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August 26, 2014

*Submitted electronically*

RE: Financial System Inquiry Response to Interim Report – July 2014

This letter represents the comments of Broadridge Financial Solutions, Ltd.<sup>1</sup> (Broadridge) in response to the Financial System Inquiry (the Inquiry) Interim Report dated July 2014.

For more than 25 years, Broadridge has been an active participant in the dialogue on issues affecting financial markets globally. In particular, we provide the benefits of our experience and expertise related to investor communications as well as access to important quantitative data for regulators and other market participants.

Broadridge values and invests heavily in continuous improvement, particularly in technological solutions that support the principles of efficient information access and delivery, increased investor engagement and participation and improved governance and transparency in investor communications.

There is significant interest from market participants around the world to improve the way capital markets function. We are developing locally tailored proxy and investor communication solutions to address the needs of both mature and emerging markets, within local regulatory frameworks and we provide some examples in this submission.

## **Australian Context**

Broadridge has participated in the Australian proxy process for the last decade. In the last 12 months, Broadridge has processed over 2,000 Australian investor meetings on behalf of both domestic and international institutional investors, both through local banks and direct to issuer agents. As such, we have unique insights into institutional investor requirements of the process, as well as the practical mechanics and issues of proxy voting in Australia.

Over the past few years, we have shared these insights through our comments regarding:

- Corporations and Markets Advisory Committee (CAMAC) discussion paper "*The AGM and Shareholder Engagement*"
- Financial Services Council (FSC) Standard No. 13: *Voting Policy, Voting Record and Disclosure*
- Australian Securities and Investments Commission (ASIC) Consultation Paper 211, *Facilitating electronic offers of securities: Update to RG 107*

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<sup>1</sup> Broadridge is the leading provider of investor communications and technology-driven solutions for wealth management, asset management and capital markets firms. We help clients drive operational excellence to manage risk, accelerate growth and deliver real business value. Our technology-driven solutions power the entire investment lifecycle, enabling our clients to successfully manage the complexity and operational requirements of today's capital markets. Broadridge is at the forefront of multi-channel communications, strengthening our clients' capabilities to communicate with their clients and investors and meet regulatory requirements.



Broadridge applauds the Inquiry's examination of how Australia's financial system can most effectively help the economy be productive, grow and meet the financial needs of Australians. The principles in support of this objective are consistent with those of regulators and market participants around the world:

- Efficiently allocate resources and risks;
- Be stable and reliable; and,
- Be fair and accessible.

We believe the observations noted and questions raised by the Inquiry are relevant and important. However, we have limited our comments to those areas where our experience and expertise are particularly relevant:

1. The quality of communication and disclosure with consumers;<sup>2</sup>
2. Corporate governance; and,
3. Financial integration.

We make these comments relative to recent developments in North America, Europe, Australia and Asia.

## **Consumer Disclosure**

The Inquiry has made the following observations about consumer outcomes in the financial system:

**The current disclosure regime produces complex and lengthy documents that often do not enhance consumer understanding of financial products and services, and impose significant costs on industry participants.**

## **Mutual Fund Disclosure**

The Inquiry's contemplation of layered disclosure as a means of improving consumer / investor disclosure is akin to recent regulatory amendments made in Canada and the U.S.

The U.S. Securities and Exchange Commission's (SEC) Division of Investment Management implemented a "layered" disclosure regime with the amendment and adoption of the 2009 "Summary Prospectus Rule(s)", (Form N-1A and SEC Rule 498), whereby certain required key information regarding investment objectives, costs and risks are easily available to all investors in 1) a standardized format, 2) using plain English, 3) presented in a clear, simple and understandable manner, so typical investors can easily compare mutual funds in paper and/or electronic documents. As part of this change, mutual fund companies need to make additional detailed information available on the Internet in a user-friendly format and in paper form for investor use. All filings are still required to be made on the EDGAR system.

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<sup>2</sup> In this response, consumers are referred to as retail investors.



In Canada, these amendments are to National Instrument 81-101 Mutual Fund Prospectus Disclosure (NI 81-101). Canadian regulators have introduced a multi-phased approach as transition from post-sale to pre-sale disclosure for investors.

**Stage 1** of amendments to NI 81-101 was completed on January 1, 2011, when amendments to NI 81-101 came into force. These amendments require mutual funds subject to NI 81-101 to produce and file a Fund Facts, which is a simplified, investor-friendly prospectus, and make it available on the mutual fund's or mutual fund manager's website. The Fund Facts must also be delivered or sent to investors free of charge upon request.

