



Council of Institutional Investors
The Voice of Corporate Governance

Everything you ever
wanted to know about

International Proxy Voting

but were afraid to ask



The Council of Institutional Investors (CII) is a nonprofit association of pension funds and other employee benefit funds, endowments and foundations with combined assets that exceed \$3 trillion. The Council is leading voice for good corporate governance and strong shareowner rights.

The Council strives to educate its members, policymakers and the public about good corporate governance, shareowner rights and related investment issues, and to advocate on its members' behalf. Corporate governance involves the structure of relationships between shareowners, directors and managers of a company. Good corporate governance is a system of checks and balances that fosters transparency, responsibility, accountability and market integrity.

Acknowledgments

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Disclaimer

This primer is designed as a general introduction to voting international shares for U.S. institutional investors. It is not a comprehensive discussion of all aspects of cross-border voting. While the Council exercised due care in preparing this primer, it does not guarantee the accuracy of the information. This primer is being provided for educational purposes and should not be considered as legal advice.

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Introduction

As an active institutional investor, your fund probably has a robust policy in place for voting at annual meetings of U.S. portfolio companies. It may vote all its shares, send representatives to annual meetings, file or support shareowner proposals, even engage in dialogues with companies on priority issues.

But chances are that for your fund, as for many U.S. institutional investors, active participation ends at the border. Regulatory, financial, legal and language barriers discourage many institutional shareowners from voting internationally or engaging with non-U.S. companies in their portfolios.

Yet, as U.S. investors plow more and more of their assets into foreign markets, it is increasingly vital for them to understand how they can participate fully in the cross-border voting process.

Under U.S. law, many institutional investors have a fiduciary responsibility to vote their shares whenever it is in the best interests of the beneficiaries of the fund. However, when the potential costs or difficulties associated with voting loom large, investors must weigh the costs and benefits to determine whether or not to vote. This analysis can be especially complicated when it requires an understanding of voting procedures in markets around the globe.

This primer attempts to answer common questions that U.S. institutional investors have when considering whether and how to vote their international shares. It suggests steps that U.S. investors can take to try to eliminate or overcome some of the obstacles to cross-border voting.

It also offers information about filing shareowner proposals internationally, a potential next step for some institutional investors that already engage actively with U.S. portfolio companies.

To understand investor practices and concerns relating to cross-border voting, the Council of Institutional Investors surveyed its members in June 2011. All General Member funds (employee benefit funds, foundations and endowments) were invited to complete a short online questionnaire, and 37 participated. Full survey results are included in Appendix A. Among the key findings:

- Members tend to execute U.S. votes and international votes through different means. For

U.S. equities, respondents were more likely to cast votes through proxy advisers or in house. For non-U.S. equities, respondents more often delegate voting execution to money managers.

- Money managers also take on a larger role when it comes to making voting decisions for non-U.S. proxies.
- Share blocking was the most frequently cited obstacle to voting international shares.
- Timing of disclosures, country requirements for investors to obtain power of attorney and share lending programs were also cited as critical roadblocks.

U.S. investors are present in every major market throughout the world. Each of these markets has different rules and regulations pertaining to proxy voting, and it would not be practical to discuss all of them here. Instead, we chose to focus on eight countries that represent three different regions of the world.

Europe	Asia	Latin America
France	Japan	Brazil
Greece	S. Korea	Mexico
Sweden		
Switzerland		

These countries were selected for several reasons. First, Council members surveyed identified many of them as countries of interest. These were markets where members not only had a large presence or were starting to increase investment, but also where they had encountered voting roadblocks. Second, these countries help to define some of the major differences from region to region, particularly as the European Commission Shareholder Rights Directive (discussed below) takes effect in Europe. Third, they provide some very different areas of focus that will help investors to better understand the variety of regulations and policies that they might encounter when voting internationally.

We considered including the United Kingdom and Canada as focus countries because of the magnitude of U.S. investors' assets under management in both.

Ultimately, we decided to leave those markets out as they generally do not present as many voting difficulties for U.S. investors.

How do Council member funds handle cross-border voting?

