

# “Spain Needs A Little Push To A More Activist Mindset”



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Fernando Rodríguez | The Corner interviews Juan Prieto, CEO of the Spanish Proxy advisor Corporance Asesores de Voto.

**What is Corporance Asesores de Voto? What is your assessment of Corporance’s presence in Spain since its creation? What objective have you set with regard to the reports and voting recommendations in terms of turnover, sectors, companies and main issues?**

Corporance is the first Spanish proxy advisor, committed to help institutional investors comply with their voting and engagement responsibilities in our market, under SRD II. We offer services specifically geared towards asset owners and managers, such as creating engagement and voting policies, providing voting recommendations, and the development of an engagement strategy and support throughout the process.

We were born in 2017, just before the Shareholders Rights Directive II was enacted. This is our 4<sup>th</sup> AGM season completed successfully. During these years, we have trained the team of analysts and developed our research capabilities, as we are responsible of providing voting reports and recommendations to our partners in Europe, as well as supporting cross-border engagement activities.

Our team and services are consolidated, with the support of our European partners. We have also set up an Advisory Board with some of the most prestigious professionals in the industry. We have also got professional recognition and support from the regulator, the Spanish Treasury, the supervisor, CNMV, and leading institutions like Inverco, Unespa, Spainsif, BME, IEAF, FIDE, Academia and the media.

Some issues we have faced, include the delay of the transposition of the Shareholders’ Rights Directive in Europe. The volume of work during the research and analysis of General Meetings during this pandemic has increased considerably due to dividend adjustments and government restrictions celebrating large meetings, as it has been done until now. It was an unprecedented adjustment for both issuers and our clients to change the format of voting at AGMs.

**Corporance belongs to a global network of leading proxy advisors. What main differences do you see in the consideration and use of proxies in Spain compared to other countries on both the issuer and the investor side?**

As part of the international alliance of European proxy advisors ECGS, led by French Proxinvest created in 1995, Corporance provides coverage of around 500 companies belonging to several global

indexes. Contrary to other proxy advisors, we do not offer services to issuers, ensuring complete independence and transparency as well as avoiding conflicts of interest.

Our voting recommendations follow strict guidelines (discussed and updated yearly and published on our website) and are reviewed on a constant basis to ensure we are up to date with the latest regulation and best governance practice. For example, this year, in light of COVID-19, we had to revise our guidelines with regard to dividends and share buybacks.

We provide our research reports to the members of the alliance, that caters for the main European asset managers and insurance companies for more than 25 years. In this season, we analyzed over 45 Spanish General Meetings (Ordinary and Extraordinary) and 700 resolutions.

**Over the summer, a the Good Governance Code was reformed and part of the transposition of the 828/2017 Directive was approved into Spanish law, which regulates aspects such as the figure of the proxy advisor, the right companies have to identify shareholders, loyalty shares and the obligation for collective investment institutions to make their strategy public. What do you think about all these changes?**

The amendments to the Code include the recommendation to have at least 40% of women on the Board of Directors. We believe this to be a step in the right direction towards inclusivity, even though a bigger effort to promote diversity in top management is desirable.

Corporance has always pushed for better disclosure when it comes to the remuneration of Directors. We have strict guidelines on how to analyze their fixed and variable fees, including the short- and long-term goals attached to variable remuneration; therefore, we applaud the changes to promote transparency around deferred variable remuneration and malus clauses.

As for virtual attendance to the meetings, we have noticed an increase in the number of issuers that included this option in the Bylaws and commend the CNMV for suggesting this edit to the Code. This measure benefit participation and transparency, if used correctly.

As a proxy advisor, we wish to help investors comply with their obligations but we also have our own role to play. We must have a Code of Conduct, be transparent with our methodology and communication with investors, as well as with third parties involved and must identify and solve conflicts of interest.

**Is there anything you think is missing in transposition of the pending items of the Directive?**

We would like this directive to be transposed as soon as possible as we believe that all items are crucial for a frictionless cooperation between all parties involved: issuers, institutional investors, proxy advisors, solicitors and other intermediaries.

