

On the horizon

Demi Derem, general manager of international investor communication solutions business at Broadridge, discusses proxy voting and its technology-enabled drive to improve corporate governance



Investment priorities are evolving

Investors are demanding greater transparency, risk-balanced financial returns and more of a say in how the companies they invest in operate. These changes are being reflected in the wider investment eco-system. Within the last 12 months the European Commission has published the amendment to the Shareholder Rights Directive (SRD II) and launched an action plan on sustainable finance, and the UN principles for responsible investment launched a programme to reimagine modern portfolio theory.

In addition, the UK's Financial Reporting Council has revised its Corporate Governance Code and many other agencies have launched similar projects. In summary, there is a lot of activity and focus on all things corporate governance.

As investment priorities have changed, good corporate governance has become central to the investment process, and this has placed shareholder voting firmly under the microscope. After all, voting is the ultimate mechanism by which investors hold to account the directors of the companies in which they have invested.

Institutional investors are now demanding that their custodians provide best-in-class voting windows and reporting services—and this demand for increasingly sophisticated reporting flows is being seen throughout the shareholder intermediary chain.

All of this activity is driving changes in the way that shareholder voting and related services are provided. The EC has just published its final implementing regulation on SRD II. As these rules are transposed, custodians and intermediaries will need to examine their voting services and make changes in order to comply, whether that is to improve accuracy, timeliness or other issues in the areas of information distribution, vote execution and transparency.

The technology evolution

Custodians and intermediaries will need to leverage existing and emerging technologies to provide their solution, and in assessing their readiness, careful consideration should be given to their service provider's track record of fintech investment, innovation and market reach to ensure that they are fully prepared for the wave of changes that will be required over the coming months and years. At the same time, asset owners have a growing appetite to oversee voting and obtain confirmation that their voice has been represented in a meeting—more than ever the need to ensure and report that a vote got to the right place at the right time is becoming a market differentiator in the custodian world.

When SRD II is transposed into a mandatory requirement across each jurisdiction, investors are hoping that they will obtain full access to vote confirmations throughout Europe. An arguably bigger change coming with SRD II is in the area of Shareholder Disclosure. The

EU's plan for an automated disclosure regime is ambitious, and not without challenges as markets adopt this theme of the directive.

Failures in the onward distribution of disclosure notices could have a significant impact on the ability of intermediaries to comply, and the EC has been clear that market regulators must do what they can to ensure compliance of intermediaries.

Blockchain innovation for the voting process

The evolution of shareholder voting will not stop with the SRD II. Custodians and their service providers recognise the benefits that new technology can bring to a range of processes in the capital markets.

One key technology which has been widely experimented with is blockchain. We believe that blockchain processing offers significant benefits in managing the voting life-cycle and improving the overall voting eco-system.

Unlike older technologies, blockchain provides an open, inspectable ledger of votes cast and represents a true step forward to help address the vote confirmation which will shortly be required by all that participated in the voting chain as a result of SRD II. This, in turn, will help support the drive for increased governance standards globally as non-EU jurisdictions adopt similar practices in the drive for transparency and vote confirmation.

With this in mind, Broadridge's strategic technology investments have included a significant focus on real-world applications of blockchain technology. We have partnered with leading corporate issuers, investors and custodians to deliver and test blockchain technology in proofs-of-concept, tested alongside real voting at large general meetings. This technology is ready for the mainstream, and our plan is to help the proxy industry take a leap forward over the next few years.

Looking ahead, thoughts for the future

Where will the industry be in five years' time? Undoubtedly the eco-system will evolve driven by margin pressure, and market and regulatory change. Issuers should have improved access to timely shareholder information, and it would not be surprising to see those benefits extended to issuers throughout the Asia Pacific region. Vote confirmation will be the norm, and issuers failing to confirm votes cast may be viewed as an investment risk.

Custodians and other intermediaries will need to offer their clients access to more advanced voting services and will be increasingly reliant on technology to support this function. Investors will become more sophisticated than ever in their selection of asset managers, and corporate governance practice may well be the first question for all. **AST**