



30 September 2015

To: Shareholder Voting Working Group

By email: Jude.tomalin@uk.bp.com

Re: ICGN Comment on Shareholder Proxy Voting: Discussion Paper on Potential Progress in Transparency

Dear Shareholder Voting Working Group Members,

ICGN was founded 20 years ago and is an investor-led membership organisation of more than 650 individuals based in 47 countries from around the world. Our mission is to inspire and promote effective standards of corporate governance to support the sustainable value creation of companies and to advance efficient markets and economies worldwide. Our members represent institutional investors with global assets under management in excess of US\$26 trillion. Accordingly, ICGN's members offer a source of practical knowledge and experience with regard to governance and investment issues. Our membership also includes other stakeholders including company directors, professional advisors and academics. For more information on the ICGN, please visit www.icgn.org

ICGN is pleased to comment on the Shareholder Voting Working Group's (SVWG) discussion paper on progress in transparency. ICGN shares the belief that the transparency of voting data to both issuers and shareholders is critical to creating and maintaining trust and facilitating engagement. ICGN welcomes the discussion paper prepared by SVWG. We found the paper highly informative and appreciate its practical focus and the proposed solutions.

ICGN agrees that improvement and better utilization of existing processes represent a more viable way forward than changing the underlying system. **This, however, requires the willingness and cooperation of all involved parties.** We also share the view that, given the increasingly international nature of investments, and the expectations by asset owners and regulators of the same diligence in investment and stewardship activities across the entire portfolio, proxy voting matters should be addressed at an international level.

ICGN supports many of the solutions and recommendations presented in the paper. Below we comment on selected issues that are of particular resonance with our members.

Industry best practice guidance

ICGN supports the calls for the harmonization, standardization and simplification of holdings reconciliation, data flows, and other proxy voting related processes. The timeframe for the legislative/regulatory initiatives that may help to achieve greater efficiency in proxy voting processes is uncertain. Therefore ICGN believes there is a need for industry best practice guidelines for proxy voting activities, setting out expectations of and recommendations for all participants in the voting chain. There are currently a number of independent working groups researching proxy voting issues, as well as vote confirmation pilots in different markets. We suggest these groups should join efforts to develop guidance for industry practitioners that would be relevant and usable globally. ICGN would be willing to take on a coordinating function in this process.



Introduction of a centralised online gazette

ICGN welcomes this recommendation, and agrees that it would help to ensure the consistency of agendas issued by the company and received by investors, and reduce errors. The gazette should be open for UK, EU and overseas issuers, who could benefit from this mechanism of distributing proxy information to their European shareholders. In addition to that it should offer an electronic readable format (e.g. csv), which could be used by shareholders and intermediaries.

Vote confirmation, holdings reconciliation and accounts structure

Vote confirmation is an ultimate assurance of the integrity of the proxy voting system. While, some progress has been made in the last couple of years, with many global custodians sending confirmation of “vote acceptance” up the chain, this is not a confirmation that votes have been “executed according to instruction”. Indeed, the examples of reconciliation errors highlighted in the SVWG paper, and the lack of visibility of the underlying client’s positions to the registrars are extremely concerning, particularly when considering technological advances achieved in securities processing in recent years.

In its 2015 Viewpoint report on Cross-border Voting¹, ICGN recommended that investors should insist in their service agreements with voting agents that a reconciliation of the agent’s holdings is made with Registrars/Central Securities Depositories (CSD) at least before submitting votes to ensure the correct information is ultimately transmitted to companies. ICGN also called for daily reconciliation by intermediaries to ensure that the holdings at each level of the voting chain are consistent and the problems associated with over- or under-voting are avoided. To this end, we agree that a separation of the record date from the proxy voting deadline as proposed in the paper merits further consideration.

We agree that holdings reconciliation and vote confirmation issues would be more easily solved if segregated accounts were to become the default option for custodians as well as CSDs. In the absence of regulatory action on this matter, investors should play a key role by actively requesting segregated accounts and including vote confirmation requirement in service contracts. We note, however, that this is a complex issue that many investors find difficult to negotiate on, particularly if significant additional costs are involved. We suggest that the UK government look into this issue with a view of creating incentives for the use of segregated accounts.

It is also worth noting that in addition to impeding holdings reconciliation and vote confirmation processes, omnibus custodial accounts make it difficult to properly attribute loan recalls, and in the event that some shares are not returned within the requested time, to apportion votes appropriately. This is another argument for promoting segregated custodial accounts.

