

Shareholder Engagement and Transition of Capital Flows

Extent of Shareholder Engagement,
Associated Barriers for Transition Investing
and Uptake of Transition Plans

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About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest nongovernmental organisation dedicated exclusively to representing the interests of European citizens as financial services users vis-à-vis legislators and the public, by promoting research, information and education on investments, savings and personal finances.

Through its member organisations, BETTER FINANCE represents over 4 million private, non-professional investors and shareholders. BETTER FINANCE acts as an independent financial expertise and advocacy centre to the direct benefit of European financial services users. Its activities are supported by the European Union since 2012.

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Executive summary

This report provides a comprehensive analysis of shareholder engagement and the transition of capital flows in Europe. Structured across five key chapters, each addressing critical aspects of shareholder engagement and transition strategies. Coordinated efforts from policymakers, professional investors, and corporate issuers to address existing barriers and promote effective transition investing are instrumental to achieving a positive change. The proposed policy and practical recommendations are also accompanied with a unique Principles for Transition Investing Engagement, serving as a roadmap for achieving greater alignment between shareholder interests and corporate sustainability objectives.

Chapter I: Shareholder Rights and Barriers

Despite efforts to enhance shareholder engagement through improved voting mechanisms and remote voting options, significant barriers remain, including misaligned national transposition priorities and varied interpretations of what constitutes a shareholder. Couple with ongoing disparities in AGM practices across member states, such as the advisory versus binding nature of resolutions and challenges posed by complex intermediary chains, EU policy makers should harmonise definitions, standardise AGM processes, and fostering greater transparency with shareholder communications.

Chapter II: Retail Investor Interest and Support for Transition

Results indicate varying levels of familiarity with transition investing concepts, and key trends reveal a strong interest in climate-related resolutions, despite limited engagement opportunities. Across all countries, retail investors emphasise the need for clearer and easy to

understand communication as well as more frequent inclusion of transition topics in AGMs, stressing the importance of removing barriers to individual investor participation, enhancing transparency, and ensuring their preferences are reflected in corporate voting outcomes.

Chapter III: Institutional Investors and Associated Groups

Insights institutional stakeholders acknowledge the importance of transition investing, while engagement levels remain inconsistent due to regulatory and structural barriers. Notably challenges include cross-border voting inefficiencies and limited transparency, which can be addressed via time-bound engagement policies, collaborative shareholder proposals and structured escalation protocols.

Chapter IV: Transition Plans and Strategies of 20 Companies

An initial assessment of transition strategies across 20 leading companies in the banking, asset management, insurance, and pension sectors reveal varying degrees of commitment to climate goals. The companies were evaluated based on their reported transition plans, engagement strategies, and capital allocation towards sustainable initiatives. Key findings indicate that while most companies disclose broad transition goals, detailed, actionable plans are often lacking.

Chapter V: Principles for Transition Investing Engagement

With a set of principles developed by BETTER FINANCE and its Working Group Members, aim at standardising transition engagement practices for listed equity across the EU. The principles emphasise transparency, active engagement, and the importance of evidence-based escalation strategies.

Chapters navigation

Chapter I: Shareholder rights and barriers

The first part of this report provides an overview of shareholder rights and associated barriers, both on EU level as well as country perspectives, encompassing France, Germany and Italy. For each country under scope, the report compares processes and conditions related to relevant local laws, annual general meetings, conditions for proposing resolutions, and proxy. This Chapter also covers influence of proxy advisors and institutional investors, as well as latest developments regarding 'Say on Climate' and transition resolutions.

Chapter II: Retail investor interest and support for transition investing and transition plans

The second part of the report provides the retail investor perspectives from France, Germany and Italy. The purpose of this section is to provide insights into the levels of interest and support for transition investing and transition plans, from both experienced and inexperienced retail investors, capturing over 1000 responses with independent individual investors' survey.

Chapter III: Interviews with institutional investors and associated groups

The third part of the report provides insights from institutional investors vis-a-vis transition investing, transition plans and associated barriers with collaborative engagement, voting and shareholder resolutions among others. The purpose of this section is to draw the parallels between current gaps affecting both institutional and individual investors across the EU.

Chapter IV: Transition plans and strategies of 20 companies

The fourth part of the report provides a comprehensive assessment of top-performing companies based on their Assets under Management (banks, asset management, insurance and pension) domiciled mainly in Europe. To assess whether the companies under scope report on transition, transition plans and substantiated engagement practices, we looked at annual reports, engagement strategies and other associated materials often encompassing 100s of pages for each company. We used Retrieval-Augmented Generation (RAG) for Knowledge-Intensive Natural language processing (NLP) tasks, and other associated methodologies, to provide the current findings and to help increase the proportion of traceable transition plans substantiated with evidence, reduce greenwashing risks, and enhance visibility and consumer awareness of transition investing and transition engagement.

Chapter V: Principles for Transition Investing Engagement

The fifth part of the report includes insights from a working group developed by BETTER FINANCE, to identify solutions to address the gap in unified engagement mechanisms by articulating EU-level Principles for Transition Investing Engagement in the finance sector. With 7 Working Group Members and 1 Observer, representing consumer and retail investor associations, NGOs and institutional investor group. The Principles, are targeted towards professional investors/ /asset managers and proxy advisors who wish to include the perspectives of individual investors and cover transparency, as well as engagement and voting for listed equity, with a focus on environmental transition.

Chapter I: Shareholder rights and barriers

Shareholder engagement is a key mechanism in corporate governance, capable of enhancing financial and non-financial performance, including sustainability. In the EU, the Shareholder Rights Directive II (SRD II) was introduced to eliminate barriers to shareholder participation in intermediated general meetings and improve shareholder identification processes. As part of the European Commission's Capital Markets Union (CMU) initiative, SRD II seeks to boost shareholder activity by fostering clear communication between companies and shareholders across regulated EU markets.

Key measures include removing obstacles to voting rights, streamlining information transmission, and enabling shareholder participation in cross-border contexts, supported by mandatory remote voting options. Additionally, SRD II enhances transparency through annual disclosure obligations for institutional investors, asset managers, and proxy advisors, alongside engagement policy disclosures.

Despite these advancements, SRD II has limitations. Areas requiring further attention include alignment with the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Due Diligence Directive (CSDDD). These frameworks must complement SRD II to ensure comprehensive progress in shareholder rights and corporate sustainability practices.

The Directive represents a significant step forward, but underscores the need for ongoing regulatory refinement to address remaining gaps in transparency, cross-border engagement, and integration with broader EU sustainability goals.

The original Shareholder Rights Directive (SRD1) set rules to promote shareholder rights at general meetings of EU-listed companies. Its amendment, SRD II, introduced minimum standards to enhance shareholder participation and encourage long-term engagement, aligning shareholder interests with companies' long-term strategies and performance.

(Directive 2007/36/EC – SRD1) & (Directive 2017/828 – SRD2)

Following the 2008 financial crisis, the European Commission proposed revising the 2007 Shareholder Rights Directive (SRD1) to address insufficient long-term shareholder engagement and excessive corporate risk-taking. The revised SRD, finalized in 2017, had a transposition deadline of June 2019. In 2018, the Commission adopted Implementing Regulation 2018/1212 to clarify practical application requirements for the updated Directive.

Strengthening Shareholder rights across the EU

Facilitating individual shareholder rights is critical to advancing the EU Commission's sustainable finance initiatives and net-zero emission targets. Research indicates that millions of European retail investors would support aligning their investments and pension funds with the Paris Agreement. However, structural barriers often hinder individual shareholders from exercising their sustainability preferences through voting rights.

While SRD II has improved transparency and engagement mechanisms, individual shareholders frequently lack direct power to enforce sustainability-related changes. In some jurisdictions, ESG resolutions at annual general meetings (AGMs) are non-binding, allowing companies to decide whether to implement them. Additionally, pension savers—particularly those in employment-related funds—often have minimal say in how their pension funds are managed, further diluting shareholder influence.

This disconnect raises concerns about the effectiveness of enforcing ESG commitments and addressing broader stakeholder interests when shareholders are distanced from critical decision-making processes. The upcoming review of SRD II provides a key opportunity to address these gaps. Strengthening individual shareholder rights, particularly in AGMs, and improving the transmission of financial and non-financial information to shareholders will be essential steps toward aligning corporate governance with sustainability goals. Standardising ESG reporting/disclosures and encouraging active shareholder engagement remain key tools.

'Say on Climate' Resolutions

Shareholder activism on climate change has led to a growing use of shareholder resolutions to address climate-related issues. Over the past decade, these resolutions have become central to the engagement efforts of investor coalitions and climate pledges aiming to hold companies accountable for their environmental impact.

A prominent example is the "Say on Climate" resolution, where shareholders vote on a company's strategy to align its operations with the Paris Agreement objectives. These strategies often encompass measures such as improving energy efficiency, transitioning to renewable energy, implementing sustainable supply chain practices, and investing in climate resilience. Typically, they include short- and mid-term greenhouse gas (GHG) reduction targets and require annual performance reporting to shareholders.

The Say on Climate mechanism has highlighted that while some companies set broad long-term goals, many fail to provide clear short-term strategies to achieve these targets. For listed companies, aligning with such resolutions often necessitates significant GHG emissions cuts, requiring a substantial overhaul of capital allocation, governance structures, and incentive systems. As transition-linked activities gain prominence, incorporating transition-related concepts into Say on Climate resolutions can better align with investor preferences, empowering both individual and institutional investors to drive meaningful climate action. The European Commission should revisit all relevant policy dossiers that correspond to engagement and sustainability.

Exercising shareholder rights

With different transposition priorities at the national level, and unique national company law across Member States, exercising of shareholder rights across Europe remains challenging. For instance, resolutions at general meetings are binding in Nordic countries, whereas elsewhere they are seen as advisory rather than binding. One encourages active shareholder engagement and ensures that companies are held accountable for the decisions made at the AGMs, while the latter offers more flexibility, but risks dampening shareholder influence. To better understand the different legal provisions and their consequences, we investigated the shareholder rights provisions in France, Germany and Italy. Each country chapter covers AGMs, filing shareholder resolutions, voting, asking questions at AGMs, and other examples which give a comprehensive overview per each jurisdiction.

How to engage?



**Identify
companies**



**Request
information**



**Contact your
financial
intermediary**



Vote

- **By buying shares in a listed company, you can become a shareholder: opening an account which allows you to buy/sell investment securities via brokerage company/investment platform...**
- **Check your investments to identify companies you would like to engage with...**
- **Request voting information for your chosen company from your financial intermediary (bank, broker or asset/fund manager) ...**
- **Request to exercise your shareholder voting rights by contacting your financial intermediary...**
- **Attend an AGM (hybrid format*) by bringing a form of identification along with required attendance documentation and submit questions and resolutions*...**
- **Either vote directly at the AGM or give your vote to someone else / indicate your voting preferences to your financial intermediary*...**

*Processes with AGMs, asking questions, voting and filing shareholder resolutions remain complicated across Europe. As a shareholder you can sign over your voting rights to proxy organisations that align with your values. They pool the votes of thousands of retail investors to create a greater impact and influence corporate policies and strategies.

Barriers with shareholder rights

One of the main challenges with the Directive (SRD II), is the lack of harmonised definition to what constitutes a 'shareholder'. The types of legal owners are divided between 'beneficial owners' or end investors, who fund the investments and bear the risks, costs and rewards of ownership. On the other hand, 'agency owners' are the financial intermediaries who do not bear the risks, losses or rewards of ownership.

Shares in listed companies are frequently held through complex intermediary chains, complicating the exercise of shareholder rights and hindering engagement. Companies often face challenges identifying their shareholders, which is essential for enabling direct communication and supporting shareholder participation. This issue is particularly significant in cross-border scenarios and with electronic systems. The efficient exercise of shareholder rights largely depends on the effectiveness of intermediaries managing securities accounts for shareholders or other stakeholders, especially in cross-border contexts.

A study conducted by BETTER FINANCE & DSW in 2022 revealed that 63% of European shareholders found the voting process challenging due to complex post-trade corporate information and inadequate financial intermediaries. The same percentage had to actively seek AGM information independently. At the same time, 64% of shareholders had to pay high fees for the right to vote at AGMs. Improvements to SRD II are vital in ensuring shareholders of European listed companies have access to a more efficient and equitable system, encouraging long-term shareholder engagement.

Exercising shareholder rights in France, Italy and Germany

The following information is our understanding of principles and practices relevant for the exercise of shareholder rights across France, Germany and Italy. Each following section provides an overview of the interpretation of SRD II at the national level, covering relevant law(s), AGMs, conditions for shareholder resolutions, voting powers and proxies.

Shareholder rights are primarily governed by the French Commercial Code, which was amended by the decree of 27 November 2019 to transpose the Shareholder Rights Directive II. Securities can be held in two different forms in France: "bearer shares" or "registered shares" (direct/administered).

The primary German law governing rights of shareholders is the German Stock Corporation Act (Aktiengesetz, AktG), which was amended by an Act of 12 December 2019 to transpose the Shareholders Rights Directive II. Stock corporations may issue bearer shares (*Inhaberaktien*) or registered shares (*Namensaktien*).

In Italy, the national laws governing shareholder rights are outlined in the Civil Code (Codice Civile) and the Consolidated Law on Finance (Testo Unico della Finanza, or TUF). Shares may be categorised as "ordinary" or "special". Typically, shares grant the same rights and are known as ordinary shares.

Annual general meetings (AGMs)

Access to the AGM is typically limited to shareholders, authorised representatives, directors, auditors, and other individuals specified by the company's bylaws or applicable regulations. Shareholders who hold voting rights and are listed on the company's share register on a specific date preceding the AGM - known as the record date - have the right to attend and vote. The length of AGMs can vary, typically lasting a few hours, but may extend longer for larger companies with extensive agendas. The administrative process to register typically involves:

Notification: The company sends out formal notices to shareholders informing them of the date, time, and location of the AGM, along with the agenda items to be discussed.

Registration: Shareholders who wish to attend the AGM must typically register their attendance in advance by a specified deadline. The registration process may vary depending on the company's procedures but often involves submitting a formal request to attend the AGM through a designated channel, such as through the company's website, by email, or by mail.

Verification of Shareholding: Shareholders may be required to provide evidence of their shareholding, such as a statement from their broker or evidence of share ownership registered in their name.

Issuance of Admission Passes: Upon successful registration, shareholders may receive admission passes or other documentation confirming their eligibility to attend the AGM. Journalists, guests and organisation representatives can ask for admission passes as auditors.

- Registered shareholders receive an AGM notice by post or electronically at least 35 days before an AGM.
- Updated AGM notices, including revised agendas if any shareholder resolutions have been submitted, must be sent at least 15 days before the AGM.
- Written questions to be asked during AGMs must be submitted 4 days before the AGM.
- Fully virtual AGMs can be blocked by shareholders representing 5% of capital share.

- Registered shareholders can access the AGM notice in the e-bundesanzeiger and company website at least 30 days before the AGM.
- Updated AGM notices, including revised agendas if any shareholder resolutions have been submitted, must be sent at least 10 days from the disclosure of the convening notice.
- German law restricts what resolutions can be tabled on, limiting it only to nine cases. This list includes, most importantly, amendments of the bylaws.

- Registered shareholders receive an AGM notice on the company website or national newspaper at least 30 days before an AGM and written requests to the company must be submitted within 10 days from the publication of the notice.
- Amendments to AGM notice must be published at least 15 days before the date of the AGM.
- The 'Capital Markets Bill' ends the general right for closed-door shareholder meetings from 2025, unless shareholders approve an amendment to the company's articles of association to continue using this format indefinitely.

Conditions for shareholder resolutions

Resolutions proposed by shareholders are a key mechanism granting shareholders more of a say in company decision making. It affords shareholders the opportunity to raise a topic of their choice (rather than being limited to topics which are either legal requirements or those which are otherwise proposed by the board of directors). As a result, shareholder resolutions are a key tool for activist shareholders seeking to influence company behaviour in relation to environmental, social and/or other matters. According to the SRD II, the capital threshold for requesting resolutions is at 5% of capital share. However, these thresholds vary by jurisdiction across Europe, whereby Switzerland for example has a 0.5% of capital share with Articles of Association having the option to set the thresholds even lower. In Ireland this is at 3% of the issued share capital, and in the UK, it stands at 5%.

Shareholders who wish to propose a resolution to be added to the agenda of an AGM typically need to meet certain requirements outlined in the company's bylaws and relevant regulations. These requirements include thresholds related to capital share ownership or the number of shares held by the shareholder proposing the resolution. Additionally, shareholder resolutions can be either binding, or non-binding (advisory) according to provisions set in the respective Member States. This creates additional barrier for shareholders to compel the board of directors from the company to take action on environmental matters for example. As such, enabling a shareholder vote on the transition plan of the company can stimulate not only greater transparency and accountability by the company, but promote substantiated actions.