**Stage 2** took effect in June 2014. The amendments require delivery of the Fund Facts instead of the prospectus to satisfy the prospectus delivery requirements under securities legislation that requires that a prospectus be delivered within two days of buying a mutual fund.

In **Stage 3**, the Canadian Securities Administrators (CSA) published for comment proposed requirements stipulating point-of-sale/pre-sale delivery of the Fund Facts for conventional mutual funds. This change will fundamentally transform the way advisors communicate with their investors.

These amendments to U.S. and Canadian mutual fund regulations are designed to provide information to investors in a more timely and accessible manner. The stipulation to provide the information in both paper and electronic formats ensures investors are able to receive information according to their preferred delivery method.

Broadridge has developed highly advanced and automated fulfillment solutions to support investment firms in their compliance with these new regulations<sup>3</sup>. Our solutions deliver significant operational efficiencies, reduce costs and improve the speed and accuracy with which mutual fund manufacturers and distributors communicate with investors. At the same time, they ensure maximum compliance with current regulations. In so doing, investor education, communication and disclosure are enhanced.

### **Proxy Distribution and Voting**

Broadridge leverages new technologies to deliver innovative solutions that improve investors' access to information in the proxy communication process. These solutions include telephone voting and Internet voting and Internet delivery of investor materials. The creation of these tools has benefited all constituents. They address changing demographics and investor behaviour, increase investor participation and, ultimately, improve the quality of disclosure to investors. In addition, U.S. issuers realized savings of \$904 million during the 2014 proxy season<sup>4</sup>.

Many of these solutions have been made possible through the innovative application of new technologies. For example, Broadridge's suite of e-delivery solutions are now enhanced with integrated multimedia content, Quick Response (QR) codes and mobile platform compatibility.

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<sup>3</sup> Detail regarding Broadridge's mutual fund solutions can be found at [www.thinksmart.broadridge.com](http://www.thinksmart.broadridge.com)

<sup>4</sup> Broadridge 2014 Proxy Season Statistics can be found at <http://www.broadridge.com/news-events/press-releases/Technology-Use-in-2014-Proxy-Season-Hits-All-Time-High.html?show=%20Press%20Release>



Broadridge introduced a mobile proxy voting platform for retail investors when the technological evolution allowed. Mobile ProxyVote.com allows an array of mobile devices to seamlessly integrate with our online voting site, ProxyVote.com, through a sophisticated graphical and secure interface. In the 2014 U.S. proxy season, there was a 70% increase in positions voted by mobileproxyvote.com over the same period in the prior year<sup>5</sup>. Many of these positions were voted by first time voters. This is an indication that investors will be more engaged when new technologies are easy and convenient to use and enable flexible access to information.

## Corporate Governance

The Inquiry has made the following observations about the importance of corporate governance in the financial system:

**Good governance is a vital part of any corporation, both within and beyond the financial sector. The culture of an organisation, its appetite and its approach to managing risk ultimately flow from the policies and practices set at the very top. The rules and requirements set by regulators and internally within the institution will only go so far; an organisation's culture and risk appetite determine how an institution responds to the spirit of the requirements and circumstances that are not addressed by the rules.**

### Disclosure obligations in support of improved corporate governance

In markets around the world, an effective, accurate and transparent proxy voting system is increasingly being recognized as a critical foundation of a solid corporate governance system.

Extended regulation and codes of practice around the world have increased the need for financial institutions, asset management companies, investment and annuity firms to comply with new rules on their investor vote reporting. These guidelines aim to improve transparency and encourage responsible investor engagement by requiring firms to adopt proxy voting disclosure regimes that conform to best practice models.

Since 2010, the UK Stewardship Code has encouraged asset and investment managers to participate in the stewardship of the companies in which they invest. The Code was designed to increase engagement and to ensure that investors were playing a more responsible role in all aspects of the process, including disclosure of voting activity.

In September 2012, the Financial Reporting Council (FRC) issued its revisions to the UK Stewardship Code for responsible investment, a change in focus that has had a major impact on asset owners. The FRC extended vote reporting requirements to apply not only to asset managers, but also to the underlying asset owners, including pension funds, charity trustees and other beneficial owners. These parties now have a responsibility to either actively participate in the process themselves, or be more accountable for the activity of those asset managers acting on their behalf.

