



NORGES BANK
INVESTMENT MANAGEMENT

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SHAREHOLDER VOTING PROCESS

ASSET MANAGER PERSPECTIVE

Voting at shareholder meetings is a key component in the well-functioning of financial markets and provides important opportunities for investors to exercise ownership rights and hold company boards accountable. For shareholder voting to have the intended effect, the process needs to be efficient.

Well-functioning markets allow for capital to be allocated efficiently across national borders. The framework for exercising shareholders' voting rights varies between markets, with significant differences in how shareholder meetings and voting processes are organised. Many markets operate with manual processes, introducing uncertainty as to whether votes have been duly registered and counted. There has been progress by regulators in some markets to address these challenges, but there is little international co-ordination.

We have gathered data from 66 markets to analyse the shareholder voting process and present the key findings in this paper. Our findings confirm the lack of a uniform framework across markets. Few markets have end-to-end electronic voting systems or vote confirmations. On this basis, we consider what should be the main features of an efficient voting process, and the role of key stakeholders - including the issuers, investors, industry participants and regulators - in promoting necessary improvements.

Date 03/03/2020

The Asset Manager Perspective series articulates Norges Bank Investment Management's views and reflections on issues topical for the financial industry. They are not meant to be definitive; rather they are intended as timely contributions for the benefit of all market participants. The series is written by employees and is informed by our investment research and our experience as a large, long-term asset manager.

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Introduction

At shareholder meetings investors exercise their right to vote and hold company boards accountable. Shareholder approval is generally required for fundamental issues such as appointing and removing directors, amending governing documents and changing the capital structure.

Norges Bank exercises its ownership rights in companies to safeguard the long-term value of the fund.¹ Through voting, we seek to improve performance, strengthen governance and promote responsible business practices at the companies in which we are invested. The efficiency and reliability of local voting processes are important to us. We aim to vote at all shareholder meetings where there is no significant obstacle to doing so.² Voting has been a priority for us since 2003, and the volume and level of our activities have developed as our portfolio has grown³. In 2019, we voted on 116,777 resolutions at 11,518 shareholder meetings.⁴

From the perspective of a shareholder, an efficient voting process can be defined along multiple dimensions. It will generally be beneficial for shareholders to have sufficient time between receipt of the meeting agenda and materials at the one end, and the deadline for casting votes at the other. Shareholders will typically prefer being able to cast votes as close as possible to the shareholder meeting to ensure that voting is informed by the most recent information. Furthermore, shareholders will generally prefer the record date to be reasonably close to the shareholder meeting in order to ensure that investors who own shares at the time of the meeting are eligible to vote. We have assessed market practices on the voting processes based on these shareholder preferences.

Our experience suggests that the shareholder voting process lacks uniform standards across markets. In most markets, the efficiency, transparency and integrity of the process are not sufficiently developed, introducing uncertainty as to whether votes are duly registered and counted. In this paper, we share the findings from a review of 66 markets, identifying local requirements and market practices that may constitute hindrances to making improvements in the shareholder voting process. In terms of potential solutions, we highlight the main features of an efficient voting process, and the role of key stakeholders in progressing international standards and practices.

¹ Norges Bank (2019), *Executive Board's Principles for Responsible Investment*, available at <http://www.nbim.no/en/the-fund/governance-model/executive-board-documents/principles-for-responsible-investment-management-in-norges-bank1/>

² Norges Bank Investment Management (2019), *Policy on Responsible Investment Management*, available at <http://www.nbim.no/en/the-fund/governance-model/policies/responsible-investment-management/>

³ Norges Bank Investment Management (2008), *Annual Report*, p. 66 - "Global voting - important but often difficult", available at <http://www.nbim.no/globalassets/reports/2008/2008-annual-report.pdf>

⁴ *The fund is a minority shareholder in more than 9,000 listed companies, across more than 70 countries. For more details on our voting, see Norges Bank Investment Management (2019) Responsible Investment, pp. 32-41, available at <https://www.nbim.no/en/publications/reports/2019/responsible-investment-2019/>*

Shareholder voting for global investors

The process for casting votes in companies worldwide relies on local regulatory and operational infrastructures in the countries where the companies are incorporated. In most markets, the securities market infrastructure has evolved significantly in recent decades. Technological evolution has led to more efficient marketplaces, with transaction and settlement processes facilitating higher levels of liquidity and international trading. The establishment of central securities depositories and global custodial services have facilitated the registration and transfer of ownership of securities.