- Shareholders must hold at least 4% of the share capital to request the addition of items to the AGM agenda. This threshold is lowered according to the total amount of share capital. For example, 2.5% is required when total share capital is between €750,000 and €7,500,000.
- Since June 2024, shareholders can challenge a refusal from the board of directors to add a resolution to the agenda.
- The shareholders only have the right to request that a specific issue be considered at the general meeting if the requesting shareholders' combined shares equal at least 5% of the total share capital of the company or a proportionate amount of €500,000 of the share capital.
- Challenging a resolution (action for annulment or avoidance), requires no quorum and thus available to minority shareholders.
- Shareholders must hold at least 2.5% of the share capital to request the addition of items to the AGM agenda. This threshold may be lower if stipulated by the company's bylaws.
- To challenge a resolution (shareholders who dissent, are absent, or abstain from voting) must hold at least 0,1% of the voting shares to challenge a resolution passed by the general meeting. Company by-laws may allow for lower thresholds or no percentage requirements.

The role of proxies and proxy advisors

A proxy refers to a representative appointed by a shareholder to act on their behalf, for example by attending a meeting. The shareholder may instruct the proxy on how to vote on a resolution or give them a question to ask the management board. The SRD II has no legal rule restricting the eligibility of persons to be appointed as proxies, as such Member States can decide instead, which differs with some countries proposing no restrictions, others linking restrictions through bylaws and in some allowing either another person, a shareholder association, intermediary or another shareholder for example. The shareholder engagement process can be improved by fostering proxy voting through independent shareholder representatives for individual investors.

Even though proxy voting may be sufficient for institutional investors that have various opportunities throughout the year to exchange directly with the company management, it is often of less interest to individual shareholders for whom the general meeting is generally the only opportunity to meet and exchange with the management and fellow shareholders.

Proxy advisors usually work for institutional investors such as asset managers, mutual funds and pension funds. In addition, depending on their particular business activity, proxy advisors can provide a range of other analytical and consulting services that are connected to the voting process and to corporate governance issues in general. Proxy advisors are considered influential, but voting rights and decisions remain the responsibility of investors. It is up to investors to evaluate proxy advisors' recommendations and incorporate them into their own analyses and voting decisions.

- In France, the choice of proxy can be either a spouse, a partner or another shareholder.
- A power of attorney is necessary as well as a shareholding certificate justifying the share ownership. A so-called 'mandat en blanc' for the chairman of the meeting is possible, which means granting authority to vote in favour of the management proposals.
- The appointment or revocation of a proxy must be made in writing to the company.

- In Germany, the choice of proxy can be another natural person, a shareholder association, an intermediary, or proxy services.
- An intermediary can only exercise the right to vote when they are granted power of attorney. Shareholders are expected to issue express instructions for the proxy on voting.
- In stock corporations it is also permissible to appoint an authorised representative who has been proposed by the company itself (limited due to potential conflicts of interest).

- In Italy, the proxy vote can be assigned to another shareholder or a third party. However, by-laws may restrict or exclude this right. The proxy (vote) must be in writing, must not be left blank (i.e, must include the name of the proxy), and is always revocable.
- In listed companies, unless by-laws provide otherwise, companies are required to designate for each meeting a person to whom shareholders may grant a proxy with voting instructions on all or some of the proposals on the agenda.

Institutional investors and their influence

Institutional investors and other shareholder groups, primarily investment funds, play a crucial role in influencing and monitoring a company's actions. Their substantial ownership stakes provide them with significant voting power and the ability to engage directly with the company's management. There are several ways in which these groups exert influence and perform monitoring functions. For instance, they may often seek representation on the company's board of directors to directly influence corporate strategy and decision-making. They may also retain the right to remove unsatisfactory management, impose limitations on the transfer of shareholdings and ensure satisfactory exit strategies when investments are profitable. These rights are typically established through specific provisions included either in the company's by-laws or in separate shareholders' agreements.

The general perception is that the higher the level of participation of foreign institutional investors among the shareholders of listed companies, the greater the level of influence of proxy advisors. Institutional investors may or may not use the service of proxy advisors to define their voting choice. While the SRD II has some transparency provisions, it is worth noting that in cases where institutional investors do not have established obligations, may be at risk of transferring influence in favour of the proxy advisor used and in detriment to the beneficial owners.

Additionally, legal barriers posed by collective action rules in virtually all jurisdictions prevent institutional investors from engaging in collective activism with the aim or threat of

replacing the board. Even if the goal of collective activism is to address climate change, investors are not fully exempt from these rules. Thus, institutional investors in a listed company face the risk of legal action or severe economic consequences if they attempt to replace a board of climate change deniers for example, even if they represent most shareholders. Acting in concert rules were originally designed to prevent some shareholders (such as acquirers of corporate control or sellers of large blocks of shares) from unfairly benefiting themselves at the expense of minority shareholders, or even other stakeholders. However, these rules now present a significant obstacle to addressing the pressing issue of climate change.

A shift away from 'say on climate' resolutions towards enhanced disclosure of transition plans

The key trends in 2024 European AGM season, showed a decline in number of 'Say on Climate' resolutions submitted by European companies for a second year in a row. The quality of climate transition plans and progress reports has also decreased since 2022. In addition, the number of environmental and social related shareholder proposals put forward by companies declined in comparison to previous years. With the ongoing deterioration of long-term climate commitments from a policy lens, could effectively prevent major institutional investors from adopting comprehensive ESG-oriented engagement as their modus operandi. While companies can improve communication with asset managers, retail investors require more accessible explanations and increased frequency of discussions on climate and transition resolutions during general meetings for example.

Recommendations

Incentives for investors can promote active engagement aligned with long-term corporate sustainability, but some companies have refused to include a ‘Say on Climate’ resolution on the agenda of an AGM. When coupled with the non-binding nature of resolutions influencing company behaviour and accountability becomes limited. By incentivising long-term investments, shareholders are more likely to support corporate strategies reflecting their ESG preferences, but a binding resolution is needed to achieve such an effect.

1. Harmonise the definition of ‘shareholder’



2. Remove obstacles to shareholder voting and provide clarity on minority shareholder rights



3. Harmonise AGM practices, including format and approach to timing of ‘record date’



4. Remove existing obstacles to collaborative engagement in relation to ESG and transition



5. Harmonise standards on shareholder proposals and right to ask questions on any material topic



6. Support “one share, one vote” standard



7. Foster proxy voting through independent shareholder representatives and improve definition of ‘proxy advisers’



8. Integrate transition planning within ‘Say on Climate’ resolutions with a binding approach



The different concepts of shareholder have caused an unlevel playing field whereby intermediaries can act on behalf of the shareholders when it comes to voting at general meetings as they are considered as the legal owner of the shares.

Lift the barriers that prevent individual shareholders from exercising their voting rights, to create the right environment to push companies towards zero net emissions and sustainable targets. Questions that can be asked by shareholders during AGMs should not be restricted to items on the agenda of the meeting. Similarly, unequal voting rights put minority shareholder interests at risk.

Investors need reassurance that they can engage jointly with companies on important governance matters, including material issues related to long-term corporate sustainability without being perceived as acting in concert with other investors.

Since Covid-19 more companies are using virtual (Germany) or even closed-door (Italy) AGMs, which severely impacts shareholders’ rights to attend, or ask questions. Where the record date is close to the general meeting, individual shareholders in a cross-border environment may not be able to exercise their voting rights due to the long chain of intermediaries.

Chapter II: Retail investor interest and support for transition investing and transition plans

Individual investors by nature are usually long-term oriented as their investing horizon and savings needs, such as pension, housing, child education and transmission of wealth are long term. Accordingly, more than 80% of their total assets (including real estate) and more than 60% of their financial assets are long-term ones (i.e. retirement, housing, children's studies, transmission of wealth).

When retail clients invest through a financial product, structural barriers in the financial system such as intermediation in the investment chain, means that retail investor preferences on environmental and social issues are not reflected in votes cast at company general meetings.

While the EU legal framework and processes sought to facilitate shareholder engagement, there are numerous instances where shareholders' rights are impaired or denied. The lack of comprehensive assessment vis-à-vis investors' interest in transition plans and associated impact, further undermines the interplay between supply and demand of transition investing.

Together with Place des Investisseurs, Deutsche Schutzvereinigung für Wertpapierbesitz and New Savers, we assessed French, German and Italian retail investors' interest and support of transition plans through large and independent individual investors' survey. Some of the research also encompassed perspectives from institutional investors, and proxy (representatives), covered in the following Chapter.

Transition investing

Transition investing refers to capital to **improve economic activities**, that are not environmentally friendly at present and enabling current activities to **eventually achieve climate neutrality**. The foundation of the concept of transition finance can be traced back to Article 2.1 c) of the **Paris Agreement**, which underscores the need to align financial flows with a path toward **reduced greenhouse gas emissions**, and climate-resilient development.

Comprehensive and credible strategies that outline the steps that organisations must take to achieve climate neutrality by 2050. **Effective transition plans** enable companies to outline their specific transition paths and **allocate appropriate resources** for the materialisation of net-zero trajectory. In turn, this also offer **transparency to investors** who seek to include **transition** committed companies in their **portfolios**.

Transition plans

Survey methodology

The research was conducted with a common questionnaire template, to assess shareholder preferences and knowledge on transition investing during AGMs. Covering 6 questions, the mixed-methodology survey covered areas of transition investing, transition plans, ‘Say on Climate’ resolutions, as well as scenario-based questionnaire to identify respondents’ decision making in regard to voting in AGMs.

The criteria set for the respondents targeted experienced retail investors who have participated in and have knowledge of AGMs – or have had someone else participate on their behalf at least once or twice. The second criteria targeted inexperienced individual retail investors who have knowledge and interest in finance and corporate governance, but do not participate in company meetings. Though the survey largely targeted retail investors, some of the implementers of the survey were also able to capture views of others – such as institutional investors and proxy (representatives).

The survey was conducted in France, Germany and Italy, in the local language with final results collected in July 2024. The number of retail investor respondents for the three countries in scope totalled 1005, with 381 coming from France, 298 from Germany and 326 from Italy. Each of the implementers of the survey Place des Investisseurs, Deutsche Schutzvereinigung für Wertpapierbesitz and New Savers conducted the survey either through a panel/telephone interview or published online for their members and readers. For example, the New Savers sample was conducted via telephone interviews, carried out by ‘Proger’ for experienced retail investors and published online for readers of the online magazine “LMF - La Mia Finanza”.

Survey questions

1. Are you aware of what transition investing and transition plans mean?

- Yes, familiar with transition investing concept
- Familiar with transition plans
- Neither/Not familiar with these terms
- Other (please specify).....

2. Have you come across any proposals to be voted on ‘Say on Climate’ (climate -related shareholder resolutions) during AGMs?

- Yes regularly
- Yes, once or twice
- No, but I think say on climate is important
- No and I do not think say on climate is important
- Other (please specify).....

3. Have you come across any proposals/resolutions or agenda items in AGMs regarding transition plans?

- Yes regularly
- Yes, once or twice
- No, but I think transition is important
- No and I do not think transition topics are important
- Other (please specify).....

4. Scenario(1). The company puts climate-related resolutions/agenda items during AGMs and you vote in favour of them. What did the company provide to motivate you to vote in their favour?

- Clear commitments to a transition from heavily polluting companies
- Clearly stipulated transition plans and climate strategies
- Clear alignment with scientific recommendations
- Other (please specify).....

5. Scenario(2). The company puts climate-related resolutions/agenda items during AGMs, and you do not vote in their favour. Why did you not vote in their favour?

- Too complicated to navigate and understand whether climate resolutions are substantiated.
- Not enough evidence and credibility provided from companies on their climate strategies
- Other (please specify).....

6. Scenario(3). You have not come across any proposal or actions regarding climate-resolutions in AGMs. What do you prefer?

- To see the topic brought up more frequently and explained in simple ways
- To see no change as not sure how climate/transition are related to me and my investments
- Other (please specify).....

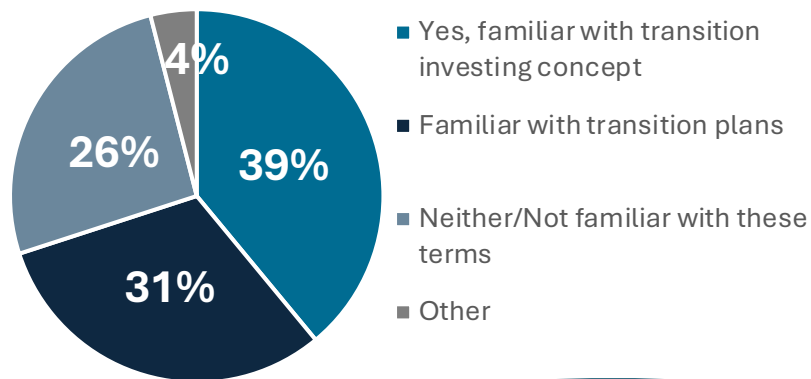
Key trends across France

The French retail investors have experienced significant shareholder engagement regarding climate issues during general meetings. A substantial majority expressed having seen ‘Say on Climate’ resolutions and proposals on transition plans being discussed. Shareholders clearly supported companies that presented clear transition plans aligned with scientific recommendations. However, a major obstacle lies in the lack of transparency and tangible evidence regarding companies’ climate strategies, negatively influencing support for certain proposals.

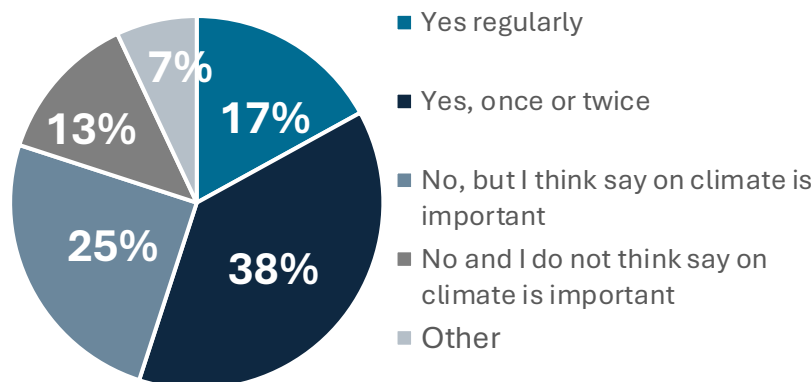
There is an evident need for improved communication: a vast majority of respondents expressed a desire for more accessible explanations and increased frequency of discussions on climate resolutions during general meetings. This demand underscores the growing importance of transparency and corporate commitment to addressing climate challenges while enhancing shareholder trust and support for sustainable initiatives.

- 70% of respondents are familiar with the concepts of transition investment and transition plans, while 26% are not familiar with either of these concepts at all.
- 55% have seen at least once ‘Say on Climate’ resolutions proposed at general meetings in 2024, but 25% have not even if they place importance on say on climate.
- 52% have seen proposals/resolutions regarding transition plans, though 31% have not, despite placing importance on transition.

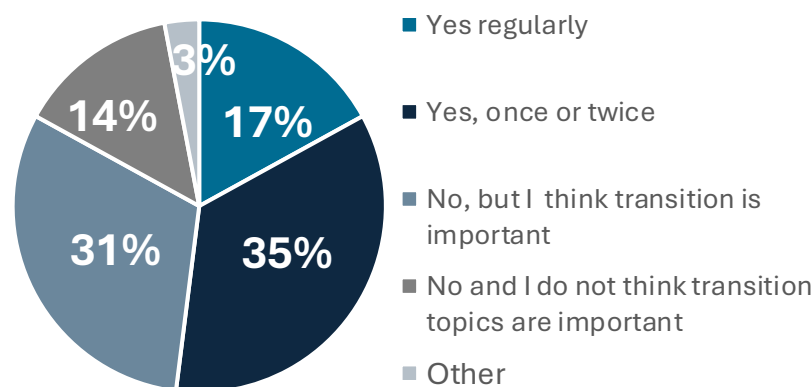
Are you aware of what transition investing and transition plans mean?



Have you come across any proposals to be voted on 'Say on Climate' (climate-related shareholder resolutions) during AGMs?



Have you come across any proposals/resolutions or agenda items in AGMs regarding transition plans?



With 381 respondents to the survey, French retail investors appear overall familiar with either transition investing and transition plan concepts. The positive trend is also apparent in the frequency of proposals/resolutions and agenda items encompassing 'Say on Climate' and transition plans in AGMs, to which retail investors have seen either directly or via a representative.

However, a quarter of them are still unfamiliar with the concepts of transition investing and transition plans and view 'Say on Climate' as unimportant. Similarly, 14% believe that transition topics are not important. To stimulate greater awareness of transition investing, climate-related shareholder resolutions, transition plans as well as their associated benefits to individual retail investors, greater level of transparency from companies is needed, alongside easily accessible dialogues between issuers and shareholders.

While 56% of retail investors indicated not coming across climate and transition resolutions in AGMs, they share the view that such topics are important for them. Issuers should therefore consider responding to such overwhelming indicators, as opposed to incorporating protective measures in their by-laws. The same applies for French corporate law, which should not establish mandatory division of powers between the board and the shareholders, where resolutions are expressed as non-binding.