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<sup>5</sup> Broadridge 2014 Proxy Season Statistics (as per footnote 4)



Key principles of the Code require investors or asset owners to “have a clear policy on voting and disclosure of voting activity” and “report periodically on their stewardship and voting activities.”

In April 2014, the European Union Shareholder Rights Directive also underwent revision. The Directive is intended to modernise company law and enhance corporate governance in the EU by improving the rights of shareholders, particularly with respect to ensuring that shareholders have timely access to complete information relevant to general meetings and the ability to exercise voting rights by proxy. The European Commission notes that the amendments now make it easier for shareholders to use their existing rights over companies and enhance those rights where necessary. This will help ensure shareholders are more engaged, better hold the management of the company to account and act in the long-term interests of the company.

In Australia, the government introduced the Stronger Super reforms to make the Australian superannuation system more efficient and to help maximise retirement income for superannuants. The Australian reforms aim to create a new simple, low-cost default superannuation product called 'MySuper'. The intent is to make the processing of everyday transactions easier, cheaper and faster through the 'SuperStream' package of measures, and ultimately strengthen the governance, integrity and regulatory settings of the superannuation system. The changes also include enhancements to the disclosure and reporting requirements for superannuation. In May 2014, Australian Securities and Investments Commission announced a delay in additional holdings disclosure reporting requirements which were due to come into effect on July 1, 2014, but fund managers have generally sought to adopt best practice around proxy voting disclosure regardless of the holding disclosure delays. These disclosure requirements are expected to demand consistency and transparency in how information is calculated and reporting is delivered.

In addition, the FSC released Standard 13 in 2013 requiring members to maintain voting policies, become more active in proxy voting and to disclose their proxy voting activity. These regulations compliment Stronger Super reforms, and have produced a greater level of guidance and detail, which even non-member fund managers are finding useful to adopt for on-shore and global voting activity.

In emerging and emerged markets, greater disclosure and transparency regulations are also a primary focus. The Securities and Exchange Board of India (SEBI) set out to "protect the interests of investors in securities and to promote the development of, and to regulate, the securities market ". A new set of disclosure guidelines for mutual funds and asset management firms came into effect as of April 1, 2014. The guidelines require mutual funds and asset management companies to improve transparency and encourage them to diligently exercise their voting rights in the best interest of unitholders.

While regulators are writing new rules to provide greater rigor to disclosure practices in markets around the world, participants are collaborating to implement technology-driven solutions, such as end-to-end vote confirmation, to improve vote transparency.

Broadridge has developed a Vote Confirmation system for institutional investors utilizing Broadridge's ProxyEdge® product, a web-based meeting notification and voting platform. Vote Confirmation acknowledges that a vote instruction has been given and the shares corresponding to the instruction have been counted and will be represented at the shareholder meeting.



Confirmation of the vote is relayed back through ProxyEdge to the institutional investor as a “flag” indicating that the position is confirmed and accepted. The service is only available when Broadridge is acting as tabulator. Since November 2013, Canadian institutional investors and financial advisors who subscribe to ProxyEdge and where Broadridge is the meeting tabulator acting on behalf of the U.S. issuer have access to the vote confirmation flag on ProxyEdge, enabling them to receive confirmation of votes received, tabulated and accepted at the meeting.

Broadridge’s Vote Confirmation Service is a precursor to full end-to-end vote confirmation. While the service is available only to institutional investors, the end-to-end vote confirmation service currently being piloted in the U.S. extends confirmation to retail shareholder votes as well.

### **End-to-End Vote Confirmation**

In December 2010, the University of Delaware, Alfred Lerner College of Business and Economics, Corporate Governance Center hosted a roundtable to explore an industry-wide solution for end-to-end confirmation for shareholder votes (the Roundtable). With an emphasis on developing practical solutions, the Roundtable invited persons actively engaged in and knowledgeable about all areas of the shareholder voting process. The goal of the Roundtable was to address existing concerns regarding the integrity of the shareholder voting process within the U.S. and to identify and develop realistic and achievable steps to strengthen the integrity of the process, from end-to-end.