This evolution has taken place across most developed markets, but not in a uniform way. Some markets have taken full advantage of the possibilities provided by modern technology to redesign their infrastructure, while others have used technology to supplement older infrastructure. The ensuing lack of regulatory and operational consistency across markets poses a challenge for global investors.

Given this complexity, global investors are dependent on service providers for support in local markets. To maintain the registration of ownership and operational management of assets across markets, global investors typically contract with a global custodian with a network of sub-custodians covering relevant markets. The custodian safeguards the financial assets and provides additional services in areas such as transaction settlement, income collection, corporate actions and tax management.

The custodian/sub-custodian normally holds the investor's securities in client accounts at the securities depository. The custodian and network of sub-custodians facilitate voting at shareholder meetings. This is done in co-operation with providers of proxy voting services.

The voting process

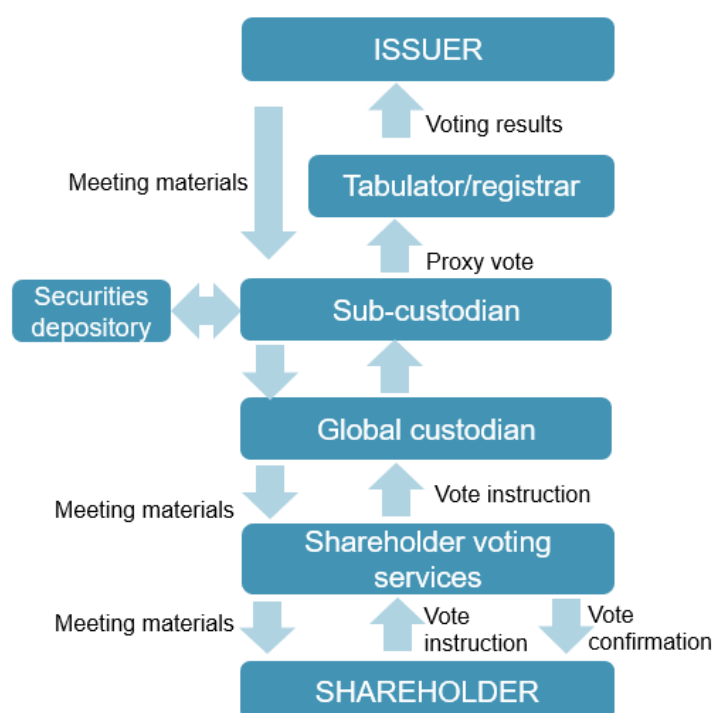
While the details of shareholder voting processes differ by country, they typically include the following steps:

- The company sets the agenda for the annual shareholder meeting
- The custodian confirms the identity of the shareholders and the number of shares eligible for voting – often for a specific date ahead of the meeting ("record date")
- Shareholders receive the meeting materials from the company (may be before or after the record date)
- Shareholders procuring proxy advisory services receive voting recommendations
- Shareholders instruct the custodian on how to vote, often through a proxy voting service provider, within a deadline ahead of the shareholder meeting ("cut-off date")
- Voting takes place at the shareholder meeting
- Shareholders receive confirmation from the service provider that their voting instructions have been carried out

Generally, shareholders may vote at shareholder meetings without attending in person. Instead, a proxy representative is appointed by the shareholder to cast their vote according to local procedures. Most global custodians outsource the handling of the shareholder voting process to a specialised service provider. Global investors will typically liaise with the voting service provider to process their voting instructions in all relevant markets.