Since the transposition of the Corporate Sustainability Reporting Directive (CSRD) into French national law, we expect that companies will report more comprehensive and useful sustainability information within their reports and ultimately pave the way for integrating discussions on climate and transition more frequently in AGMs. The CSRD replaces the previous Non-Financial Reporting Directive (NFRD) that created the obligation to report non-financial information, standardising sustainability reporting and expectations for companies reporting on environmental and social impacts.

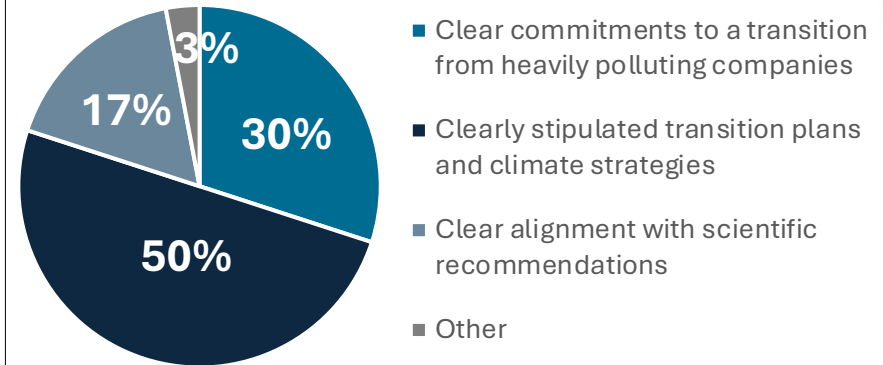
When presented with a scenario in which the company puts climate-related resolutions/agenda items during AGMs and the French investor is assumed to vote in favour of them (whether directly or through a representative), majority of respondents (50%) indicate that in such a hypothetical scenario, voting in favour would be due to the company's clearly stipulated transition plans and climate strategies. This reinforces the readiness of retail investors in supporting a company's ambition pertinent to transition and climate from the onset. Issuers should therefore consider increasing submissions of their climate transition plans, as well as increasing and not decreasing the number of 'Say on Climate' board proposals as we have seen with the 2024 AGM season in France.

Similarly, when presented with the second scenario, retail investors identify lack of evidence and credibility on climate strategies from companies as the main reason in not voting in the favour of such climate-related resolutions/agenda items. Since last year's AGM season, average level of support on 'Say on Climate' votes has remained consistent (over 90%), and the results of the survey show that even though in some instances retail investors will not support proposals based on the complexity of climate-related resolutions, the majority quote lack of evidence as the key link towards wavering support. Issuers should therefore consider striking the right balance between clear ambitions, evidence and understandability of their climate-related agenda items and proposals.

Finally, in the last scenario French retail investors indicate a clear desire (64%) for the topic of climate-resolutions to be brought up more frequently and explained in simpler ways. This should stimulate companies in putting such agenda items and respond to the growing demand of their shareholders. While a quarter of retail investors have not shown dissatisfaction in cases where climate-resolutions are not brought up during AGMs, the reasons to this could also be explained by their lack of understanding on how such topics relate to their investments. Companies should therefore consider stipulating the expected pros/cons with such investments.

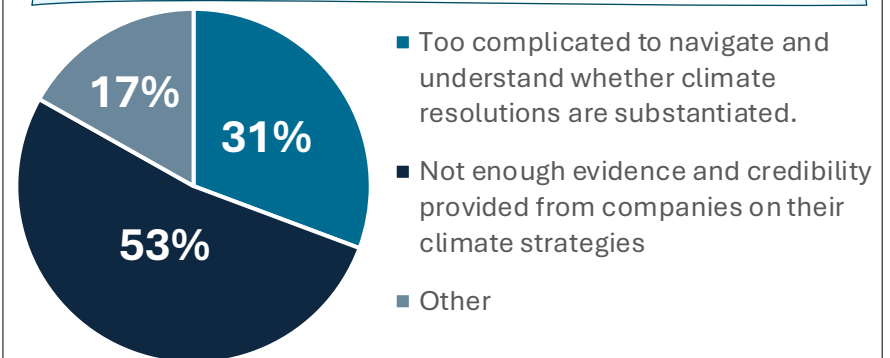
Scenario 1

The company puts climate-related resolutions/agenda items during AGMs, and you vote in favour of them. What did the company provide to motivate you to vote in their favour?



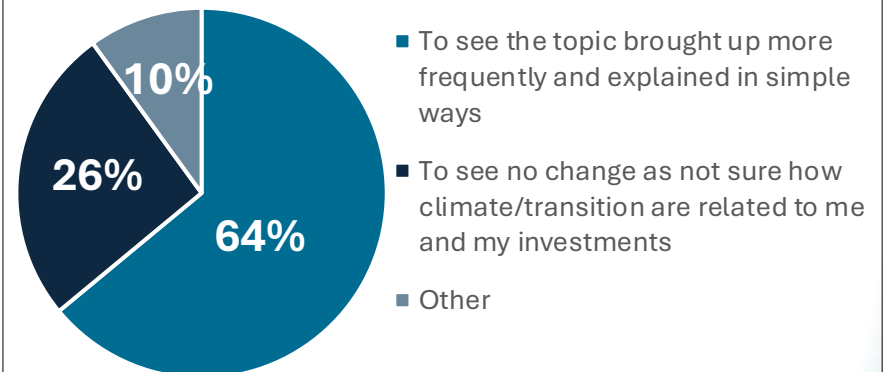
The company puts climate-related resolutions/agenda items during AGMs, and you do not vote in their favour. Why did you not vote in their favour?

Scenario 2



You have not come across any proposal or actions regarding climate-resolutions in AGMs. What do you prefer?

Scenario 3



Key trends across Germany

The German retail investors have experienced an extremely low shareholder engagement regarding climate issues during general meetings. A majority expressed their opinion of 'Say on Climate' resolutions and proposals on transition plans as important. Shareholders clearly support companies that present clear alignment with scientific recommendations and would only not vote in favour of climate and transition proposals due to lack of evidence and credibility that come from companies' climate strategies.

There is also an evident need for improved communication: a vast majority of respondents expressed a desire for more accessible explanations and increased frequency of discussions on climate resolutions during general meetings. This demand underscores the growing importance of transparency and corporate commitment to addressing climate challenges while enhancing shareholder trust and support for sustainable initiatives.

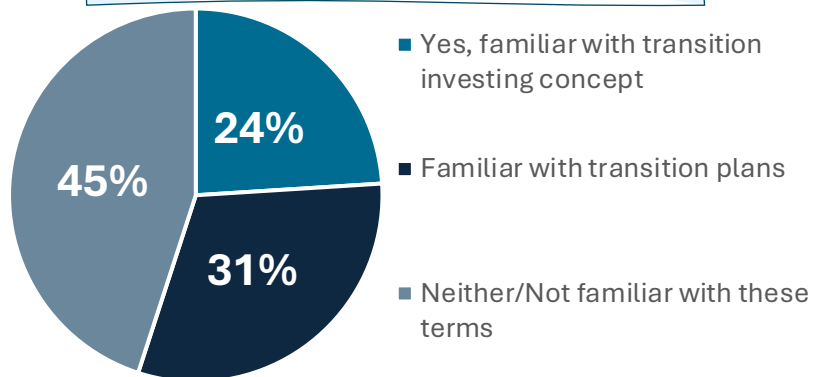
When asked about the name of the company in which they have come across 'Say on Climate' on the agenda (either directly or via a representative), German retail investors listed: KPS, Munich Re, Siltronic, Mevis Medcal Solutions AG, Gea Group, Infineon, BMW, Hartman and Utzin Utz. However, when checked by the survey implementors Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), only Gea Group had items and a vote pertaining to 'Say on Climate'. We assume that respondents thought that 'Say on Climate' includes also the non-financial report (which is on the agenda of all listed companies, but not voted upon). As such, out of the 298 retail-

investor responses, of whom 40 are identified as non-experienced and 258 as experienced, only 9 indicated having seen and exercising one vote or more during AGMs regarding 'Say on Climate', while the remainder has not. 258 of the experienced retail investors also indicated to have participated/been represented by a third party/ exercised votes at more than two AGMs in other topics. While 40 of the inexperienced retail investors have never participated/been represented by a third party/ or exercised their votes at AGMs.

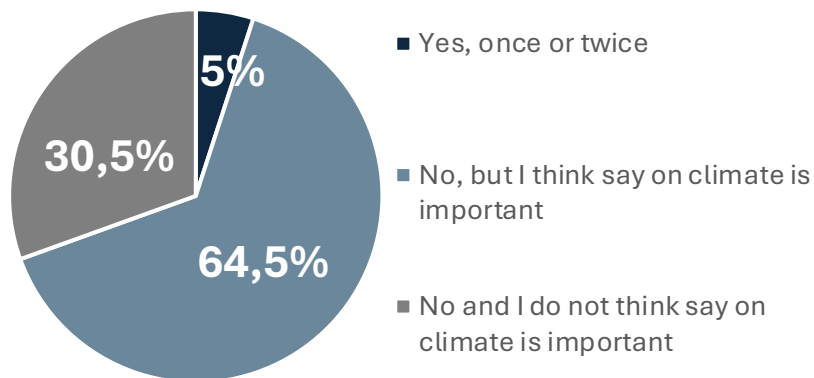
Since the survey offered an open-ended response option for those who do not agree with any of the statements, a very small number of retail investors specify that the reason for not coming across proposals/resolutions and agenda items in AGMs pertinent to transition plans, is due to their current lack of engagement for transition. When presented with the different scenarios, for example voting in favour for climate-related resolutions, a small number of retail investors specify other reasons such as higher returns and manageable costs.

- 55% of respondents are familiar with the concepts of transition investment and transition plans, while 45% are not familiar with either of these concepts at all.
- 64,5% place importance on 'Say on Climate', and 51,5% on transition, despite not coming across either during AGMs. Only 23% have come across climate/transition at least once.

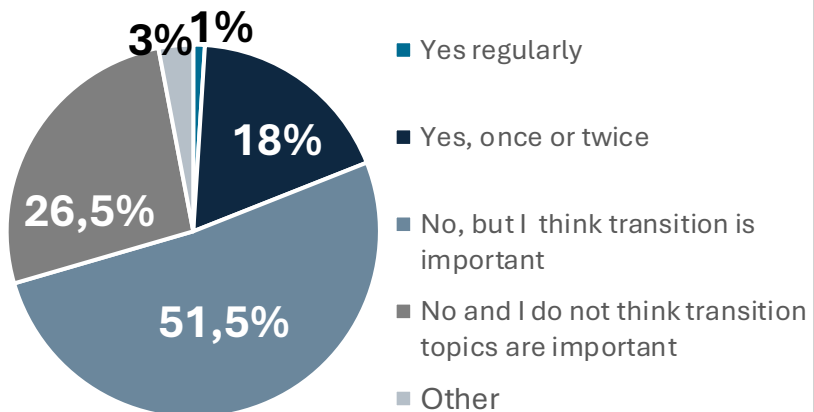
Are you aware of what transition investing and transition plans mean?



Have you come across any proposals to be voted on 'Say on Climate' (climate -related shareholder resolutions) during AGMs?



Have you come across any proposals/resolutions or agenda items in AGMs regarding transition plans?



With 298 respondents to the survey, German retail investors appear overall familiar with either transition investing and transition plan concepts. This positive trend however is not apparent in the frequency of proposals/resolutions and agenda items encompassing 'Say on Climate' and transition plans in AGMs, to which retail investors have seen either directly or via a representative.

However, 45% of them are still unfamiliar with the concepts of transition investing and transition plans and view 'Say on Climate' and transition plans as unimportant (57%). To stimulate greater awareness of transition investing, climate-related shareholder resolutions, transition plans as well as their associated benefits to individual retail investors, greater level of transparency from companies is needed, alongside easily accessible dialogues between issuers and shareholders, since both climate and transition remain as material topics to companies and the environment.

Since individual retail investors share the view that both climate-related shareholder resolutions and transition plans are important, with 64,5% and 51,5% respectively, issuers should consider responding to such overwhelming indicators, as opposed to lobby proxy advisers or team up with significant shareholders to avoid addressing such topics.

With the Implementing Act of the second Shareholder Rights Directive (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie – ARUG II), new transparency duties for institutional investors, asset managers and proxy advisers can help align their actions more closely with investor interests and sustainable corporate governance. However, if shareholders are not satisfied with the company's management for example, they have restricted opportunity in exerting influence, as the executive board is appointed by the supervisory board and not by the general meeting for example.

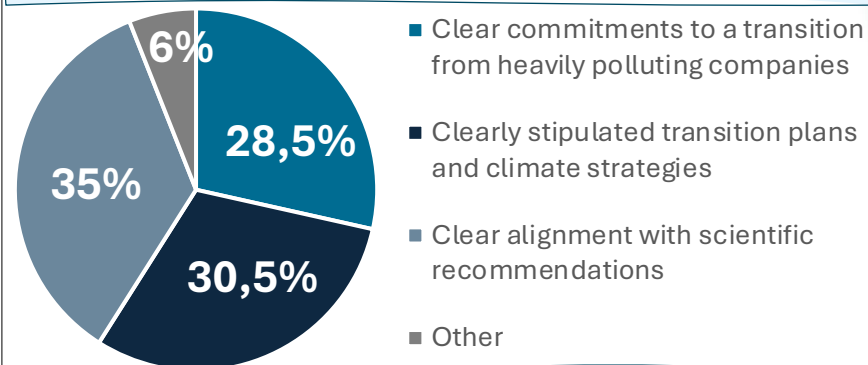
When presented with a scenario in which the company puts climate-related resolutions/agenda items during AGMs and the German investor is assumed to vote in favour of them (whether directly or through a representative), most respondents (35%) indicate that in such a hypothetical scenario, voting in favour would be due to the company's clear alignment with scientific recommendations, closely followed by clearly stipulated transition plans and climate strategies (30,5%). This reinforces the readiness of retail investors in supporting a company's ambition pertinent to transition and climate from the onset. Issuers should therefore consider increasing submissions of their climate transition plans, as well as increasing and not decreasing the number of 'Say on Climate' board proposals as we have seen with the 2024 AGM.

Similarly, when presented with the second scenario, retail investors identify lack of evidence and credibility on climate strategies from companies as the main reason in not voting in the favour of such climate-related resolutions/agenda items. While the results of the survey also show that quarter of the retail investors will not support proposals based on the complexity of climate-related resolutions, the majority 65,5% quote lack of evidence as the key link towards wavering support. Issuers should therefore consider striking the right balance between clear ambitions, evidence and understandability of their climate-related agenda items and proposals.

Finally, in the last scenario German retail investors indicate a clear desire (61%) for the topic of climate-resolutions to be brought up more frequently and explained in simpler ways. This should stimulate companies in putting such agenda items and respond to the growing demand of their shareholders. 35,5% of retail investors have not shown dissatisfaction in cases where climate-resolutions are not brought up during AGMs, listing lack of understanding on how such topics relate to their investments. Companies should therefore consider stipulating the expected pros/cons with such investments.

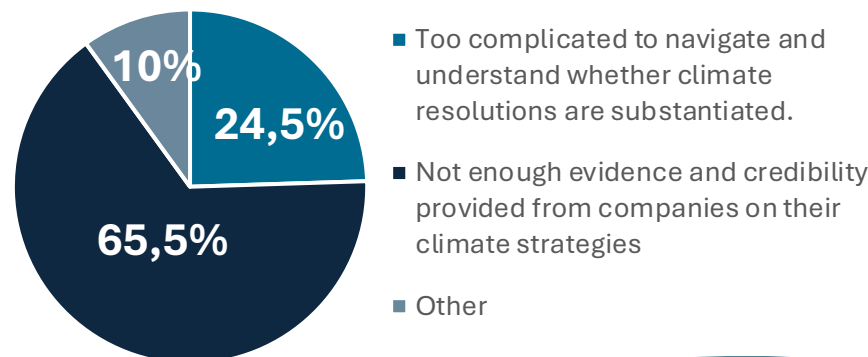
Scenario 1

The company puts climate-related resolutions/agenda items during AGMs, and you vote in favour of them. What did the company provide to motivate you to vote in their favour?



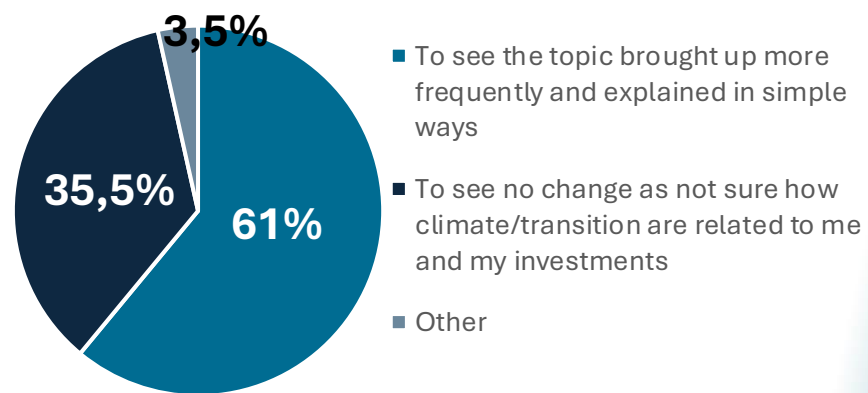
The company puts climate-related resolutions/agenda items during AGMs, and you do not vote in their favour. Why did you not vote in their favour?