Furthermore, ICGN believes that national securities regulators should undertake regular independent operational audits of the proxy voting system to confirm the integrity of the system, or identify any material deficiencies, so that corrective action may be taken.

Visibility of voting data to issuers

ICGN agrees that issuers should have the right to identify their shareholders, and that

¹ <https://www.icgn.org/policy>



registered shareholders should provide the company with the identity of beneficial owners or holders of voting rights. We also believe that shareholders themselves should have access to ownership information over a certain threshold (say 0.5%). This is to encourage dialogue among investors and to increase the possibility of collaboration to advance the collective benefits of stewardship.

We appreciate that it is important for issuers to understand voting intentions of their major investors at an early stage, and agree that intermediaries should not hold vote instructions for longer than necessary to exercise the processing of the vote.

However, we see some practical issues associated with early access to voting data by issuers:

- As many investors submit their final voting instructions close to the vote deadline, early voting information can be misleading. ICGN is not supportive of a model where voting agencies and/or custodians would be able to profit from selling their clients' voting information to companies. This information does not belong to these intermediaries and its premature distribution can create unnecessary distractions for both companies and investors. Perhaps a better suggestion would be for proxy voting service providers to offer investors an option to indicate, for each shareholder meeting, whether voting instructions can be disclosed to the issuer.
- Where investors decide to vote "against" management in relation to large holdings, the current best practice is to notify the company in advance. Companies and regulators should actively encourage this approach, but investors should retain the right to not communicate their voting position in advance (e.g. where there is a risk of an issuer exerting undue pressure on investors to change their voting instructions ahead of the shareholder meeting).
- Public availability of voting decisions prior to shareholder meeting may lead to unwanted and unwelcome publicity. Also, in certain circumstances voting information can be price sensitive and should not be disclosed.

At the same time, ICGN is supportive of the following best practice standards:

- Investors should cast their votes as soon as practicable, and inform companies where they have sizeable holdings of their voting intentions in advance.
- Investors should disclose their votes on a regular basis and provide rationale for votes against management.
- Companies and investors should initiate engagement long in advance of the shareholder meeting to allow for a meaningful exchange of views and follow up actions.

We agree that expanding the information available from s.793 requests to include voting instructions would be useful and appropriate, particularly to help issuers plan their shareholder engagement programmes. A modest statutory service fee could also be justified.

Stock lending/ dividend

ICGN supports the proposal to separate voting and dividend record dates. Based on our previous discussions with regulators and lending specialists in the US and UK, we understand there should not be major regulatory or practical obstacles to implementing these proposals.



We further note that entities within the custodial chain - usually charged with voting proxies as well as with lending shares - typically have no obligation, and indeed, no legal authorisation—to communicate directly with the managers charged with making decisions regarding those votes. All information and requests for decisions have to pass up the chain to the ultimate beneficial owner and then back down to the manager; and then the decision has to be relayed back through the same, frequently lengthy chain, by which time any decision is frequently moot. We recommend that institutions make provisions in their contractual arrangements with their custodians and their managers to allow for, if not require, a more efficient flow of communication of voting information and instructions through the voting chain.

Cost of implementation

We believe that improved disclosure around the level and make-up of proxy voting fees would help to ensure a clear understanding of costs and benefits around any improvements of vote execution. ICGN recommends that intermediaries should list all charges and fees associated with proxy voting by component. This would help to identify parties in the voting chain who should pay for specific improvements. Furthermore, regulators should ensure that they understand the different parts of the voting chain and are able to detect potential problems and take action in terms of market power and other anti-competitive pressures exerted by intermediaries that may affect fees.

Voting by poll vs. show of hands

While we are encouraged by greater use of polls at shareholder meetings in the UK, we find the statistics presented in the paper that in 2013 polls were held in up to 40% of FTSE 250 meetings concerning. Publication of show of hands results hinders transparency of voting outcomes, as investors increasingly care about the level of support for management and shareholder proposals as well as whether they passed or failed. Therefore, we believe that a system of “all poll” voting should be embraced by all listed companies.

We hope that these comments are helpful, and the ICGN Policy Director, George Dallas (george.dallas@icgn.org), would be happy to elaborate on any of the points raised in this letter.

Yours sincerely,

Erik Breen Chairman, ICGN Board

Cc. Kerrie Waring, Executive Director, ICGN
Bram Hendriks, Co-chair, ICGN Shareholder Rights Committee
Eugenia Unanyants-Jackson, Co-chair, ICGN Shareholder Rights Committee