The first pilot program was undertaken in 2011, with subsequent programs conducted in 2012 and 2013. The end-to-end vote confirmation program for the 2014 proxy season was larger and more inclusive still:

- Five of the major U.S. tabulators agreed to provide five issuers each to pilot the confirmation process for proxy season 2014
- Broadridge built a communication tool that allowed the custodians/tabulators to verify and rectify any share differences
- Process allowed for pre- and post-reconciliation by brokers, and did not release any voting to the tabulator that exceeded the vote entitlement

Broadridge is examining opportunities to introduce end-to-end vote confirmation in other markets. A pilot program of end-to-end vote confirmation for institutional investors was conducted in cooperation with a registrar in Spain in 2013. This initiative was expanded in 2014 to include more issuers. Also in 2014, two issuers in Taiwan offered end-to-end vote confirmation to their investors. The prominence of vote transparency as an important aspect of corporate governance for issuers continues to grow and there is ongoing dialogue with market participants in other countries such as the UK and Canada.



## Financial integration

The Inquiry has made the following observations about the benefits of financial integration to Australia's economy:

**Financial integration is a country's financial connectedness with other countries. Greater financial integration tends to increase capital flows and equalise prices and returns on traded financial assets in different countries. Although elements of Australia's financial system are internationally integrated, a number of potential impediments have been identified. Financial system developments in the region will require continuing Government engagement to facilitate integration with Asia. Ongoing engagement with financial markets in North America and Europe will also continue to be important.**

In July 2004, Broadridge established a joint venture with the Tokyo Stock Exchange (TSE) and the Japan Securities Dealers Association (JSDA) named Investor Communications Japan (ICJ). Based on Broadridge's ProxyEdge solution for institutional investors, the ICJ platform has delivered a radical improvement in efficiency to the cross-border and domestic institutional investor community, extending voting deadlines up to Meeting Date-1 (MD-1), a major advance from the MD-10 cut off that many international investors had been forced to work with under the paper system.

466 Japanese companies are now utilising this investor communications and voting service. This includes almost all of Japan's leading blue-chip listed companies and represents approximately 80 per cent of the market capitalisation of the TSE 1<sup>st</sup> Section. ICJ is working to extend its reach across a broader spread of Japan's listed companies.

The Japanese experience exemplifies how an efficient, centralised vote management process can be transformative at a market or national level, elevating corporate governance and transparency to the standard expected by both domestic and cross-border investors, and playing its own role in attracting capital.

Another example of improving the proxy process and supporting good corporate governance involves the recent agreement signed in August 2014 that Broadridge reached with Taiwan Depository & Clearing Corporation (TDCC). Broadridge is working with TDCC to establish direct links with the TDCC's new electronic voting system for Taiwanese shareholder meetings, StockVote. For listed companies that elect to use the StockVote system, direct voting into the system by Broadridge will significantly enhance the level of straight-through processing (STP) in the proxy process, greatly improving voting deadlines for overseas investors and helping to eliminate multiple manual processes undertaken by local sub-custodian banks supporting Broadridge's clients in the market today. This agreement supports both improved cross-border voting and corporate governance in Taiwan.



## **Conclusion**

Broadridge remains committed to improving investor communications processes that relate to cost-effective proxy distribution and voting processes and disclosure practices for issuers, investment firms, intermediaries, investors and all other constituents globally on a cost-effective basis.

Our experience in developing and deploying investor communication solutions around the world has shown that the innovative application of new technologies can deliver benefits to capital market participants:

### **The quality of communication and disclosure with consumers:**

- Enhanced consumer disclosure can be achieved through amendments to regulations (layered disclosure) such as those implemented in the U.S. and Canada
- Electronic delivery of proxy materials and electronic voting platforms improve investor participation and support investor preference

### **Corporate governance:**

- A transparent proxy voting system is foundational to good corporate governance
- Institutional and retail investor confidence is improved when vote confirmation processes are available

### **Financial interaction:**

- Ongoing engagement with financial markets in Asia, North America and Europe will continue to be important to Australia's financial systems
- An efficient proxy voting process can be transformative at a market or national level, elevating corporate governance and transparency to the standard expected by both domestic and cross-border investors, and playing its own role in attracting capital

We would be pleased to meet with representatives from the Inquiry and its committees to discuss further opportunities to address its objective of enhancing the stability, reliability, equity and accessibility of the Australian financial system. We are also happy to provide quantitative data that may be informative and valuable to the Inquiry as it considers refinements to the financial system framework.

Sincerely,

"Patricia Rosch"

Patricia Rosch  
Broadridge  
President  
Investor Communication Solutions, International