Scenario 2



You have not come across any proposal or actions regarding climate-resolutions in AGMs. What do you prefer?

Scenario 3



Key trends across Italy

The Italian retail investors have also experienced a low shareholder engagement regarding climate issues during general meetings. A majority expressed their opinion of 'Say on Climate' resolutions and proposals on transition plans as important. Shareholders clearly support companies that present clear commitments from heavily polluting activities and would mainly not vote in favour of climate and transition proposals due to lack of evidence and credibility that come from companies' climate strategies.

In the absence of climate proposals, majority of respondents expressed a desire for more accessible explanations and increased frequency of discussions on climate resolutions during general meetings. This points to a call for greater transparency and clarity from companies on how they intend to address climate and transition issues.

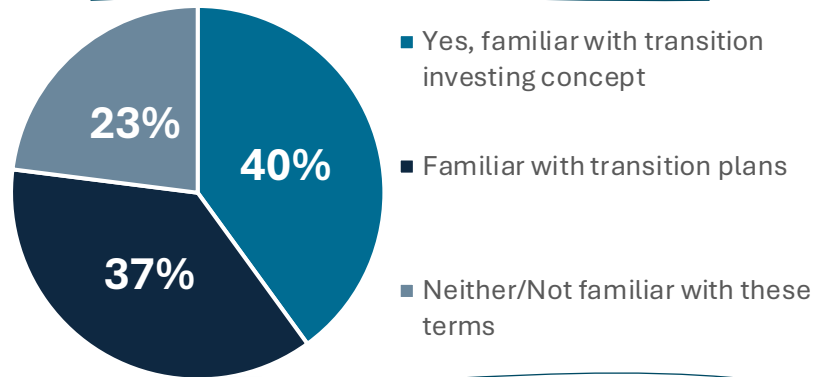
122 responses from experienced retail investors were recorded by Proger via Computer-Assisted Telephone Interviewing. Before listening to the short introduction, respondents were asked a filtering question on whether they have heard the term transition investments, with 100% positive feedback. Responses from inexperienced retail investors were obtained via an optional questionnaire published for the readers of an online magazine 'LMF – La Mia Finanza'. Out of 1,000 views of the questionnaire, 204 answers were recorded as useful (in full). Since the survey offered an open-ended response option for those who do not agree with any of the statements, a very small number of retail investors specify that in the absence of a climate-resolution during AGMs, companies should consider transition given its economic and

social aspects. Additionally, Italian retail investors list the need to provide support to companies that demonstrate a clear commitment to transition and encourage transparent collaboration among companies.

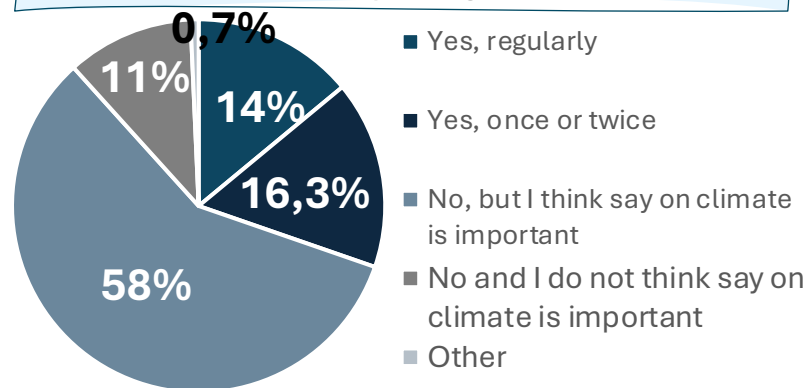
Italian AGMs have remained as closed-door meetings, whereby shareholders do not have the opportunity to participate directly. The format was introduced during the COVID-19 pandemic and the temporary right to hold closed-door meetings has repeatedly been extended. Only a shareholder representative holding proxies is allowed to be physically present, and the proceedings are not generally broadcast. Though "DDL Capitali" or 'Capital Markets Bill' ends the general right for Italian companies to hold closed-door shareholder meetings from 2025, it has also introduced the possibility for companies to continue using this meeting format indefinitely, if shareholders approve an amendment to a company's articles of association with a 2/3 majority requirement.

- 77% of respondents are familiar with the concepts of transition investment and transition plans, while 23% are not familiar with either of these concepts at all.
- 58% place importance on 'Say on Climate', equally to transition despite not coming across either during AGMs.
- 16,1% have come across climate/transition at least once during AGMs, while only 7,5% indicate having come across such proposals/resolutions and agenda items regularly.
- 57% indicate the need for more evidence and credibility from companies on their climate strategies and 52% seek the need for more frequent discussions around transition topics.

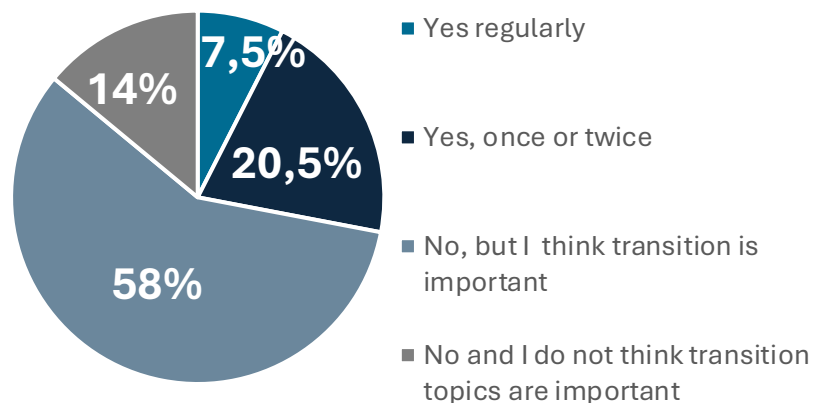
Are you aware of what transition investing and transition plans mean?



Have you come across any proposals to be voted on 'Say on Climate' (climate -related shareholder resolutions) during AGMs?



Have you come across any proposals/resolutions or agenda items in AGMs regarding transition plans?



With 326 respondents, majority of Italian retail investors appear overall familiar with either transition investing and transition plan concepts. This positive trend however is not as apparent in the frequency of proposals/resolutions and agenda items encompassing 'Say on Climate' and transition plans in AGMs, to which retail investors have seen either directly or via a representative, and nearly 60% in each case have not come across such proposals or discussions.

Nearly a quarter of respondents are still unfamiliar with the concepts of transition investing and transition plans and view 'Say on Climate' and transition plans as unimportant (28%). To stimulate greater awareness of transition investing, climate-related shareholder resolutions, transition plans as well as their associated benefits to individual retail investors, greater level of transparency from companies is needed, alongside easily accessible dialogues between issuers and shareholders, since both climate and transition remain as material topics to most companies and the environment.

Since most individual retail investors share the view that both climate-related shareholder resolutions and transition plans are important, both equally at 58%, issuers should consider responding to such overwhelming indicators, as opposed to keeping up with the closed-door AGMs, which severe impact the basic shareholder rights of participating and voting.

In Italy, companies listed on Euronext Milan (formerly Borsa Italiana) are subject to Italian regulations on corporate law and capital markets. According to the Consolidated Law on Finance (TUF) and the Issuers' Regulation, shareholders have the right to add items to the agenda of shareholders' meetings and to submit proposals on items already on the agenda. However, the continued closed-door AGMs hinder such processes.

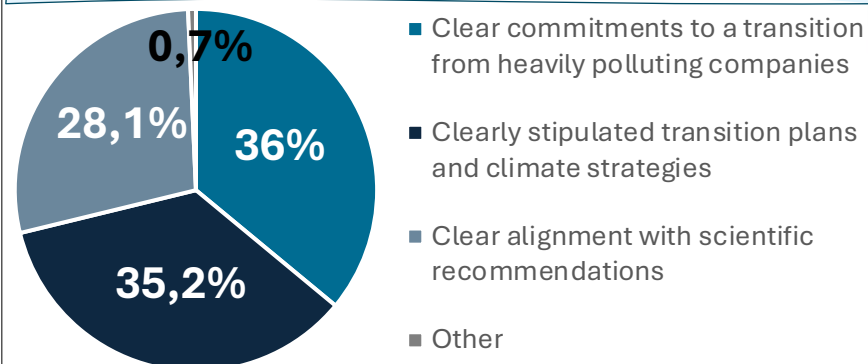
When presented with a scenario in which the company puts climate-related resolutions/agenda items during AGMs and the Italian investor is assumed to vote in favour of them (whether directly or through a representative), most respondents (36%) indicate that in such a hypothetical scenario, voting in favour would be due to the company's clear commitment to a transition from heavily polluting activities, followed very closely by clearly stipulated transition plans and climate strategies (35,2%). This reinforces the readiness of retail investors in supporting a company's ambition pertinent to transition and climate from the onset. Issuers should therefore consider increasing submissions of their climate transition plans, as well as removing closed-door formats of AGMs to allow for shareholder participation.

Similarly, when presented with the second scenario, retail investors identify lack of evidence and credibility on climate strategies from companies as the major reason in not voting in favour of such climate-related resolutions/agenda items. While the results of the survey also show that just over 41% of the retail investors will not support proposals based on the complexity of climate-related resolutions, the majority quote lack of evidence as the key link towards wavering support. Issuers should therefore consider striking the right balance between clear ambitions, evidence and understandability of their climate-related agenda items and proposals.

Finally, in the last scenario Italian retail investors indicate a clear desire (52%) for the topic of climate-resolutions to be brought up more frequently and explained in simpler ways. This should stimulate companies in putting such agenda items and respond to the growing demand of their shareholders. Interestingly, 46% of retail investors have not shown dissatisfaction in cases where climate-resolutions are not brought up during AGMs, listing lack of understanding on how such topics relate to their investments. Companies should therefore consider specifying the expected pros/cons with such investments to support financial literacy of their shareholders.

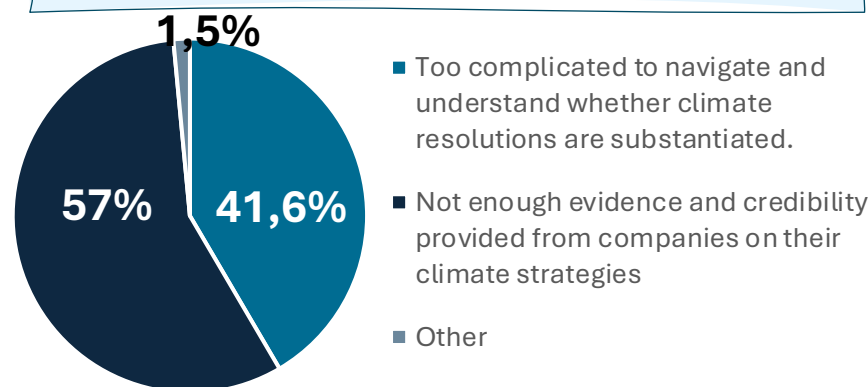
Scenario 1

The company puts climate-related resolutions/agenda items during AGMs, and you vote in favour of them. What did the company provide to motivate you to vote in their favour?



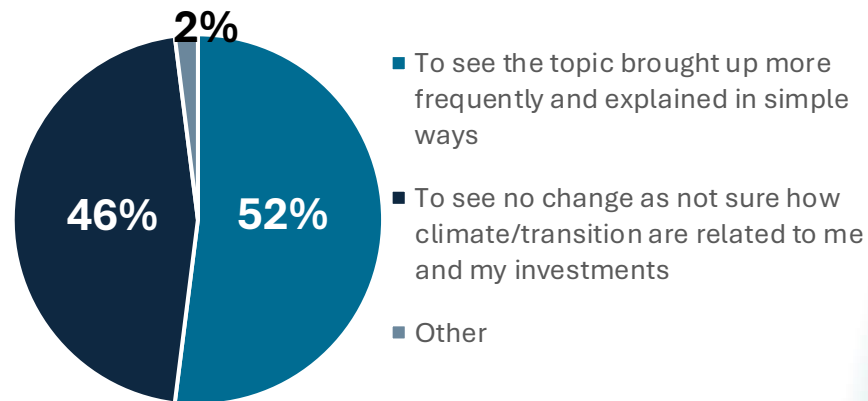
The company puts climate-related resolutions/agenda items during AGMs, and you do not vote in their favour. Why did you not vote in their favour?

Scenario 2



You have not come across any proposal or actions regarding climate-resolutions in AGMs. What do you prefer?

Scenario 3



Collective EU trends

Across France, Germany and Italy, retail investors have different experiences with concepts of transition investing and transition plans, with the highest familiarity with such terms recorded with Italian retail investors and the lowest with the German respondents.

Regarding coming across any proposals to be voted on 'Say on Climate' (climate -related shareholder resolutions) as well as transition plans during AGMs, the French retail investors lead ahead of both Italy and Germany.

Interestingly, with Scenario 1 the most favourable reasoning to voting in favour of such proposals is different for each country: French retail investors indicate "clearly stipulated transition plans and climate strategies at 50%; Italians quote "clear commitments to a transition from heavily polluting companies" and activities at 36%"; and the German retail investors indicating "clear alignment with scientific recommendations" at 35%.

The main reason for unfavourable outcome with Scenario 2 is mainly due to the lack of evidence and credibility from companies on climate strategies as indicated by retail investors across the three countries.

Finally, with Scenario 3 and the absence of transition and 'Say on Climate' discussions, most retail investors under scope of this research, indicated a clear preference for more frequent discussions around climate-resolutions during AGMs.



- Average familiarity with both transition investing and transition plans from retail investors across France, Germany and Italy: 67%
- Average of the most accepted justification for supporting companies which put climate-related resolutions/agenda items during AGMs: 39% transition plans; commitment to a transition 31%; and alignment with scientific recommendations 27%.
- Average of the most accepted justification for not supporting companies which put climate-related resolutions/agenda items during AGMs: 59% lack of substantiated evidence; and complexity of climate resolutions 32%.
- Average of the most preferred option in the absence of climate proposals: to see the topics brought up more frequently 59%; and to see no changes as still unsure how it relates to own investments 36%.

Recommendations

With the new EU requirements in regard to disclosure of transition plans, companies have to disclose transition pathways regardless of whether or not transition is the core topic for investor engagement. However, similar to how 'Say on Climate' is included in the non-financial reports, which are on the agenda of all listed companies but not voted upon, transition plans too are not subject to separate shareholder approval. In order to stimulate both shareholders' activism with transition plans, and companies' transparency, the EU should improve the current SRD II to prevent persisting barriers.

1. Prevent restricting shareholders of opportunities to exert influence in companies.



2. Remove obstacles to shareholder voting and ban closed-door AGMs.



3. Incentivise submission of climate transition plans and 'Say on Climate' approval and voting.



4. Standardise rules, procedures and frequency of transition-linked resolutions/proposals.



5. Harmonise standards on shareholder proposals and right to ask questions on any material topic



6. Remove structural barriers from intermediation in the investment chain to better reflect retail investor preferences in AGMs.



The SRD II has tried to enhance the incentives to engagement by requiring publication of an engagement policy. Additionally, similar requirements under the Sustainable Finance Disclosure Regulation as implemented by a Commission Delegated Regulation require brief summaries of the engagement policies referred to in Article 3g of SRD II and brief summaries of any other engagement policies to reduce principal adverse impacts.

Similarly, the Corporate sustainability due diligence (CSDDD) elaborates on what 'responsible disengagement' entails for due diligence and engagement practices, although the financial sector's downstream value chain activities such as investing and lending are not yet covered by the due diligence requirements.

Physical AGMs are also a key platform for shareholder engagement and democracy as they offer a unique opportunity for shareholders not only to engage with the board of directors, but also to exchange and share views among themselves. In-person AGMs are often the only opportunity for shareholders to informally discuss matters that are not placed on the agenda by the board, such as ESG topics.

Chapter III: Institutional investors and associated groups

Institutional investors and asset managers are important shareholders of listed companies and therefore can play an important role in the corporate governance of these companies, but also more generally with regard to the strategy and long-term performance of these companies. However, the experience of the last years has shown that institutional investors and asset managers often do not engage with companies in which they hold shares, at least to the extent of exerting enough influence in shaping corporate governance of companies to a sustainable business model. Global capital markets exert pressure on companies to perform in the short term, which may lead to a suboptimal level of investments, for example in research and development to the detriment to long-term performance of both the companies and the end investor.

Institutional investors and asset managers are often not as transparent about investment strategies and implementation of their engagement policy, also due to the limited requirements within the SRD II. Standardised public disclosure of such information could have a positive impact on investor awareness, enable ultimate beneficiaries such as future pensioners optimise investment decisions, facilitate the dialogue between companies and their shareholders, as well as encourage shareholder engagement and strengthen companies' accountability to civil society. Effective and sustainable shareholder engagement is one of the cornerstones of listed companies' corporate governance model, which depends on checks and balances between the different organs and different stakeholders.