Current voting processes thus involve a chain of parties with separate responsibilities. This is illustrated in Figure 1. The parties in the chain commonly operate their own independent workflows and record keeping systems, with the interfaces between the parties often still based on the original, manual voting processes⁵. This has generally been a hindrance for developing modern, uniform and efficient voting processes.

Figure 1. Shareholder voting process - typical structure



Market participants and regulators in several countries have called attention to the inefficiency of voting chains. This inefficiency can have negative consequences for financial markets, both within and between countries, as it may undermine investors' confidence that the capital they provide will be protected. It is, however, taking time for these challenges to be addressed by the market or by the regulators⁶. The reason for the delay is unclear but may have to do with the complexity and variety of market infrastructures and the lack of concrete financial motivation for harmonisation.

⁵ To some extent, the communication between the global custodians, sub-custodians and the voting service providers uses standardised ISO 15022 format SWIFT messaging, which provides efficiencies and audit trails in parts of the voting chain.

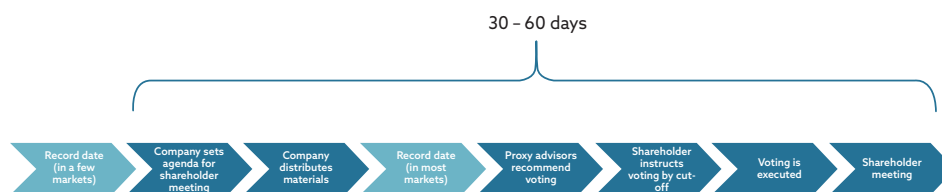
⁶ By way of example, the inefficiency of the voting chain has been on the agenda for regulators in the EU and the US for the last decade or so. There have been and continue to be processes aimed at improving this, but they have progressed slowly. In the EU, SRD II (Directive (EU) 2017/828 amending Directive 2007/36/EC) has strengthened certain rights of shareholders of listed equities. Transposition of the directive in member states is ongoing. In the US, the Securities and Exchange Commission held a Roundtable on the Proxy Process in 2018, following up on challenges identified in its 2010 concept release on the US proxy system.

In 2019, we reviewed the key features of the voting process in 66 of the markets in which we are invested. The purpose of the review was to identify the steps and deadlines that potentially hinder the development of more efficient voting processes. Our key observations are summarised below. We provide metrics aggregated by the number of markets we are invested in, by the number of companies in our portfolio and by the assets under our management. The review revealed a high degree of disparity between the markets.

The timeline for preparing and casting votes

The time elapsing between a company setting the agenda for the shareholder meeting and the meeting being held is typically between 30 and 60 days, with some exceptions. This time can be segmented into different phases, as shown in Figure 2.

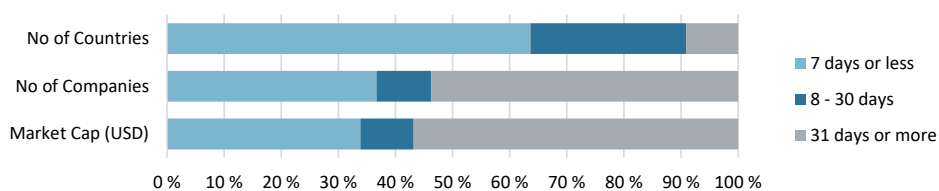
Figure 2. Voting at shareholder meetings - overall timeline⁷



Record date

In most markets, there is a process for confirming the identity of the shareholders and the number of shares eligible for voting. The timing of this process ahead of the shareholder meeting varies. The date is set by the companies in accordance with local market regulations, the companies' governing documents and local market practices.

