last five years

4. Use of ITT & publication

Tenderers **must not** undertake any publicity activity regarding the procurement within any section of the media.

5. Questions & Clarifications

5.1.1. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.

5.1.2. Tenderers may raise questions or seek clarification within the timeframe by sending questions to procurement@frc.org.uk in the following format.

Nature of query / clarification	Query / Clarification

5.1.3. FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

5.1.4. To ensure that all tenderers have equal access to information regarding this tender opportunity, FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

5.1.5. Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

6. Tender process timeline

DATE/TIME	ACTIVITY
15-12-2021	Publication of the Invitation to Tender
07-01-2022 4pm	Deadline to submit clarification questions
11-01-2022 4pm	Deadline for publication of responses to clarification questions (FRC will endeavour to meet this deadline).
24-01-2022 <i>midday</i>	Deadline for supplier submission of tender to the FRC.
31-01-2022	Tender Outcome
09-02-2022	Contract Start Date
22-07-2022	Contract end

7. Conduct

7.1.1. The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.

7.1.2. The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.

7.1.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.

- 7.1.4. The tenderer must not offer any incentive to any member of FRC's staff for doing or refraining from doing any act in relation to the tender.
- 7.1.5. If the tenderer engages in any of the activities set out in this paragraph or if FRC considers the tenderer's behaviour is in any way unethical FRC reserves the right to disqualify the tenderer from the procurement.
- 7.1.6. The tenderer represents and warrants that a conflicts of interest check has been carried out, and that check revealed no conflicts of interest.
- 7.1.7. Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform the FRC and submit proposals to avoid such conflicts.
- 7.1.8. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. The FRC is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

8. Due Diligence

- 8.1.1. While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.
- 8.1.2. Neither FRC, nor its representatives, employees, agents or advisers:
- makes any representation or warranty, express or implied, as to the accuracy,
 - reasonableness or completeness of the ITT and supporting documents;
or
 - Accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.
- 8.1.3. It is the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

8.1.4. It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

9. Submitting a Tender

9.1.1. Tenderers must submit their tender response within the deadline to procurement@frc.org.uk .

9.1.2. Where a Tender Response Template is provided, potential providers must align their tender response with that format.

9.1.3. A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

10. Evaluation

10.1.1. FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

11. Acceptance of Tender & Notification of Award

11.1.1. FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

11.1.2. FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. FRC also reserves the right to award more than one contract to fulfil the requirement.

11.1.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

11.1.4. Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

11.1.5. Nothing in the documentation provided by FRC to the tenderer during this procurement or any communication between the tenderer and FRC or FRC's representatives, employees, agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally

accepted until the successful tenderer has received a formal contract award letter from FRC.

12. Additional Information

12.1.1. Please use the attached Tender Response Document for your reply.

12.1.2. The Terms and Conditions that will apply to this proposed Agreement are attached. **Suppliers should accept the T&C's with no material changes.**