Institutional investor means:

an undertaking carrying out activities of life assurance within the meaning of points (a), (b) and (c) of Article 2(3) of Directive 2009/138/EC of the European Parliament and of the Council (**), and of reinsurance as defined in point (7) of Article 13 of that Directive provided that those activities cover life-insurance obligations, and which is not excluded pursuant to that Directive;

an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU that provides portfolio management services to investors, an AIFM (alternative investment fund manager) as defined in point (b) of Article 4(1) of Directive 2011/61/EU that does not fulfil the conditions for an exemption in accordance with Article 3 of that Directive or a management company as defined in point (b) of Article 2(1) of Directive 2009/65/EC, or an investment company that is authorised in accordance with Directive 2009/65/EC provided that it has not designated a management company authorised under that Directive for its management;

Asset manager means:

Survey and bilateral interviews

The research was conducted with a common questionnaire template, to assess shareholder preferences and knowledge on transition investing during AGMs. Covering 6 questions, the mixed-methodology survey covered areas of transition investing, transition plans, 'Say on Climate' resolutions, as well as scenario-based questionnaire to identify respondents' decision making in regard to voting in AGMs. The survey was conducted by Deutsche Schutzvereinigung für Wertpapierbesitz and captured the views of 4 institutional investors and 22 proxy representatives in Germany. Two of the institutional investors indicated their participation/representation by a third party/exercise of vote at more than two AGMs, while the other indicate having done so at two or less AGMs. Neither of them, however, has done so in an AGM with a 'Say on Climate' on the agenda. All proxy representatives indicated to have participated/represented/exercised votes at more than two AGMs, but none of them have done so with a 'Say on Climate' on the agenda.

Additionally, BETTER FINANCE reached to several institutional investors/asset managers to conduct bilateral interviews online. Following a short introduction to the ongoing research activities of this report, interviewees were asked two questions: 'What are the top three issues you currently observe regarding active engagement?' and 'If the Financial Market Participant (FMP) adopts an engagement strategy, what considerations should be reflected in enabling transition investing through active engagement?'. The three respondents to these questions are collectively responsible for assets under management of around \$15 trillion. The insights from institutional investors are mainly focused on transition plans, associated barriers with SRD II, voting and shareholder resolutions, escalation and board/director responsibilities among others.

Key trends and findings from institutional investors and proxy representatives' survey

All institutional investors indicate familiarity with transition plans and transition investing concepts, however only 1 of them has come across proposals to be voted on 'Say on Climate' resolutions, while the remaining 3 have not but hold the view that climate is important. On the other hand, when asked about coming across any proposals/resolutions or agenda items in AGMs regarding transition plans, 3 indicate having come across such topic once or twice, with the remaining institutional investor indicating 'No, but I think transition is important. With the three hypothetical scenarios identifying voting behaviours and preferences, the institutional investors indicate an equal level of support between clear commitments to a transition and clearly stipulated transition plans as indicators for favourable voting to company climate-related resolutions/agenda items. All institutional investors point to lack of evidence and credibility as the reason for voting against climate-related company resolutions/agenda items at AGMs. Finally, in the absence of such proposals, 3 institutional investors indicate a desire to see the topic brought up more frequently, and the remainder specifies that climate topics should not be included in AGMs.

Out of the 22 proxy representatives surveyed, 16 indicate familiarity with both transition investing concept and transition plans and 6 quote not being familiar with such terms. Only 2 have across climate-related proposals and 6 indicate having come across transition plans during AGMs. Most think climate and transition are important, though a small portion also indicates that such topics are not a priority. On the scenarios, 12 align with scientific recommendations, 18 quote lack of evidence and 12 want to see the topic brought up more frequently, respectively to the three different hypothetical scenarios on voting.

Key trends and findings from bilateral interviews

While the summaries of the discussions with the institutional investors/asset managers can be found below, they are not directly attributed, nor representative of the entire group of institutional investors/asset managers encompassing an array of participants and sectors.

Institutional investor 1: - two parts to engagement, one revolving around stewardship and the other involving the industrial side. With regards to stewardship, only assessing companies that disclose and change priorities. Given the very long-term nature of climate change, public policy is not yet able to drive it consistently. There are various ways through which engagement processes can be improved: annual election of board of directors and linking such individuals with a sustainability remit and ensuring that better disclosures on bios of directors are available; addressing power of attorney issues and vote blocking; modernising chain of custody and incentivising voting.

Institutional investor 2: - active engagement can be improved through revisions on the SRD II. Clear escalation strategies and collective vote against pay tied with transition could also improve responsibility of board and directors of companies. Shareholder proposals with a collective group might be more sophisticated and appropriate in shifting and influencing corporate governance. Those shaping public campaigns including but not limited to employees, customers and bodies and representative bodies of retail investors can support driving the narrative of transition to net-zero.

Institutional investor 3: - the challenges with engagement are various with the main issue coming from cross border voting procedures which are hindered by local rules. There are many discrepancies in that regard across the EU and the SRD II is not efficient enough in addressing such

issues. There should be more transparency on escalation techniques and policies that apply to only one type of fund restrict the level of impact. Power of attorney challenges should be addressed, and the shareholder resolutions need a more homogenous framework. Coupled with non-interest on ESG by US investors, there is a challenge in isolating views and applying two distinct policies. Engagement should be time-bound, for example three strikes and you are out. Ultimately, there should be certain provisions in targeting board directors as opposed to only relying on resolutions.

All three investors emphasise the importance of improving corporate governance to enhance engagement. This includes addressing issues like board accountability, improving voting mechanisms, and increasing transparency in decision-making processes. There is a shared belief that engagement with companies needs to be more structured and impactful, with calls for changes such as enhancing disclosure requirements, revising frameworks like the SRD II, and addressing cross-border voting challenges. All three investors call for greater transparency, whether through director biographies (Investor 1), clearer escalation strategies (Investor 2 and 3), or standardised frameworks for shareholder resolutions (Investor 3).

While all three investors recognise the need for systemic changes in corporate governance and engagement processes, their perspectives differ in emphasis. Investor 1 focuses on stewardship and specific governance improvements like board accountability. Investor 2 is more inclined towards collective action and public campaigns. Investor 3 emphasizes structural challenges, particularly in cross-border voting, and proposes measures like time-bound engagement. Together, these views suggest a broad, but nuanced approach to improving corporate governance and fostering ESG integration.

Recommendations

Based on the perspectives of institutional investors, there is an overlap with retail investors' requests for reformed SRD II framework, particularly regarding transparent reporting requirements for engagement outcomes and removing obstacles with voting and filling of shareholder resolutions. Institutional investors also seek standardisation of cross-border voting procedures and comprehensive disclosure of directors' ESG competencies and experience to establish clear metrics for evaluating performance on sustainability goals. Additionally, institutional investors quote the need for structured escalation protocols and streamlining power of attorney processes, all of which are also relevant to ease barriers for retail investors.

1. Enhance voting mechanisms and address cross-border challenges



2. Strengthen Board accountability with explicit sustainability-related responsibility assigned to specific roles



3. Revise and expand the SRD II provisions



4. Promote the use of collaborative shareholder proposals to amplify impact



5. Establish time-bound engagement policies and standard escalation techniques



6. Incorporate long-term public policy on climate and sustainability goals



Institutional investors and asset managers must develop a policy on shareholder engagement, make the policy available on their website and annually disclose how they have implemented the policy and disclose how they have cast votes at general meetings. Institutional investors must disclose certain aspects of their equity investment strategy and the main elements of any arrangement with an asset manager which invests on its behalf.

The disclosure obligations for engagement policy for institutional investors and asset managers, describes the integration of the shareholders' engagement in the investment strategy. The list is non-exhaustive:

- How investee companies are monitored on relevant matters
- How to conduct dialogue with investee companies
- How voting rights attached to shares are exercised
- How they manage actual and potential conflict of interest in relation to their engagement
- How they communicate with relevant stakeholders of investee companies

Chapter IV: Transition plans and strategies of 20 companies

The assessment of transition strategies across 20 companies operating in financial services and mainly domiciled in Europe (banking, asset management, insurance, and pension) revealed varying degrees of substantiated transition, transition plans, escalation and engagement. Key findings indicate that while most companies disclose broad transition goals, detailed, actionable plans are often lacking for transition plans, escalation and engagement.

Obtaining reliable and comparable corporate sustainability data, encompassing transition elements and detailed escalation and engagement practices remains a challenge. While companies publish annual reports, non-financial integrated reports, and additional sustainability disclosures and frameworks they adopt, some sectors in financial services also publish other formats of information, such as sustainability focused excel files which list additional information that is not included within the main annual accounts. In some cases, such reporting is challenging to access, and very often difficult to compare across companies which dampens reliability.

In order to address those challenges and provide better climate and transition-related information the CSRD along with the European Sustainability Reporting Standards need to be implemented without delay. Similarly, to improve the harmonisation of the level of detail and the way such information is reported in relation to escalation and engagement, timely SRD II revisions are instrumental. It is crucial to guide companies in their early implementation, identifying and promoting best practices, and preventing bad practices from even taking hold.

CSRD/ESRS

One of the underlying objectives is to enable investors analysing companies' non-financial publications to ensure that the transition plan developed by the company is compatible with the Paris Agreement. The challenge is to ensure that the company is deploying a complete transition plan with ambitious objectives, means to achieve them, and monitoring its implementation. By making granular and reliable ESG data from thousands of companies publicly available, the CSRD has the potential to transform how investors evaluate companies and integrate sustainability metrics into decision-making.

The overall purpose of SRD II is to enhance disclosures and opportunities for shareholder oversight of companies and promote common stewardship objectives between institutional investors (i.e. insurers and pension funds) and asset managers. Currently, reporting is focused on number of meetings or interactions with companies, without detail on the qualitative side. In cases where information is more details, it lacks critical analysis of what is working or not working, or how plans are implemented to improve engagement and escalation procedures.

SRD II

Purpose and aim of research

Financial institutions play a key role in channeling funds to sustainable activities and supporting companies in transforming their business approaches and technologies. To evaluate investment risks and opportunities, these institutions require detailed information about how companies plan to transition. Regulators also depend on these transition plans to verify that companies are making real efforts to decrease their carbon emissions, which is essential for achieving climate goals at both national and international levels.

The goal of this research is to mainly shed light on the current reporting landscape pertinent to transition, transition plans, escalation and engagement and help stimulate the proportion of traceable transition plans substantiated with evidence, reduce greenwashing risks, and enhance visibility and consumer awareness of transition investing reported by companies. While the CSRD aims to increase transparency and accountability in corporate sustainability reporting, the research presented in this chapter of the report aims to offer analysis of the current practices before CSRD reporting has taken place and emphasise the importance of uniform reporting vis-a-vis sustainability and transition.

Prolonged absence of uniform reporting standards in how companies share information makes it difficult for stakeholders to compare and evaluate how different companies plan to transition their businesses. This limitation hinders the assessment of how companies are contributing to climate objectives and adapting their operations. Meanwhile, as companies face pressure to demonstrate reduced climate impact, they release large quantities of disorganised data about their progress toward net-zero emissions, mainly centered around target setting as opposed to both target and implementation.

Methodology and limitations

Our method in assessing corporate climate transition, transition plans, escalation, engagement and capital expenditure aligned with climate and transition goals comprises of three steps. First, we identify the number of instances such key words are used by companies' annual and integrated reports alongside other disclosure documents. Then we define a set of indicators for a detailed assessment of such disclosures and use Large Language Model (LLM) – based tool to automate and enhance the analysis. Finally, we perform a quality check without AI tools to ensure findings are representative of the reported activities.

In the first stage of the research, we used key word searches within reports of companies, encompassing “transition”, “transition plans”, “escalation” and “engagement” to compare the number of instances such references are made and identify the relation of those key words to the reported context. With 25 companies operating in the banking, asset management, insurance and pensions sectors, we assessed a total of 38 documents encompassing annual reports, integrated reports, sustainability specific reports, supplementary disclosure materials and excel files including responsible investing information.

For the second stage, we relied on 10 indicators in the form of questions, encompassing GHG emission reductions targets, net-zero targets, governance structure managing transition, implementation of transition plans, integration of climate strategy across entirety of business (strategy, product, operations, financial resources, and asset allocation), engagement with customers, escalation strategies, climate aligned CapEx and engagement activities with investee companies. The information retrieved is used to answer the corresponding question via LLM, which indicates whether the

information related to the question with indicators is available and reported on.

Following the output from the LLM, in a form of 'yes' or 'no' answer, coupled with explanation of the decision and the source references, the third and final stage involved a quality control to check whether the LLM has extracted relevant information and cited the corresponding page to the reports. It is worth mentioning that the shortest report under scope is comprised of 97 pages, while the longest is 827 pages long.

The indicators in the form of questions are non-exhaustive and further indicators can be added to expand the scope of the research.

Question 1: Does the company report an absolute GHG emission reduction target for the company?

Question 2: Does the company state explicitly that it plans to achieve its net zero target until 2040 or 2050 at the latest?

Question 3: Does the company explain its governance structure for managing the climate transition?

Question 4: Does the company report how its board oversees the climate transition plan implementation?

Question 5: Does the company provide comprehensive evidence that it fully and completely integrates its climate strategy into its business strategy, product development, operations, financial and human resources, asset management, and asset decommissioning?

Question 6: Has the company reported the key assumptions that form the basis of its transition plan?

Question 7: Does the company report a strategy with specific activities and metrics of success for net zero engagement with its downstream value chain, i.e., with its customers or investees?

Question 8: Does the company report serious consequences and escalation strategies if net zero engagement is ineffective at upstream, downstream, policymaker, and industry association levels?

Question 9: Does the company report the amount of climate-aligned capex that supports its net zero transition?

Question 10: Does the company report its engagement activities with the companies it invests in its own financial portfolio (including voting and proxy voting) undertaken in the relevant reporting period?

The 20 companies under scope include: ATP Group, BVK, APG, GPF, Alecta, AXA, Allianz, Generali, Zurich Group, Aviva, Nordea, Amundi, Eurizon, M&G, BlackRock, BNP Paribas, Deutsche Bank, Santander, UBS and HSBC Holdings.

To ensure a better integration of answers to each of the indicators, the LLM also received structured instructions and prompts to only rely on actual information available in the disclosures provided:

*You are tasked with the role of a climate scientist and assigned to analyse a company's sustainability report. Based on the following report/s, answer the given QUESTIONS. If you don't know the answer, just say that you don't know by answering "NA". Don't try to make up an answer. Please consider the following additional **explanation** for some of the questions and **guidelines** to your entire initial analysis.*

Explanation

Question 1: Focus only on absolute emission reduction targets. Be aware that a net zero target or a carbon neutrality target can be counted as an absolute emission reduction target. If only a net zero target or a carbon neutrality target is reported, state that it is counted as an absolute emission reduction target in the given analysis but that the effective absolute reduction in emissions needs to be carefully assessed. Also, be aware that statements "reducing emissions to return to 2020 levels" are also absolute emission reduction targets, although they are indirectly formulated. Answer with "YES" if the company reports an absolute emission target and with "NO" otherwise. Be aware that intensity targets are not absolute emission reduction targets. Intensity targets are, for example, efficiency targets and targets that aim to reduce the amount of emissions relative to another economic or physical metric.

Question 2: If the company in general does not have a net zero target, state that the company has no net zero target, and therefore, it also has no goal to achieve net zero by 2040 or 2050 at the latest. If the company has a net zero target, but no timeframe for the achievement is reported, report the target and state that there is no year reported until when the company aims to achieve its net zero targets.

Question 3: Answer with "YES" if information is available on for example board-level committees with climate responsibilities, a climate representative at/or reporting to the executive/board level, a clear team responsible for climate projects, reporting and disclosures. Answer with "NO" if there is no information about the company's governance structure for the climate transition.

Question 5: Focus on aspects related to the climate transition, and not on other sustainability or nature-related topics. Do not rephrase the

company's climate or sustainability targets. Instead, look for information that shows how the company implements these targets into the core of the company's strategy, activities and management.

Question 6: Provide specific examples of the strategic assumptions that the company reports as basis of its transition plans. These could include for instance assumptions about the development of consumer preferences, input prices, sector policies, economic development, and others. Answer "YES" if you find information about the assumptions underlying the transition plan. Answer "NO" if you do not find this information

Question 7: Provide specific information about the company's customer or investee engagement strategy, including actual engagement activities with its customers or investees and metrics for success.

Question 8: focus on whether the company defines specific and serious escalation activities for the case of ineffective engagements.