Figure 3. Time between the record date and the shareholder meeting



Measured by the number of companies in our portfolio, we find that as many as 54 percent operate with a record date that is 31 days or more ahead of the shareholder meeting. This is the case for companies in Canada, Japan, South Korea, Taiwan and the U.S. If the record date is set very early, shareholders will generally not have received the meeting agenda and cannot predict whether there will be important matters that are subject to a vote. This may prevent them from ensuring that the shares are available for voting purposes, ie. by recalling shares on loan. Also, having a record date very early in the process increases the likelihood that a shareholder without an economic interest (i.e. one that has sold the shares after the record date) is still eligible to vote at the shareholder meeting, while a shareholder who does have

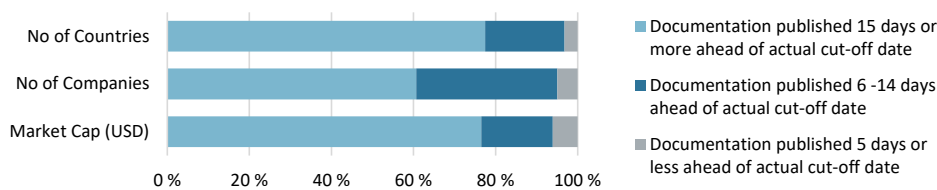
⁷ There are exceptions, a few markets operate with a record date after the shareholder vote instruction.

an economic interest (i.e. has bought shares after the record date) is not entitled to vote.

Disclosure of meeting materials

For shareholders to be fully informed about the agenda items at the shareholder meeting and to have adequate time to analyse and prepare for voting, the issuing company will disclose and submit meeting materials ahead of the shareholder meeting. How early this distribution takes place varies (see Figure 4).

Figure 4. Time between the disclosure of meeting materials and the cut-off date for voting

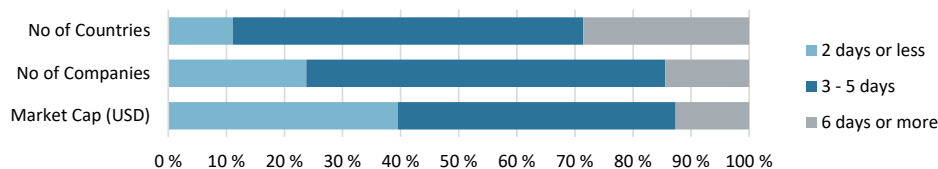


The time between the disclosure of meeting materials and the cut-off date seems overall reasonable when aggregated at a country level. However, when viewed by number of companies in our portfolio, we observe that many companies operate under a framework that allows for publication of meeting materials less than 14 days prior to the cut-off date for voting. In Germany and India in particular, documentation may be published 5 days or less before the cut-off date. This does not provide shareholders with sufficient time to duly analyse the materials before the voting deadline.

Cut-off date

All markets operate with a cut-off date for casting votes. The cut-off date is determined by several factors – local market regulations, company-specific deadlines, and deadlines set by service providers and custodians. We focus here on the *effective* cut-off date ahead of the shareholder meeting for shareholders voting by proxy, capturing the deadline for registering the vote plus days needed by the custodian to process the voting instruction through the voting chain.

Figure 5. Deadline to cast votes prior to the shareholder meeting



In our analysis, 89 percent of the countries operate with an effective cut-off date for casting votes that is 3 days or more ahead of the shareholder

meeting.^{8, 9} Particularly for contentious voting issues, this cut-off date can be too early. Important information often becomes available during the final days before the shareholder meeting, such as other shareholders disclosing their voting intentions. If the effective cut-off date is early, shareholders are not able to make a final voting decision based on the most recent information. Simplifying the process can help bring the effective cut-off date closer to the shareholder meeting.

