



Shining a light

Maddie Saghir reports

Proxy voting has been a largely manual and outdated process for some time but COVID-19 has shone a light on new, technological ways of doing it. Could this change the system for the future?

Proxy voting is an important part of the asset servicing industry whereby a member of a decision-making body delegates their voting power to a representative to enable a vote in absence.

Companies hold annual general meetings (AGMs) with shareholders to review their performance over the last year, but if the shareholders are unable to make it then they can pass their vote through their banks and custodians who vote by proxy on their behalf. As well as reviewing performance, AGMs look into executive compensation, dividend proposals and significant investment decisions, and the ever-increasing hot topic of environmental, social and governance (ESG) and the risks related to it.

Charu Jain, product specialist for IHS Markit's IMProxy solution, explains that institutional investors own shares in hundreds of global companies that hold AGMs as per applicable company laws. Jain says: "AGMs for an investor are concentrated in a short time span and are located at distant global venues, therefore making it impossible for investors to personally attend all

these AGMs to vote. However, investors can appoint someone else as their proxy and authorise them to cast their vote, in line with their directions."

Jain adds: "Once AGM notice and materials have been delivered to the shareholders, proxy votes can be cast online, by mail or by phone, prior to the meeting. The votes can also be casted in person by the appointed proxy at the meeting itself."

Karen Weaver, custody product manager at BNY Mellon asset servicing, notes that if an issuer announces a general meeting, custodian banks will receive the notification, calculate the eligible position of their clients and pass the notification on.

She highlights that this process is usually manual and is repeated in every organisation. "By the time the shareholder gets the information it may have passed through four intermediaries to get to them and, if it's a popular security, most of the large custodian banks will have been involved."

Unfortunately, Weaver notes that while investment strategy and the ability to hold securities globally has evolved, a lot of processing for meetings remains manual which can make the events difficult to manage.

She adds: "Due to the inefficient process, shareholders then have a limited time to send their votes back to the issuer ahead of the meeting deadline as there is currently no option than to go back via the same route from which the meeting announcements came."

Indeed, the current model around proxy voting is somewhat outdated and in need of a technological update, but COVID-19 has exemplified this need even further.

Adapting to a new way

The global pandemic threw a spanner in the works for AGMs this year. February to June is the prime season for proxy voting, which is when countries around the world started going into lockdown. As well as this, travel to and from many countries was banned, as were public mass gatherings. This meant that companies were forced to put in contingency measures to minimise the disruption to their AGMs.

In terms of adapting to this, ISSA's Jyi-Chen Chueh, chair of the ISSA Operating Committee, explains that the ISSA Corporate Action & Proxy Voting Working Group (CA WG) has seen a series of measures taken by various regulators and market infrastructures during COVID-19 to address the challenges that have arisen as a result of the implementation of confinement and social distancing rules across the globe.

This has included providing guidance on conducting safe physical meetings; allowing for the postponement of annual general meetings; relaxing requirements in terms of physical documents/ wet signatures; allowing for alternative modes of meetings such as video, teleconferencing and/or any other electronic means.

IHS Markit's Jain agrees that COVID-19 had an extraordinary bearing on the AGMs this year. He explains that companies that could not leverage technology either due to the legislation or their own constitutional rules or their choice, resorted to postponement, adjournment or seeking waivers from the regulators.

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While the pandemic has caused some disruption to AGMs, it has shone a light on new ways in which proxy voting can be carried out. In terms of whether the changes around proxy voting because of the current situation will alter for the long term, BNY Mellon's Weaver says: "COVID-19 and the measures that have been implemented demonstrates that electronic processes being used can work without physical representation. It would be such a waste to simply return back to the way things were."

"The technology and the processes already exist to manage the interaction between company and shareholder and this is shining a light on the manual and paper-based processes that have continued to stay in place instead of evolving with the times. The temporary measures will hopefully open the door to more substantial changes. That said, it could require legislative changes, so it is unlikely to happen overnight," she says.

Similarly, at ISSA, the belief is that the securities industry has an opportunity to help shape the post-COVID-19 "new norm".

Chueh comments: "We are accelerating that thought leadership among our members through new topical themes and by putting a new lens on existing topics like proxy voting. In that space, some of the temporary measures that have been adopted have the potential to be deployed on a more permanent basis, especially on topics related to electronic proxy voting and digital/ hybrid meetings. This would require further assessment of the appropriate controls and governance, leveraging data and lessons learned during COVID-19 and engaging regulators."

On this issuers side, Jain says that the usage of technology brings considerable savings due to lesser printed AGM documentation and reduction in costs associated with a physical meeting for venue, travels and logistics.

Innovation and new technologies will have an important role to play in terms of lowering costs and deploying scalable and more efficient solutions

He adds: "Additionally, such online AGMs have a reduced carbon footprint due to lesser travels by the company's management and the board as well as the shareholders or their proxies. Although online meetings have their own set of challenges in terms of Q&A governance during the AGM and risks of technology failure; overall, the reduced costs and more end-shareholder participation will prop more and more companies to adopt technology solutions, where legally allowed. Once moved, the companies will tend to retain these technologies and might not revert to physical meetings even if the situation changes."

Technological intervention

A number of challenges associated with proxy voting can be addressed with technological intervention. Hosting virtual meetings and online votes via technology can help improve efficiency and save on travel costs as well as reducing the carbon footprint.

Some of the main challenges around proxy voting include communication timelines, especially voting results communication, where dissemination still needs further harmonisation globally.

Jain says that many a time, issuers are unable to identify the shareholders through the complex chain of financial intermediaries and it takes significant time and effort to send AGM notice and materials to them.

"Additionally, the communication is non-standardised and non-machine readable, thereby slowing the communication down the chain because each participant needs to validate the information being passed on. A number of shareholders might be receiving the AGM information so late in the process that they do not get sufficient time to delve on the resolutions and decide their vote," Jain explains.

Leveraging technology can help reduce complexity and improve traceability in the voting chain and provide for easy identification of shareholders and reconciliation of the valid votes, according to Jain.

However, Jain highlights that currently, only a few technology providers facilitate the processes for proxy voting. More investments will bring in new providers, technology innovations and process efficiency proposals to help improve upon the current technology infrastructure and the related processes.

Meanwhile, BNY Mellon's Weaver affirms that the current model was due for a change even before COVID-19.

As such, BNY Mellon recently joined a consortium consisting of Citi, Clearstream, Computershare, Deutsche Bank, HSBC, J.P. Morgan, and State Street to back a platform that simplifies how information and votes are shared from/to the issuer and its shareholders. This tool is called Proxymity and was initially developed by Citi before spinning off into its own entity.

Weaver comments: "Instead of looking to incrementally improve small parts of the current process, Proxymity looked at the problem as a whole; how to help the issuer speak directly to their shareholders and limiting the actions of those involved to be what's important. And so Proxymity was born and instead of processing the general meeting notifications, all the intermediaries need to do is confirm the eligible positions of our clients to the Proxymity platform."

"The platform marries the issuer information with the position information from the intermediaries for the client to see and cast their votes with Proxymity, which is directly connected to the issuers in several markets already."

Over at ISSA, looking at how technology can improve the proxy voting process, Chueh concludes: "Innovation and new technologies will have an important role to play in terms of lowering costs and deploying scalable and more efficient solutions. For instance, there has been a series of distributed ledger technology proofs-of-concepts that demonstrated the potential benefits of blockchain for proxy voting. However, broader adoption will also require regulatory support to promote e-voting, digitised authentication and documentation."

"Global standards harmonisation will also be key to avoid a multiplicity of proprietary formats, in order to reduce costs and enable interoperability."

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