The Implementing Regulation affecting custodian banks and depositaries to improve disclosure, communication and voting through the chain of intermediaries is already in place, but fine tuning and further detail and clarification, like the definition of shareholder, is needed.

Albeit we are happy with the new rules for proxy advisors, we regret that a good opportunity has been missed. Despite being an EC Directive, there is not a common regulation for proxy advisors across Europe, but rather relies on every national supervisor, with uneven rules. This clearly benefit the largest US firms, which provide services to issuers with a clear conflict of interest that will not be solved. This problem is not new if we look at the credit rating agencies.

**In your reports on listed Spanish companies, Corporance is usually stricter than the average proxy advisor when it comes to Directors' remuneration as well as with the lack of independence and gender diversity on the Board. Are these the main weaknesses of listed Spanish companies?**

When it comes to remuneration, it is true that we are deemed as strict, we believe in transparency and clarity and analyze the Annual Remuneration Report carefully. Not only that, but we also compare each Company to their European size and sector peers to give the investor, a full picture of what is happening in similar companies, not isolated cases.

Board diversity and composition is looked under the microscope, because we believe in equal representation, we always look for a majority of independent members, a balanced proportion of shareholder representation and gender diversity. We look at each Director's CV individually and take into account their life experience and aggregate time commitments as well as their relationship with the Company. In some cases, we do not consider Directors as independent despite the Company's self-assessment.

One other main issue, is the separation of powers. A lot of Spanish companies have an executive Chairman (disguised or openly executive) and a CEO. We believe that the Chairman must be completely independent from the Company. In order to determine this, we look at the history of the particular enterprise, the fees paid to Directors and to the Chairman.

**You have drawn attention to the fact that companies have amended their Bylaws due to the COVID-19 pandemic to facilitate virtual participation in Meetings but also "further filter out uncomfortable questions from some investors". What is the general health of Shareholders' Meetings in Spain with respect to investor participation?**

Due to the restrictions set out by the Government, issuers have had to accommodate social distancing measures and most have opted to host their General Meetings via telematic means. Of course, it is essential to verify the identity of the shareholders or their representatives when voting on the proposals, and this has been done online, so no issues arise here as the process is clearly explained and shareholders have had enough information made available to them in advance of the Meeting.

However, it is true that since Meetings are mainly held virtually, the questions can now be easily filtered by moderators and problematic issues may not be picked for discussion during the GM, and may be later solved via email. Some companies have made a great effort to allow shareholders to participate in the AGMs remotely, while others have use the lack of physical attendance to filter questions in detriment of shareholders participation and transparency.

**I read that "institutional investors rarely perform their fiduciary duties of engagement and oversight, contrary to their French, German, English or Swiss peers." Why do you think that is, and what could be done on the legislative side to make effective changes to this passive attitude?**

Yes, unfortunately, when compared to other European countries, it looks like Spain is trailing behind when it comes to voting at the Meetings. This may be due to the lack of legal obligation that Spanish funds and asset managers have to vote. This is even more clear when it comes to cross-border voting.

That is why we are waiting on this Directive to be transposed so we can help them to vote without having to individually analyze the proposals themselves. It will be interesting to observe how these new fiduciary duties shift the passive attitude to voting to a more proactive approach. But we have to consider the small size of many asset managers, their equity portfolios and the industry in general, in comparison with other European markets, to come up with reasonable scope and solutions. A materiality analysis is required, but more engagement with issuers is also desirable.

**In Spain, there is hardly any movement of the institutional investors in the companies in which they hold a stake in, but then again there are few very activist funds. Why do you think this is and how do you think their presence will evolve in our country?**

This is true, until now intervention in General Meetings is restricted to ecologists or the company's trade unions and workers, on topics out of the agenda, and individual investors, usually claiming for more dividends or a better attendance gift.

I think Spain needs a little push in the right direction and we will be on our way to a more activist mindset. Actually, this year, two major shareholders of AENA proposed a couple of items on this year's agenda on sustainability, so maybe we are not so behind after all.

With the transposition of the Directive to promote shareholders engagement we foresee more frequent and deeper interaction between investors and companies, including participation in General Meetings, on a wider range of topics such as remuneration, diversity, human capital, health, supply chain, dividends and, of course, environmental and social matters.