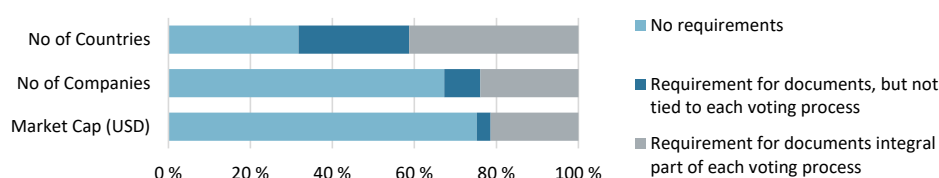
The voting chain

The voting chain itself may give rise to potential challenges. Information about voting intentions is passed from the shareholder, through multiple market intermediaries, to the issuing company. It is generally in the shareholder's interest that this process is efficient, in terms both of time and costs, and that it is accurate with a low risk of errors. Our review focused on whether the efficiency of voting processes may be hampered by documentation demands, requirements for physical attendance or manual registration processes.

Documentation requirements

In many markets, there is a requirement to file a power of attorney (PoA) or other documents confirming that the custodian (or other agent) has the authority to cast votes on behalf of the shareholder. These often need to be submitted as hard-copy, legalised documents, requiring manual processing and physical submission.

Figure 6. Requirement to file documentation of authority from shareholder



We note in particular that 41 percent of the countries require PoAs or other documentation as an integral part of each voting process¹⁰. This represents a hurdle for improving the efficiency of the process. In our view it is a requirement that could be organised more efficiently without losing its validity or importance. The remaining 59 percent of the countries in our survey either do not have specific requirements for PoAs, or permit, for the documentation to be valid over a longer period of time.

8 Countries with a cut-off date 6 days or more ahead of the shareholder meeting: Bangladesh, Belgium, Croatia, Denmark, Estonia, Finland, Israel, Latvia, Lithuania, Morocco, the Netherlands, Nigeria, the Philippines, Poland, Portugal, South Korea, Sweden and Switzerland.

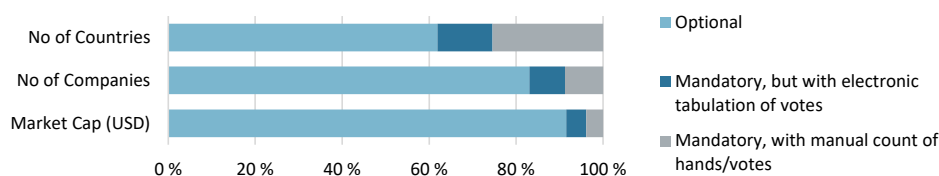
9 Countries with a cut-off date 3 - 5 days ahead of the shareholder meeting: Australia, Austria, Brazil, Canada, China, Colombia, Egypt, France, Germany, Ghana, Hong Kong, Hungary, India, Indonesia, Ireland, Italy, Japan, Kenya, Kuwait, Malaysia, Mauritius, Mexico, New Zealand, Oman, Peru, Qatar, Romania, Russia, Saudi Arabia, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Taiwan, the UAE, the UK and Vietnam.

10 Of the countries covered by our review, this applies to Australia, Austria, Belgium, China, Croatia, Denmark, Egypt, Germany, Greece, Hungary, Indonesia, Israel, Italy, Kuwait, Morocco, Nigeria, Peru, the Philippines, Portugal, Romania, Slovenia, Sweden, Switzerland, Thailand, Tunisia and the UAE.

Requirement to attend the shareholder meeting

In some countries, shareholders are required to physically attend the shareholder meeting in order to cast votes. Most markets do not have this requirement or allow electronic tabulation of votes.