Guidelines

- 1. Your response must be precise, thorough, and grounded on specific extracts from the report/s to verify its authenticity.*
- 2. If you are unsure, simply acknowledge the lack of knowledge, rather than fabricating an answer.*
- 3. Do not use the word "likely" or "possibly" in your answer.*
- 4. Be sceptical to the information disclosed in the report as there might be greenwashing (exaggerating the firm's environmental responsibility). Always answer in a critical tone.*

5. Cheap talks are statements that are costless to make and may not necessarily reflect the true intentions or future actions of the company . Be critical for all cheap talks you discovered in the report .

6. Always acknowledge that the information provided is representing the company 's view based on its report .

7. Scrutinize whether the report is grounded in quantifiable , concrete data or vague , unverifiable statements , and communicate your findings .

8. Start your answer with a "[[YES]]" or "[[NO]]" depending on whether you would answer the question with a yes or no. Always compliment your judgment on yes or no with a short explanation that summarizes the sources in an informative way , i.e. provide details .

Following the initial LLM analysis, we promoted the AI to check its analysis and confirm whether the entirety of the report/s' information was taken into account. In less than 10% of the checks, the LLM had not looked at the entire report/s, but only at specific chapters/sections.

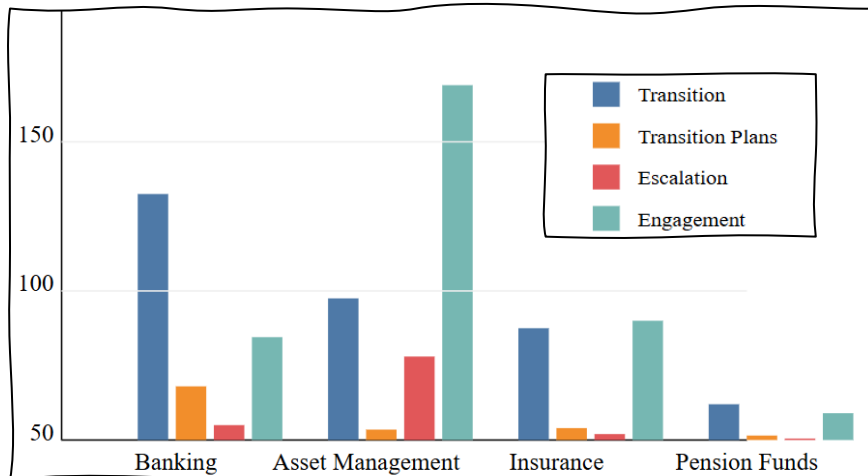
In less than 25% of the instances using the LLM, issues related to file access and temporary technical glitch in processing the PDF files emerged. To rectify the incidents' reliability of consequent information generation, we instructed the LLM to switch to alternative methods such as Optical Character Recognition (OCR), which ensures that even documents with complex formatting or embedded images can still allow retrieval of relevant text. As additional steps to ensure quality of retrieved information, we provided smaller (in parts) and simplified versions of the documents for the initial LLM analysis and finally, conducted human quality control to rectify remaining instances of inconsistencies (17%).

Disclaimer: The findings of this research are only based on listed methodology and application of both AI and human evaluation, which could result in different findings with adjusted methodologies. The findings of this part of the report do not reflect professional advice and any inconsistencies either via LLM or human contributions do not reflect a final and comprehensive review of the companies in scope or their use and reporting on transition, transition plans, escalation or engagement. This implies that the model used should be seen as a complement and not as the ultimate substitute for manual analysis and verification processes.

Key trends of transition plans and strategies as disclosed by companies under scope

- **“Transition”** is a dominant theme across all sub-sectors, with high frequencies reflecting the growing emphasis on climate and sustainability transitions.
- **“Transition Plans”** receive fewer mentions than “transition” but still appear consistently as a key mechanism or framework, especially in Banking and Asset Management, focusing on disclosure and operational integration.
- **“Escalation”** has relatively low mention counts compared to “transition” and “engagement,” mostly referencing internal procedures or conflict/inflation scenarios, with slight variation between sub-sectors.
- **“Engagement”** shows significant spikes (particularly in Asset Management) where stakeholder interactions are central. Across all sectors, engagement references include employees, regulators, and local communities, while shareholder engagement is most prominent with Asset Management.

Table 1: Average mentions of key words across sectors’ reports



“Transition plans” appear crucial yet remain less frequently detailed across all sectors and “escalation” remains more specialised, tending to refer to internal processes or external tensions.

Banking sector (11 associated documents/files):

- Over 80% of “transition” references, focus on the importance of transition in general, highlighting overall support and issues associated with an unstable transition.
Frequency of mentions: ranges from 8 to 336...
- Over 90% of “transition plans” references relate to enhanced quality assessment of transition plans or frameworks for integrating climate considerations into investment strategy.
Frequency of mentions: between 7 and 121...
- Nearly all mentions of “escalation” refer to internal escalation procedures or geopolitical tensions.
Frequency of mentions: 1 to 17...
- Most mention “engagement” in the context of employee engagement and interactions with communities and suppliers.
Frequency of mentions: ranges between 3 and 161...

Asset Management (11 associated documents/files)

- “Transition” references primarily focused on supporting sustainable transition.
Frequency of mentions: between 16 and 196...
- “Transition plans” references are mostly made in association to importance of verifying progress.
Frequency of mentions: quoted 3 to 24...
- “Escalation” largely refers to internal escalation with Board.
Frequency of mentions: 4 and up to 343...

Insurance (9 associated documents/files)

- Typically, in this sector “transition” is made in reference to the concept of just transition.
Frequency of mentions: 4 to 155...
- With “transition plan” references are mainly made about commitments to develop or implement such a plan.
Frequency of mentions: 4 to 19...
- “Escalation” is primarily pertinent in the context of internal escalation procedures with committees.
Frequency of mentions: 1 to 12...
- “Engagement” if featured as a case study with employees and management with some instances of external engagement.
Frequency of mentions: 5 to 267...

Pension Funds (7 associated documents/files)

- “Transition” references are mostly made in the context of broader energy and climate transition aspirations and their significance.
Frequency of mentions: 4 and 105...
- “Transition plans” are quoted mostly in the context of their importance for businesses.
Frequency of mentions: only once or twice...
- There are limited references to employee “escalation”.
Frequency of mentions: only once or twice...
- “Engagement” is mainly quoted in regard to assurance and less on wider stakeholder dialogue.
Frequency of mentions: 2 and 37...

Based on these initial findings alone, aligning internal company frameworks with EU Directives is key to ensure consistency, comparability and accountability across the financial services sectors

in scope. Adopting CSRD for uniform “transition” and “transition plan” disclosures, as well as leveraging expected revisions to SRD II to clarify “escalation” and “engagement”, can improve investor confidence and trust by addressing expectations for transparent transition efforts, alongside demonstrating strong governance in relation to stewardship and escalation policies.

In response to the 10 key indicators in the form of questions, encompassing GHG emission reductions targets, net-zero targets, governance structure managing transition, implementation of transition plans, integration of climate strategy across entirety of business (strategy, product, operations, financial resources, and asset allocation), engagement with customers, escalation strategies, climate aligned CapEx and engagement activities with investee companies, we found the following:

In the banking sector, up to 4 indicator questions are answered with 'NO', which is due to:

- No specific key assumptions related to consumer preferences or market dynamics vis-a-vis transition plans were mentioned in the report/s.
- The report focuses on upstream value chain engagement, but there is no strategy mentioned for downstream value chain engagement.
- There is no mention of specific escalation strategies or serious consequences for ineffective engagements in the report/s.
- No specific direct engagement activities with investee companies (though subsidiaries are mentioned for considering engagement and proxy voting activities).

In the asset management sector, up to 8 indicator questions are answered with 'NO', which is due to:

- Lack of absolute emission reduction target and explicit company-level commitment to achieve net-zero by 2040 or 2050.
- The integration of climate strategies appears focused primarily on investment activities rather than comprehensive business integration.
- No specific key assumptions related to consumer preferences or market dynamics and external risks vis-a-vis transition plans were mentioned in the report/s.
- No specific downstream value chain engagement strategies with metrics of success were found.
- No detailed escalation strategies or specific consequences for ineffective engagements were reported.
- While the company reports on environmental investments and management of climate-related risks in portfolios, it does not specifically disclose the amount of climate-aligned capital expenditure supporting its own net-zero transition.
- No specific direct engagement activities with investee companies.

In the insurance sector, up to 5 indicator questions are answered with 'NO', which is due to:

- Lack of comprehensive evidence of full climate integration across all business aspects, particularly in product development and asset decommissioning.
- No clearly outlined key assumptions on transition plan, despite some considerations to risks like climate change. Specific strategic assumptions about market conditions, policy changes, or technological developments are missing.

- Lack of specific consequences or escalation strategies if engagement is ineffective at upstream, downstream, policymaker, or industry association levels.

- Lack of climate-aligned CapEx figures supporting own net-zero transition, though mentions of sustainable investments via case studies are evident.

- No specific details about engagement activities, voting records, or proxy voting with companies in their investment portfolio during the reporting period (either direct/indirect).

Finally, **in the pension funds sector, up to 9 indicator questions are answered with 'NO',** which is mainly due to the fact that most pension funds do not have a direct engagement policy as they delegate their engagement work, nonetheless, other reasons include:

- Lack of absolute emission reduction target and explicit company-level commitment to achieve net-zero by 2040 or 2050.

- No clear explanation of governance structure specifically for climate transition, lacking details about board-level climate responsibilities or dedicated climate management teams.

- Lacks specific information about board oversight of climate transition plan implementation, despite including one representative in charge of ESG and Corporate Sustainability for example.

- Lacks comprehensive evidence on integration of climate strategies across all business aspects, despite some integration through investment decisions on real estate assets and green bonds. Most statements are high-level without detailed implementation plans.

- The company does not clearly report key strategic assumptions underlying its transition plans. While some investment criteria are

mentioned, fundamental assumptions about market developments, policies etc. are not explicitly discussed.

- No specific downstream value chain engagement strategies with metrics of success were found.
- Specific escalation timelines and detailed consequences are not provided, despite instances of stating intention to sell holdings if dialogue is not successful.
- No specific quantified climate-aligned capital expenditure supporting net-zero transition were found, despite some mentions of climate-aligned investments.
- No detailed engagement activities with investee companies in portfolio, proxy voting or shareholder resolutions on climate-related issues (directly/indirectly via a subsidiary or external asset manager).

To address the identified gaps, organizations across banking, asset management, insurance, and pension fund sectors should refine their climate strategies by: (1) clarifying absolute emission reduction targets and explicit net-zero commitments to guide transition plan implementation and strengthen accountability; (2) ensuring robust assumptions on consumer preferences, policy changes, and market trends that align with both upstream and downstream value-chain engagement; (3) introducing clearly defined escalation protocols and consequences for ineffective engagements, covering both direct and indirect investees; (4) systematically disclosing climate-aligned capital expenditures to promote transparency around resource allocation for net-zero transitions; and (5) improving the integration of climate considerations into business models, including product development and governance structures, ensuring board-level oversight and dedicated climate management teams.

Furthermore, enhanced reporting on engagement activities is recommended, with explicit reference to voting records, proxy voting outcomes, and any direct or delegated engagement strategies. By setting measurable success metrics and including timelines for escalation, institutions can demonstrate how they address underperforming investees or partners. Where the strategy is delegated, a clear policy describing accountability, objectives, and alignment with climate goals can improve stakeholder confidence.

Finally, broader integration of climate strategies across core operations, investment decisions, and risk management, informed by solid assumptions, can foster more credible transition plans. These steps will help organizations demonstrate their commitment to achieving net-zero targets, closing gaps in governance, escalation, and engagement, while bolstering transparency and reliability in reporting. By explicitly linking these strategies to overall corporate objectives and ensuring regular updates, firms can maintain stakeholder trust and momentum.

Companies should set clear emission reduction targets, adopt net-zero commitments, and integrate climate strategies across products, governance, and value chains. They should disclose climate-aligned capital expenditures, robust assumptions, and engagement outcomes with direct or delegated investees, including escalation protocols for ineffective engagements. Regulatory bodies should promote standardized frameworks for transparency, accountability, and alignment, particularly around engagement policies, targets, and governance structures. Consistent measurement, oversight, and reporting, both companies and regulators can strengthen credibility in transition plans and enhance stakeholder trust.

[Company profiles and assessment of transition uptake](#)

SECTOR: BANKING					
Company	1	2	3	4	5
Corporate domicile	Germany	France	Spain	Switzerland	United Kingdom
Qs1: Does the company report an absolute GHG emission reduction targets?	✓ YES, (p.14,27,19,45)	✓ YES, (p.16,19,36,42,45)	✓ YES, (p.9,39)	✓ YES, (p.4,21,25)	✓ YES, (p.13,14,16,18,45,46)
Qs2: Does the company state explicitly a plan to achieve its net zero target until 2040/2050?	✓ YES, (p. 9,13,19,58)	✓ YES, (p.3,9,22,65,41)	✓ YES, (p.8,10)	✓ YES, (p.4,10,13,47)	✓ YES, (p.17,18,42,47,53)
Qs3: Does the company explain its governance structure for managing climate transition?	✓ YES, (p.14,15,45-52)	✓ YES, (p.6,16,27,76,80)	✓ YES, (p.20,21)	✓ YES, (p.2,17,49)	✓ YES, (p.9,18,20,63)
Qs4: Does it report how its board oversees transition plan implementation?	✓ YES, (p.47,52,54)	✓ YES, (p.6,14,19,47,74,76)	✓ YES, (p.17,30)	✓ YES, (p.50)	✓ YES, (p.22)
Qs5: Does it integrate a climate strategy across its business, assets, product development?	✓ YES, (p.10,11,14,20,24,64,67)	✓ YES, (p.5,15)	✓ YES, (p.27)	✓ YES, (p.3,20,28)	✓ YES, (p.14,22,25)
Qs6: Has the company reported key assumptions that form the basis of its transition plans?	X NO	✓ YES, (p.34,39)	X NO	✓ YES, (p.6,9,22)	X NO
Qs7: Does the company report a downstream value chain engagement with clients?	X NO	X NO	✓ YES, (p.42-51)	✓ YES, (p.27,34,68)	✓ YES, (p.42,50)
Qs8: Does it report consequences and escalation of failed initial engagement?	X NO	X NO	X NO	✓ YES, (p.95)	X NO
Qs9: Does the company report climate-aligned CapEx, which supports transition?	✓ YES, (p.42,43,45,68)	✓ YES, (p.9,17,45)	✓ YES, (p.40,45)	✓ YES, (p.22,40)	✓ YES, (p.16,18,25)
Qs10: Does it report its engagement activities with investee companies?	X NO	X NO	X NO	✓ YES, (p.9,34)	X NO
Sources	Non-Financial Report 2023; Transition Plan 2023	CSR Strategy 2023; Climate Report 2023; Integrated Report 2023	Climate Finance Report 2023	Sustainability Report 2023; Climate policy and Supplementary docs	Annual Report 2023; Strategic Report 2023

SECTOR: ASSET MANAGEMENT					
Company	1	2	3	4	5
Corporate domicile	France	United States	Finland	Italy	United Kingdom
Qs1: Does the company report an absolute GHG emission reduction targets?	✓ YES, (p.4,11)	✓ YES, (p.14,57)	✓ YES, (p.16,17,329-380)	✗ NO	✓ YES, (p.34,36)
Qs2: Does the company state explicitly a plan to achieve its net zero target until 2040/2050?	✓ YES, (p. 12,14)	✓ YES, (p.15)	✓ YES, (p.16,17,84-98)	✗ NO	✓ YES, (p.38,69)
Qs3: Does the company explain its governance structure for managing climate transition?	✓ YES, (p.7,10)	✓ YES, (p.10,22)	✓ YES, (p.60)	✓ YES, (p.15-19, 32-35)	✓ YES, (p.33-39)
Qs4: Does it report how its board oversees transition plan implementation?	✓ YES, (p.23)	✓ YES, (p.23)	✓ YES, (p.66)	✓ YES, (p.32,34)	✓ YES, (p.47,56)
Qs5: Does it integrate a climate strategy across its business, assets, product development?	✓ YES, (p.14,15)	✗ NO	✗ NO	✗ NO	✗ NO
Qs6: Has the company reported key assumptions that form the basis of its transition plans?	✗ NO	✗ NO	✓ YES, (rows 9-11,10-15)	✓ YES, (p.21,63-67)	✗ NO
Qs7: Does the company report a downstream value chain engagement with clients?	✗ NO	✗ NO	✗ NO	✓ YES, (p.24-26,65)	✗ NO
Qs8: Does it report consequences and escalation of failed initial engagement?	✗ NO	✗ NO	✗ NO	✓ YES, (p.31,70-73)	✗ NO
Qs9: Does the company report climate-aligned CapEx, which supports transition?	✓ YES, (p.16,20)	✓ YES, (p. 30)	✓ YES, (p.346,367)	✗ NO	✗ NO
Qs10: Does it report its engagement activities with investee companies?	✓ YES, (p.18,22)	✓ YES, (p. 35)	✓ YES, (p. 378; rows 9-12)	✓ YES, (p.10-15, 24,68,71)	✗ NO
Sources	Global Responsible Investment, Climate /Engagement Report 2023	Annual Report, Climate Disclosure Policy 2023	Annual Report and Sustainability Factbook 2023 (Excel file)	Sustainability and Stewardship Reports 2023;	Annual Report and Accounts 2023