Figure 7. Physical attendance at the shareholder meeting

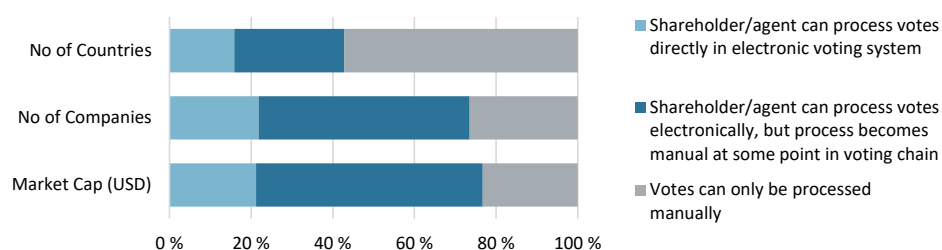


We observe that in 25 percent of the countries, physical meeting attendance is required, with a manual count of hands or votes from the shareholders or their agents.¹¹ Such requirements may prevent the development of efficient voting processes and could easily be replaced while at the same time maintaining the necessary formalities around the casting of votes. One way would be to facilitate for electronic tabulation of votes and leave it optional to organise physical shareholder meetings. This would also be beneficial as a contingency when unexpected circumstances make it difficult or impossible to organise physical shareholder meetings. This has been an issue in several markets following the national lockdown measures that have been implemented during the corona pandemic.¹²

Electronic or manual voting process

We also looked at whether the shareholder or its agent can process the voting instructions directly in an electronic voting system, or whether this process is partly or wholly manual.

Figure 8. Electronic or manual voting process



We note that as many as 84 percent of the countries lack an end-to-end electronic voting system. The processes in these markets depend partly or wholly on manual registration of votes, often through several intermediaries, which adds unnecessary delays and carries operational risks.

¹¹ Of the countries covered by our review, this applies to Bangladesh, Colombia, Ghana, Greece, Hungary, India, Indonesia, Italy, Kuwait, Mauritius, Mexico, Morocco, Qatar, Thailand, Tunisia and Vietnam.

¹² We note that certain markets triggered by the pandemic situation are considering changes to their frameworks to facilitate remote participation in AGMs.

Vote confirmations

One important question in our review was whether the issuing company provides vote confirmations back to the shareholders (so-called “end-to-end confirmation”). This would document that the shareholders’ votes have been appropriately registered and counted at the shareholder meeting. We were not able to identify *any* markets where this is the market standard.¹³ However, we note that some service providers have developed systems in certain markets that include such confirmations. In the EU, member states are in the process of implementing level 2 measures that aim at improving the voting chain in line with SRD II. These introduce a right for investors to request vote confirmations from issuers on an individual basis, but do not require such confirmations to be provided as a market standard.

The lack of end-to-end vote confirmations leads to uncertainty for shareholders as to whether their votes have been correctly registered at the shareholder meeting and what was the result of the voting.

Improving the efficiency of the proxy voting process

As illustrated above, shareholder voting processes vary significantly between markets. The voting process needs to meet the requirements set by each company under local corporate law and in line with local market practice. Such processes were originally based on shares being physically held and manually registered. Communication with shareholders was through ordinary mail, introducing delays. Technological developments over the last decades have removed many of these complications. As a consequence, the voting process could be substantially simplified and automated.

Shareholder voting services support vote execution, particularly for global investors. These services can bridge the gap between companies and their global investors. This can to some extent compensate for the lack of uniformity in voting systems across markets. However, the challenges of inefficient voting processes remain at market level and cannot be alleviated by the proxy voting service providers alone. Resolving these challenges through technological innovation and industry improvements is likely to require regulatory support and facilitation.

The lack of efficiency in the voting process has been subject to regulatory scrutiny and discussions for several years. However, the improvements that are underway in certain markets do not resolve the practical issues. Technically, there are feasible solutions available. For example, the financial industry has been successful in developing efficient solutions for straight-through processing of trading instructions and for distributing dividends from companies to their shareholders. A similar approach could facilitate the development of efficient and reliable end-to-end solutions for shareholder voting.¹⁴

¹³ Additionally, we note that the legal definition of “shareholder” varies in between markets and may not be the end investor (but for example the local sub-custodian). This may complicate finding good solutions for imposing end-to-end confirmation requirements.

¹⁴ We note that there are standardised proxy voting messaging formats under ISO 20022 that could facilitate straight through processing, but there has been little adoption to date.