SECTOR: INSURANCE					
Company	1	2	3	4	5
Corporate domicile	France	Germany	Italy	Switzerland	United Kingdom
Qs1: Does the company report an absolute GHG emission reduction targets?	✓ YES, (p.48,56)	✓ YES, (p.47,51,61)	✓ YES, (p.7,15)	✓ YES, (p.159)	✓ YES, (p.6,7)
Qs2: Does the company state explicitly a plan to achieve its net zero target until 2040/2050?	✓ YES, (p.25,49,57)	✓ YES, (p.7,46)	✓ YES, (p.8,24)	✓ YES, (p.177)	✓ YES, (p.5)
Qs3: Does the company explain its governance structure for managing climate transition?	✓ YES, (p.77)	✓ YES, (p.17,147)	✓ YES, (p.9,10,42)	✓ YES, (p.135)	✓ YES, (p.33)
Qs4: Does it report how its board oversees transition plan implementation?	✓ YES, (p.47)	✓ YES, (p.19,148)	✓ YES, (p.34,43)	✓ YES, (p.136)	✓ YES, (p.34)
Qs5: Does it integrate a climate strategy across its business, assets, product development?	✓ YES, (p.150)	✗ NO	✓ YES, (p.12,16,28)	✓ YES, (p.62-166)	✗ NO
Qs6: Has the company reported key assumptions that form the basis of its transition plans?	✗ NO	✓ YES, (p.71,73)	✓ YES, (p.43,45,46)	✗ NO	✓ YES, (p.12,15)
Qs7: Does the company report a downstream value chain engagement with clients?	✓ YES, (p.38,39)	✓ YES, (p.28,29,33)	✓ YES, (p.26,39)	✓ YES, (p.178,206; tab 6 excel)	✓ YES, (p.18,19)
Qs8: Does it report consequences and escalation of failed initial engagement?	✗ NO	✓ YES, (p.34)	✓ YES, (p.21,27)	✗ NO	✓ YES, (p.20)
Qs9: Does the company report climate-aligned CapEx, which supports transition?	✓ YES, (p.56)	✓ YES, (p.7,8,37)	✗ NO	✓ YES, (p.203)	✗ NO
Qs10: Does it report its engagement activities with investee companies?	✗ NO	✓ YES, (p.35)	✓ YES, (p.37,40)	✓ YES, (tab 8 excel)	✗ NO
Sources	Annual Financial Report 2023; Integrated Report 2023	Sustainability & Engagement Report 2023	Integrated Report 2023; Climate related disclosures 2023	Sustainability Report 2023; Sustainability data 2023 (excel)	Sustainability Annual Report (2023)

SECTOR: PENSION FUNDS					
Company	1	2	3	4	5
Corporate domicile	Denmark	Germany	Netherlands	Norway	Sweden
Qs1: Does the company report an absolute GHG emission reduction targets?	✓ YES, (p.33)	✓ YES, (p.60)	✗ NO	✓ YES, (p.43)	✓ YES, (p.9,20,26)
Qs2: Does the company state explicitly a plan to achieve its net zero target until 2040/2050?	✓ YES, (p.32,33)	✓ YES, (p.61)	✓ YES, (p.46,49)	✓ YES, (p.30)	✓ YES, (p.109)
Qs3: Does the company explain its governance structure for managing climate transition?	✗ NO	✗ NO	✓ YES, (p.79)	✗ NO	✓ YES, (p.13,14)
Qs4: Does it report how its board oversees transition plan implementation?	✗ NO	✗ NO	✓ YES, (p.87)	✗ NO	✓ YES, (p.12)
Qs5: Does it integrate a climate strategy across its business, assets, product development?	✗ NO	✗ NO	✗ NO	✗ NO	✗ NO
Qs6: Has the company reported key assumptions that form the basis of its transition plans?	✗ NO	✗ NO	✗ NO	✗ NO	✗ NO
Qs7: Does the company report a downstream value chain engagement with clients?	✗ NO	✗ NO	✗ NO	✓ YES, (p.56,57)	✓ YES, (p.15,36)
Qs8: Does it report consequences and escalation of failed initial engagement?	✗ NO	✗ NO	✓ YES, (p.21,27)	✗ NO	✗ NO
Qs9: Does the company report climate-aligned CapEx, which supports transition?	✓ YES, (p.33)	✗ NO	✗ NO	✓ YES, (p.52)	✗ NO
Qs10: Does it report its engagement activities with investee companies?	✗ NO	✗ NO	✗ NO	✗ NO	✗ NO
Sources	Annual Report 2023	Annual Report 2023	Annual Report 2023	Responsible Investment 2023	Annual Sustainability Report (2023)

Chapter V: Principles for Transition Investing Engagement

With numerous studies pointing towards the clear link between a successful transition to a net-zero trajectory and effective engagement, little exploration has so far been undertaken into shareholder influence on developing transition plans. Coupled with various transition finance frameworks and guidelines which have no unified engagement mechanisms to assess and compare whether engagement practices have a correlation with the transitioning of company models we explored how to enable a timely phase out of highly emitting sectors, all the while responding to retail investor preferences. BETTER FINANCE developed a Working Group (WG) on 'Transition Investing Engagement' to assess the current issues regarding active engagement and identify specific considerations to address the current gap in unified engagement mechanisms.

Transition investments remain unmeasured as means of engaging companies towards improved business models. The main objective of the WG was to assist BETTER FINANCE in articulating an EU-level Principles for Transition Investing, as a guide for effective engagement and voting practices for transition-linked equity in listed companies. Centered around 4 core Principles, encompassing transparency, active engagement for transition-linked equity, commitment to voting on issues related to sustainability and transition, and a commitment to transition-linked resolutions and evidenced escalation strategies. The Principles are targeted towards professional investors, including investment firms (asset managers), insurance companies, pension funds and other institutional investors who wish to include the perspectives of individual investors favouring climate and transition-linked equity.

Members of the WG

Participants were selected due to their activities in ethical banking, active engagement with corporations and institutional investors to enhance sustainable financial markets, representing the interests of private investors in general meetings, civil societies focused on transparency and governance which promote responsible investment, consumer organisation focusing on savings, retirement financing as well as public interest non-governmental organisation advocating and defending the interests of European retail investors.

Participating Observers were not expected to make any contributions to the Principles but were nonetheless selected as financial services regulatory authorities overseeing national European markets. While two bodies responsible for regulating behaviour on the financial markets in two European countries were present in the initial meetings, one of those regulators was not able to continue participation across the three scheduled meetings for the WG on 'Transition Investing engagement' in 2024.

Observers of the WG

Perspectives on top issues regarding active engagement from Members and Observers of the Working Group

When asked about the key issues with active engagement observed from their fields of work, both WG Members and Observers shared the following emerging themes:

1. Structural barriers to shareholder engagement

- High capital thresholds for filing resolutions, limits to exercising voting rights, and restrictions in proxy statements.
- Restrictions on individual investor participation, coupled with varied regulatory requirements across jurisdictions.
- Undefined roles for investors in driving corporate transition plans in the absence of KPIs in climate resolutions.
- Issues tied to direct ownership, limited opportunities, and the monopoly of two large proxy advisers creating roadblocks for climate-aligned strategies.

2. AGM accessibility and transparency

- Inefficient hybrid arrangements, closed-door AGMs, and selective answering of written questions which reduce shareholder inclusivity.
- Inadequate transparency in AGM documentation (unavailability of minutes for example).

3. Reporting and impact measurement

- Challenges in distinguishing company impact from investor impact and assessing additionality.
- Lack of standardized approach to transition plan evaluation and difficulties with collaborative engagement.

Based on the initial discussion in the WG, the following recommendations can be made for European policy makers, professional investors and listed companies alike:

➤ European policy makers

- Harmonise transparency requirements across member states, by mandating public availability of AGM minutes and online publication of written questions and answers across the EU.
- Develop clear guidelines for hybrid/virtual AGM conduct and lower capital thresholds for filing resolutions across member states.
- Establish clear roles for investors in adopting and monitoring corporate transition plans and revise “acting in concert” rules to allow collaboration on sustainability topics without legal uncertainty.

➤ Professional investors

- Enhance engagement transparency with detailed entity and product-level reporting on engagement activities, voting policies and rationale, while prioritising climate/transition resolutions supported by robust KPIs.
- Expand individual investor access via creation of structured engagement opportunities and simplified proxy voting process.

➤ Listed companies

- Increase AGM accessibility and inclusivity by prohibiting closed-door AGMs and mandate answers to all shareholder-submitted questions.
- Adopt fully functional hybrid arrangements for AGM participation and ensure equal rights for in-person and remote attendees.
- Commit to setting meaningful KPIs in management-proposed climate resolutions and disclose progress on transition plans.

Perspectives on specific considerations to enable transition investing through active engagement

When presented with the following statement and accompanying metrics:

“If the FMP adopts an engagement strategy, what considerations should be taken into account in enabling transition investing through active engagement?”

- *Time-bound transition objectives? Transition-focused voting policy and escalation strategy, encompassing conditions for example?*
- *Monitoring process on tracking if and when transition objectives are met? Any other disclosure metrics?*
- *How to measure investor contribution and to arrive at quantitative minimum thresholds?*

Both WG Members and Observers shared the following emerging themes:

1. Transition planning framework

- Development of time-bound and sector specific transition objectives without delay, coupled with scenario-based analysis and action plans can help differentiating between contingencies in cases where transition objectives are not yet met for example.
- Allowing for a certain level of flexibility with transition pathways and material issues that might differ from mining vs software industries for example.

2. Escalation strategies

- Effective escalation frameworks are critical, outlining clear expectations, interim milestones, and consequences for non-compliance. While escalation can drive change, it may be

resource-intensive and sometimes ineffective without systemic revisions via legislative updates and guidelines. The potential impact of divestment should be considered, particularly when supported by coalitions that clearly articulate its purpose and expected outcomes.

3. Monitoring and communication

- Transition progress must be tracked rigorously, with disclosure of whether objectives are met. Metrics should focus on the credibility and integrity of efforts to avoid greenwashing/transition-washing.
- Quantitative thresholds for professional investors/asset managers' contribution to transition outcomes are needed to clarify their role in driving such change with companies.
- Both individual and institutional investors require simple, intelligible transition plans from issuers to foster alignment.

Based on the initial discussion in the WG, the following recommendations can be made for European policy makers, professional investors and listed companies alike:

➤ European policy makers

- Establish minimum requirements for transition plan disclosure from all companies and mandate provision of easily understandable, investor-friendly transition plans.

➤ Professional investors

- Set explicit timeframes for companies to meet transition milestones, with consequences for failing to achieve agreed-upon targets.

➤ Listed companies

- Ensure public transparency in reporting to build trust and mitigate greenwashing risks.

Principles for Transition Investing

A guide for effective engagement and voting practices for transition-linked equity in listed companies

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Note: The Principles are aimed towards professional investors when they engage directly or via their management entities or professional proxy advisers, with issuers in which they invest on behalf of clients, with a focus on the environmental transition of these companies. Individual investors interested in general engagement guidelines, can request them from info@betterfinance.eu

1. Background

1.1 Investee Stewardship Codes encourage professional investors (institutional investors and asset managers among others) to be open about their investment practices, actively engage with publicly listed companies they invest in, and participate in voting at shareholder meetings. By 2020, a total of 35 Stewardship Codes have been issued across 20 jurisdictions on six continents, and their proliferation continues into 2024. The significant increase in the adoption of Stewardship Codes, at international or regional levels, reflects their attractiveness for stakeholders, despite associated complexities.

1.2 These codes are voluntary and typically require entities wishing to adopt them to establish policies for engagement and voting in investee companies, publish these policies on their websites, and provide periodic reports on how the policies and principles were implemented during the most recent financial year. In the European Union, certain policies recommended by these codes, along with making them accessible to clients and beneficiaries online, have become legally mandatory, but remain limited as a standard for investor engagement.

1.3 The goal of an Investee Stewardship Code is generally centered around promoting long-term value of companies and by extension shareholders. However, limited research is conducted on the economic impact of complying with Stewardship Codes, despite existent research on how to enhance ESG orientation (via remuneration) of corporate boards and managers for example. Stewardship is relevant for both active and passive strategies encompassing social and environmental tenets and promoting active ownership and engagement ensures accountability/transparency, while guiding investment management to fulfil their fiduciary duties to clients and beneficiaries.

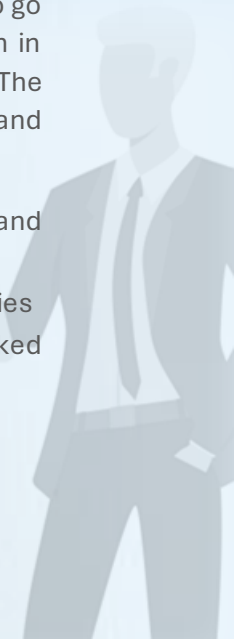
1.4 Active engagement with investee companies is a powerful tool to drive change and transition. Stewards' monitoring on ESG issues can lead either to formal or informal engagement with issuers, changes in governance and/or board management or to escalation and divestment from the relevant company as a last resort.

1.5 The Principles set forth in this document should be seen as an add-on of good practices focused specifically on transition-linked equity to existing codes that professional investors already apply. This would support a unified system which could better respond to individual and institutional investors' needs and preferences in relation to transition engagement activities and stimulate both professional investors and issuers' disclosure of transition efforts to a common standard.

2. Purpose

2.1 Principles are set out as best practices for professional investors when they engage directly or via their management entities, with issuers in which they invest on behalf of clients, with a focus on the environmental transition of these companies. While it is possible to go beyond climate-related transition matters, the Principles set forth in this document do not encompass all sustainability-related issues. The Principles, cover topics in relation to transparency, engagement and voting, aiming to:

- promote active engagement for the interest of individual and institutional investors through the lens of transition-linked equity
- address transition planning and commitment to transition activities
- standardise a unified engagement approach for transition-linked equity across the EU



3. Target scope

3.1 With the association of stewardship with engagement and voting, Investee Stewardship Codes have mostly been applied to professional holders of listed equity. While it is possible to cover more asset classes than listed equity, the Principles set forth in this document do not go beyond that scope and only cover a small part of all possible best practices needed to enhance long-term value for clients.

3.2 For the purposes of the Principles set forth in this document, “professional investors” includes investment firms (asset managers), life insurance and reinsurance companies and pension funds. The possibility is left open for other entities, such as non-life insurance and reinsurance companies or other similar entities to also adopt the Principles if they so wish. In the case of employment pension funds, the application of the Principles can be carried out through their management entities.

4. Terminology (non-exhaustive list)

4.1 Asset Manager

“asset manager” means an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU that provides portfolio management services to investors, an AIFM (alternative investment fund manager) as defined in point (b) of Article 4(1) of Directive 2011/61/EU that does not fulfil the conditions for an exemption in accordance with Article 3 of that Directive or a management company as defined in point (b) of Article 2(1) of Directive 2009/65/EC, or an investment company that is authorised in accordance with Directive 2009/65/EC provided that it has not designated a management company authorised under that Directive for its management;

4.2 Fiduciary relationship

“fiduciary relationship” is not defined in a uniform way across EU law, however the concept often arises from common law traditions, and in this context it can be understood as a relationship between a person, the fiduciary, that holds someone else’s (the beneficiary) assets by means of trust or confidence. The fiduciary is required to act solely in that person's benefit and may not use the assets entrusted to it for its own purpose.

4.3 Institutional investor

“institutional investor” means: (i) an undertaking carrying out activities of life assurance within the meaning of points (a), (b) and (c) of Article 2(3) of Directive 2009/138/EC of the European Parliament and of the Council (**), and of reinsurance as defined in point (7) of Article 13 of that Directive provided that those activities cover life-insurance obligations, and which is not excluded pursuant to that Directive; (ii) an institution for occupational retirement provision falling within the scope of Directive (EU) 2016/2341 of the European Parliament and of the Council (***) in accordance with Article 2 thereof, unless a Member State has chosen not to apply that Directive in whole or in parts to that institution in accordance with Article 5 of that Directive;

4.4 Proxy advisor (‘professional proxy advisers’)

“proxy advisor” means a legal person that analyses, on a professional and commercial basis, the corporate disclosure and, where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights;



5. Principles for Transition Investing Engagement

Principle 1: Transparency of professional investors' transition strategies (asset managers/institutional investors, their professional proxy advisers, pension funds and their management entities)

Professional investors should be transparent towards their clients and beneficiaries with regards to their environmental and transition-linked strategies and targets.

- a) Integrate transition factors into investment strategies, policies and decisions.
- b) Disclose how assets have been managed in alignment with clients and beneficiaries' preferences to climate and transition.
- c) Disclose an assessment of how investee companies and directors should address their respective transition gaps.
- d) Disclose how integration of transition strategies and targets links with monitoring and engagement efforts with investee companies.

Principle 2: Commitment to active engagement on transition-linked equity

Professional investors should actively exercise their rights as shareholders in the companies in which they invest on behalf of their clients and beneficiaries, by voting on material issues related to transition, as well as committing to transition-linked proposals/resolutions.

- a) Develop and publish an engagement policy encompassing objectives on transition-linked equity with listed companies critical to the transition to a low-carbon economy.
- b) Monitor investee companies' progress of transition goals and enter dialogue with the members of their administrative body and senior management when transition preferences and interests of clients and beneficiaries are at risk.

- c) Exercise the right to vote at general meetings on 'Say on Climate' and transition topics.
- d) Provide disclosure of voting positions to clients and beneficiaries, including rationale for the direction of the vote and how the voting policy has been applied on issues related to transition in the interest of clients and beneficiaries.
- e) Publicly disclose the highest level of management responsible for the engagement practices and decisions.
- f) Consider voting against the approval of annual accounts and/or the discharge of directors at companies with serious governance concerns.
- g) Draft and submit proposals for AGMs encompassing material ESG and/or transition issues to align with clients and beneficiaries' interests.
- h) In cases where services of professional proxy advisers are used, do not follow recommendations automatically and form own judgement in defence of the interests of clients and beneficiaries.

Principle 3: Commitment to detailed application and disclosure of outcomes on escalation activities.

Professional investors should reference escalation in a transparent and structured way when engagement and votes do not result in company action, to enhance effective stewardship of clients and beneficiaries' interests.

- a) Provide a rationale for situations in which it is deemed appropriate to escalate the nature of actions vis-à-vis investee companies.
- b) Develop and disclose an escalation ladder with each corresponding step listing demand, timeframe, deadline and sanctioning measure such as capital allocation/reallocation.
- c) Disclose how escalation has differed among geographies or funds.

Benefits for adopting the Principles

The 'Principles for Transition Investing Engagement' present a set of best practices which contribute to setting a higher standard for engagement on transition within evolving European legislation. They merit adoption by professional investors and offer necessary flexibility in implementation to accommodate different professional investor capacities. For example, smaller professional investors should consider adopting at least two action points from Principle 1, four from Principle 2 and one from Principle 3 as a minimum, allowing scaling of implementation according to available resources.

The Principles are designed as an enhancement to existing stewardship codes rather than a replacement, acknowledging the established stewardship landscape (35 codes across 20 jurisdictions) while addressing the growing demand for transition-specific guidance. By positioning themselves as an "add-on of best practices," the Principles integrate seamlessly with existing compliance structures, which in turn minimises additional administrative burdens.

The Principles help in creating a balanced approach that allows professional investors to demonstrate leadership, while maintaining compliance with existing requirements and enhancing preparedness to any new legislative requirements. Providing enhanced guidance on transition-specific matters, the Principles support evolving ESG and climate-related regulations in a structured approach to meeting fiduciary duties regarding transition risks and opportunities. Adoption could also result in enhanced long-term value through reduced transition-related risks.

A standardised engagement tool for transition-linked equity contributes to greater market stability by creating clear expectations and processes for transition-related discussions between companies

and investors. This predictability helps companies plan their transition strategies and capital allocation decisions with greater confidence, while also supporting more stable relationships with their investor base. The result is a more efficient market for transition-focused investment and corporate adaptation to climate challenges, which in turn promotes sustainable business practices. By providing a clear path forward for professional investors seeking to enhance their approach to transition-related engagement, the Principles emphasise transparency and strengthens client relationships, providing lasting benefits that outweigh implementation costs, if any.

The business case for professional investor adoption of 'Principles for Transition Investing Engagement', can signal a commitment to long-term value creation through structured engagement, as well as enhance operational benefits and market positioning among others:

- Demonstrates proactive approach to transition risk management
- Enhanced transparency and accountability to clients and beneficiaries
- Structured approach to managing transition-related risks and opportunities
- Early identification of transition risks through active monitoring
- Clear expectation for escalation procedures, engagement and interaction with investee companies
- Supports dialogue with clients about their transition preferences
- Demonstrates systematic approach to protecting client interests
- Standardised approach to transition-linked equity engagement across the EU

The uptake of transition-linked equity guidance and best practices from professional investors can also positively affect issuers and their capital allocation. Companies may be faced with increasing pressure to maintain access to capital markets, but a standardised engagement framework for transition-linked equity creates predictability in investor expectations and requirements. When professional investors adopt consistent approaches to transition engagement, companies can better anticipate and prepare for information requests and develop more efficient processes for disclosure and engagement while maintaining market access.

A unified engagement mechanism helps companies better understand and manage transition risks. Clear expectations from investors regarding transition planning enable companies to develop more robust strategies and risk management approaches. The Principles' emphasis on structured escalation procedures also provides companies with a better understanding of potential consequences of inaction, supporting better strategic decision-making and resource allocation for transition initiatives.

As regulatory requirements for climate-related disclosure and transition planning evolve, professional investors that have already adapted to minimum standardised engagement practices for transition-linked equity will be better prepared to respond to mandatory requirements. The Principles' additional aim in setting a higher standard for engagement on transition and shaping legislative enhancements across relevant laws (SRD II, SFDR, CSDDD, CSRD/ESRS) provides professional investors with the minimum thresholds that should be met before legislative revisions take place. Aligning with the best practices for transition-linked equity can help both professional investors applying the Principles, as well as companies that engage with adoptees of the Principles, stay ahead.

Limitations of Principles and the way forward

The 'Principles for Transition Investing Engagement' only cover transition-linked equity in listed companies and does not provide comprehensive stewardship practices that go beyond. As such, the Principles reflect best practices with only one type of asset class and only one type of climate transition-related matters. Other asset classes such as hedge funds, fixed-income instruments and private markets as well as non-investee stakeholders like policymakers, industry groups and others, present more comprehensive elements, which should be considered to mainstream an all-encompassing engagement practice that protects and enhances overall long-term value for clients and beneficiaries.

Building upon the extensive work of the Working Group on 'Transition Investing Engagement', a clear path forward emerges for implementing and scaling the Principles across the European investment landscape. The first phases could focus on early adopters among professional investors, who can demonstrate the practical application of the Principles and provide valuable insights for broader market adoption. In parallel, assessing how the Principles can inform and enhance existing and upcoming regulatory frameworks under SFDR, SRD II, CSRD/ESRS, and CSDDD, would help professional investors prepare for a balanced voluntary and mandatory regulatory requirement. To facilitate successful implementation, it is recommended to:

- Develop a monitoring system to track adoption rates and implementation challenges and a platform for sharing regular review and updates of the Principles based on market feedback and evolving best practices learned among adopters.
- Development of practical implementation guides tailored to different types and sizes of professional investors

Recommendations

The Principles represent a significant step toward standardizing transition-related engagement practices across European markets. Their successful implementation requires a phased approach that balances immediate adoption with long-term market evolution and regulatory alignment. These efforts should be complemented by ongoing dialogue with regulators, professional investors, and issuers to ensure the Principles remain relevant and effective in driving meaningful transition engagement. The ultimate success of the Principles will depend on their ability to demonstrate tangible

European policy makers should:

Harmonise transparency requirements across member states, by mandating public availability of AGM minutes and online publication of written questions and answers.

Develop clear guidelines for hybrid/virtual AGM conduct and lower capital thresholds for filing resolutions across member states.

Implement the CSRD requirements and develop sector-specific transition standards without Level 1 revisions or delays.

Establish minimum requirements for transition plan disclosure from all companies and mandate provision of easily understandable, investor-friendly transition plans.

Develop/promote standardised reporting frameworks for asset managers' escalation and engagement activities regarding transition.

Prioritise dialogue with NGOs, retail investor and consumer representatives regarding legislative revisions on SFDR, SRD II, and CSDDD.

Professional investors should:

Ensure transparency towards clients and beneficiaries with regards to environmental and transition-linked strategies and targets.

Commit and substantiate voting rationale on material transition issues as well as to transition-linked proposals/resolutions.

Develop detailed application and disclosure of outcomes on time-bound escalation activities for transition-linked equity to enhance effective stewardship of clients' interests on transition.

Listed companies should:

Commit to setting meaningful KPIs in management-proposed climate resolutions and disclose progress on transition plans and progress.

Disclosure on biographies as well as expected responsibilities of directors (available to all)

Annex I: Policy Recommendations for Shareholder Engagement and Transition of Capital Flows

Shareholder Rights and Barriers

European Union policymakers should:

1. Harmonise the definition of “shareholder” across the EU to address the remaining gap in transparency, foster open communication and support shareholder participation.
2. Remove obstacles to shareholder voting and provide clarity on minority shareholder rights to boost shareholder activity as intended by SRDII and address the barriers hindering individual shareholders from exercising their sustainability preferences through voting rights.
3. Standardise/harmonise Annual General Meetings (AGMs) practices, including notification periods, formats (online/hybrid) and “record date” timing.
4. Harmonise standards for shareholder proposals and ensure the right to raise questions on any topic.
5. Support the “one share, one vote” principle.
6. Foster proxy voting through independent shareholder representatives and improve the current definition of “proxy advisers”.

Listed companies should:

1. Remove existing obstacles to collaborative engagement in relation to ESG and a sustainable transition
2. Integrate transition planning within “Say on Climate” resolutions with a binding approach

Empower Retail Investors’ interest and support for Transition Investing and Transition plans

European Union policymakers should:

1. Focus on preventing restrictions on shareholders’ influence in companies, particularly concerning sustainability issues.
2. Remove obstacles to shareholder voting, including banning closed-door AGMs to enhance transparency and participation.
3. Incentivise the submission of climate transition plans and “Say on Climate” resolutions.
4. Standardise rules, procedures and frequency of transition-related resolutions and proposals at AGMs.
5. Harmonise standards for shareholder proposals and guarantee the right to raise questions during AGMs.
6. Remove structural barriers from the investment chain to better reflect retail investor preferences in AGMs.

Institutional Investors and Associated groups

European Union policymakers should:

1. Enhance voting mechanisms and address cross-border challenges to facilitate engagement.
2. Revise and expand SRDII provisions for transparent reporting requirements of engagement outcomes.
3. Promote the use of collaborative shareholder proposals to amplify impact of ESG and transition-related proposals.

Listed companies should:

1. Strengthen Board accountability with explicit sustainability-related responsibility assigned to specific roles.

Professional investors should:

1. Establish time-bound engagement policies and standard escalation techniques.
2. Align strategies with long-term public climate and sustainability policies.

Principles for Transition Investing Engagement

European Union policymakers should:

1. Harmonise transparency requirements across EU Member States, by mandating public availability of AGM minutes and online publication of written questions and answers across the EU.
2. Develop clear guidelines for hybrid/virtual AGM conduct and lower capital thresholds for filing resolutions across Member States.
3. Implement the CSRD requirements and develop sector-specific transition standards without level 1 revisions or delays.
4. Develop/promote standardised reporting frameworks for asset managers' escalation and engagement activities regarding transition.
5. Establish clear roles for investors in adopting and monitoring corporate transition plans and revise "acting in concert" rules to allow collaboration on sustainability topics without legal uncertainty.
6. Establish minimum requirements for transition plan disclosure from all companies and mandate provision of easily understandable, investor-friendly transition plans.

7. Prioritise dialogue with NGOs, retail investor and consumer representatives regarding legislative revisions on SFDR, SRD II and CSDDD.

Listed companies should:

1. Increase AGM accessibility and inclusivity by prohibiting closed-door AGMs and mandating answers to all shareholder-submitted questions.
2. Adopt fully functional hybrid arrangements for AGM participation and ensure equal rights for in-person and remote attendees.
3. Commit to setting meaningful KPIs in management-proposed climate resolutions and disclose progress on transition plans
4. Ensure public transparency in reporting to build trust and mitigate greenwashing risks.
5. Disclose biographies as well as expected responsibilities of directors (available to all).

Professional investors should:

1. Enhance engagement transparency with detailed entity and product-level reporting on engagement activities, voting policies and rationale, while prioritising climate/transition resolutions supported by robust KPIs.
2. Expand individual investor access via creation of structured engagement opportunities and simplified proxy voting process.
3. Set explicit timeframes for companies to meet transition milestones, with consequences for failing to achieve agreed-upon targets.

4. Ensure transparency towards clients and beneficiaries with regards to environmental and transition-linked strategies and targets.
5. Commit and substantiate voting rationale on material transition issues as well as to transition-linked proposals/resolutions.
6. Develop detailed application and disclosure of outcomes on time-bound escalation activities for transition-linked equity to enhance effective stewardship of clients' interests on transition.

Annex II: How the Principles were developed

Despite the great importance the EU attaches to corporate governance and shareholder engagement, the degree of interest towards transition planning and real economy impact is a relatively nascent phenomenon. This stems from the barriers to shareholder rights (voting, resolution filing, etc.) on one side and unsubstantiated, unclear and too vague transition plans from companies on another. While the EU legal framework and processes sought to facilitate shareholder engagement, and strengthen shareholders' rights as owners of companies, there are numerous instances where shareholders' rights are impaired or denied.

Although studies point towards the clear link between a successful transition to a net-zero trajectory and effective engagement, little exploration has so far been undertaken into the internal capacities of companies to make such progress, let alone the specific differences between direct (where the legal holder is also the economic or beneficial holder) and indirect (where the legal holder is not the economic one, but the one who manages the stock portfolios or

supervises the managers of the stock portfolios) shareholder influence on developing transition plans.

Transition finance frameworks and guidelines often lack a unified engagement mechanism to assess and compare whether engagement practices have a correlation with the transitioning of companies' business models. BETTER FINANCE's research into the need for unified engagement practices is evidenced through interviews and focus groups between retail investors and asset managers across the EU. The analysis is centred around retail investor needs, regulatory challenges and opportunities as well as market uptake, particularly regarding engagement, encompassing "Say on Climate" and transition plans.

In response to the current research gap and preferences for better substantiated engagement practices, BETTER FINANCE also created a Working Group composed of Members and Observers, including retail investor representatives, NGOs, proxy representatives and institutional investor groups among national authorities for the financial markets.

The working group contributed expertise and knowledge to assist BETTER FINANCE with the objective of developing and progressing the initial research and identifying solutions to address the gap in unified engagement mechanisms, by articulating EU-level Principles and guidance. In the context of the European Commission's Transition Finance Recommendation, emphasising the importance of such investments for Europe's pursuit of environmentally conscious goals, transition finance remains unmeasured as means of engaging companies towards better business models. Insights developed by the Working Group provide a significant contribution.

Annex III: Principles for Transition Investing justifications and policy
relevance

Annex IV: Contributors and Working Group Members

- **Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)** is Germany's leading shareholder association, representing the interests of private investors and promotes good corporate governance. With 9 regional offices throughout Germany and about 30,000 members DSW provides investor education, supports shareholder engagement, and works to strengthen investor influence in corporate decision-making. With the aim to foster a culture of responsible investment and improve financial literacy, DSW contributes to sustainable and well-functioning financial markets in Germany and beyond.
- **FAIDER—Fédération des Associations Indépendantes de Défense des Épargnants pour la Retraite** is a French federation representing savers, pensioners, and life insurance policyholders. It works to safeguard the rights and interests of individual savers by advocating for transparent, fair, and sustainable financial and insurance markets. FAIDER's work is focused on engaging with policymakers, promoting financial education, and supporting informed decision-making for individuals planning their financial futures.
- **Fondazione Finanza Etica** is a non-profit organization dedicated to promoting ethical and sustainable finance. Established by Banca Etica with the aim to promote ethical finance and social responsibility beyond the banking sector, Fondazione Finanza Etica conducts research, organizes campaigns, and fosters education to raise awareness about the social and environmental impacts of financial practices.
- **ShareAction** is a non-governmental organisation advocating for a financial system that serves the people and the planet. Its work is dedicated to developing responsible investment practices and holding institutional investors and companies accountable for their impact on people and the planet. ShareAction's efforts focus on promoting transparency, mobilising investor action on critical issues such as climate change and workers' rights, and empowering individuals to engage with the investment system. They execute such mission either through advocacy, campaigns, research, education, and investor engagement.
- **Shareholders for Change (SfC)** is a European network of institutional investors committed to promoting sustainable and responsible investment practices. Its goal is to drive positive change by engaging with companies on critical environmental, social, and governance (ESG) issues and advocating for greater corporate accountability. Shareholders for Change achieve its mission by engaging directly with companies on critical ESGs, fostering collaborative actions through its network, launching targeted campaigns, advocating to policymakers, and undertaking research of ESG topics.
- **The World Wide Fund for Nature (WWF)** is one of the leading global conservation organisations dedicated to protecting the environment and promoting the sustainable use of natural resources. Through its efforts, WWF works to preserve biodiversity, combat climate change, and ensure the health of vital ecosystems for future generations. With a mission to build a future where people live in harmony with nature, WWF leads global campaigns to raise awareness about environmental issues and influence policy changes to tackle the planet's most pressing challenges.

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