Our review of the voting process confirms that there is a lack of uniformity in voting processes across markets, and several obstacles to developing efficient solutions. No market appeared as a gold standard across all the metrics, although the UK came closest. We support measures that would strengthen the proxy voting infrastructure and process. To develop efficient and robust solutions, the voting process should be:

Predictable – with steps and procedures for calling shareholder meetings, setting the agenda, distributing materials, conducting the shareholder meeting and casting the votes being known to all and not changing during the process.

Accessible – providing equal access to cast votes for all shareholders, local or foreign, including investors who are not able physically to attend the meeting. Where such processes require documentation of power of attorney, this should not create unnecessary hurdles.

Orderly – with proper identification of eligible shareholders that allows for the correct number of votes to be cast at shareholder meetings. We support having the record date close to the shareholder meeting – preferably less than a week before the meeting.

Timely – providing materials to shareholders well ahead of the meeting. In our review, we note that in most markets the documentation is published by companies 15 days or more ahead of the effective cut-off date. This should be the minimum standard in all markets.

Transparent – with clear, complete and consistent release of information to all shareholders, local and foreign. The document should reach all shareholders at the same time and be provided in English in addition to the local language, to allow foreign investors to make use of the information without delay.

Accurate – with all votes correctly cast by eligible shareholders being counted. The process should be sufficiently robust to avoid votes being rejected due to operational errors in the voting chain. Electronic end-to-end voting should be enabled.

Standardised – facilitating greater levels of straight through processing of voting instructions.

Providing certainty – with mandatory confirmation provided by issuers to shareholders of the votes cast and of the voting outcome. This is not currently the market standard across jurisdictions.

Cost-effective – with reasonable costs for shareholders related to receiving materials and casting their votes. We see benefits in receiving proxy statements and voting information from issuers in an interactive data format. The provision of shareholder voting services should be unbundled from the provision of proxy advisory services, as this creates a clearer pricing structure for each of the services.

Conclusion

Global investors rely on efficient voting processes to satisfy their requirements as responsible shareholders. A need for improving the efficiency of the voting process has been identified and extensively discussed in many markets. Effective voting processes are important for a well-structured relationship between companies and their shareholders. This is, in turn, an important aspect of well-functioning capital markets. Addressing well-documented inefficiencies is taking time, however, and no comprehensive solutions have so far been introduced. The fact that many markets operate with regulatory frameworks based on historical manual processes, multiple layers of intermediaries and a lack of end-to-end electronic solutions seems to be hampering progress.

To advance and improve the voting processes we encourage

- **issuers** to facilitate relevant information and data by
 - providing the agenda and materials for shareholder meetings in a complete and timely manner
 - seeking to facilitate access to the information in electronic format, and also in English where it originally is provided in local language(s)
 - counting the votes and disclosing the results of the voting in an efficient and transparent manner
- **investors** to be responsible shareholders by
 - exercising their voting rights and being transparent about their voting
 - identifying key obstacles to efficient voting processes and communicating the need for improvements to companies and service providers
 - working with regulators and standard setters to improve the local and global frameworks for shareholder voting processes
- **industry participants** to be innovative by
 - developing efficient end-to-end electronic voting processes
 - ensuring transparency and providing shareholders with vote confirmations
 - offering solutions that are commercially viable
- **regulators** to continue their steps to modernise relevant frameworks by
 - working towards international harmonisation of key regulations
 - facilitating a move from manual to digital solutions with improved timelines and with standard data formats
 - encouraging innovation in the industry and promoting engaged shareholder voting by investors

A further strengthening and international alignment of the shareholder voting process in line with the criteria outlined above would help lower the entry barriers for new and improved solutions, making the markets overall more efficient. To the extent changes are made by introducing minimum requirements, it is important not to create thresholds that are too restrictive, challenge an already compressed timeframe in the voting process or add unnecessary costs. Solutions that are developed and managed by the industry itself are preferable where these are available and adequate.