The Council survey found that while the vast majority of respondents, 92 percent, said they vote at least some of their international shares, and 84 percent vote all of their international shares, they often take a less active role in the actual voting and decision-making processes than they do with their U.S. equities. The most common approach to executing non-U.S. votes is to delegate that responsibility to money managers, with 49 percent of respondents utilizing this option. Another 30 percent execute votes through proxy advisers. Only 24 percent of respondents place the responsibility to vote non-U.S. shares in the hands of in-house staff. *(Note that respondents were allowed to select more than one option.)*

This contrasts with members' more hands-on approach to voting execution for U.S. equities, where 49 percent vote through proxy advisers, 41 percent vote in-house, and only 16 percent delegate voting execution to money managers.

The difference in who makes the voting decisions follows a similar pattern. While many respondents have developed internal guidelines for international proxy voting, the percentage is significantly lower than that for U.S. voting. For non-U.S. equities, 30 percent follow in-house guidelines, with another 16 percent following in-house guidelines with some exceptions. On the U.S. side, these numbers are 49 percent and 11 percent respectively. The difference in these numbers stems from the fact that for non-U.S. equities, it is common for investors to delegate proxy voting decisions to money managers; 30 percent of respondents choose this option. For U.S. equities, only 14 percent of respondents delegate decision-making to money managers.

Developing guidelines that cover international proxy voting can be a daunting task, because investors have to balance the specific objectives and parameters that they desire in their voting guidelines with the more general policy approach that often

becomes necessary when trying to create guidelines that cover numerous countries.

While proxy advisers have policies that cover each of the different countries, delegating voting decisions to proxy advisers is not a common choice for either non-U.S. or U.S. shares. On the non-U.S. side, 8 percent said they delegate to proxy advisers, while 11 percent do so for U.S. shares.

Even though most members choose not to delegate decision-making to proxy advisers, for many Council members, proxy advisory services take on a greater role when it comes to cross-border voting. First, it is enormously difficult for investors on their own to keep abreast of the different regulations in each market, particularly in the EU, Brazil and other countries where governance rules are evolving at a rapid pace. It is equally tough for investors to track and understand all the local issues that may appear, in different forms, on a proxy ballot. Also, annual meeting materials may not arrive in a timely fashion. Proxy advisers typically have representatives in many countries or regions and have access to detailed information about local rules and issues. Hence, investors may be more likely to rely on the recommendations from their proxy advisors in voting internationally.

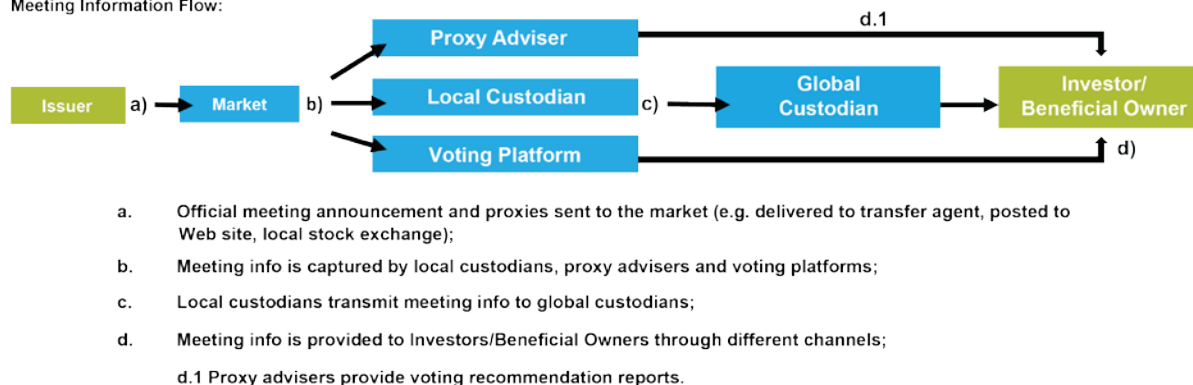
How does cross-border voting work in practice?

Most large U.S. institutional investors that vote in-house place their votes via electronic voting platforms offered by proxy advisers or Broadridge Financial Solutions (which uses the ProxyEdge suite of voting services). Similarly to the U.S. market, when an investor is ready to vote overseas shares, the vote does not go directly from the investor to the company. There are a number of intermediaries that each play a specific role within the proxy-voting process. The company distributes the proxy materials to a transfer agent, which delivers the materials to the registered owners. For institutional investors, this usually means that the material is distributed to the institution's custodial bank. The bank has to verify the actual holdings of each of its clients, and then ensure that the beneficial owner receives a copy of the proxy materials. If an investor uses a proxy adviser, the adviser will receive proxy and holdings information directly from the bank or its third-party provider, and the meeting information will then be delivered to the

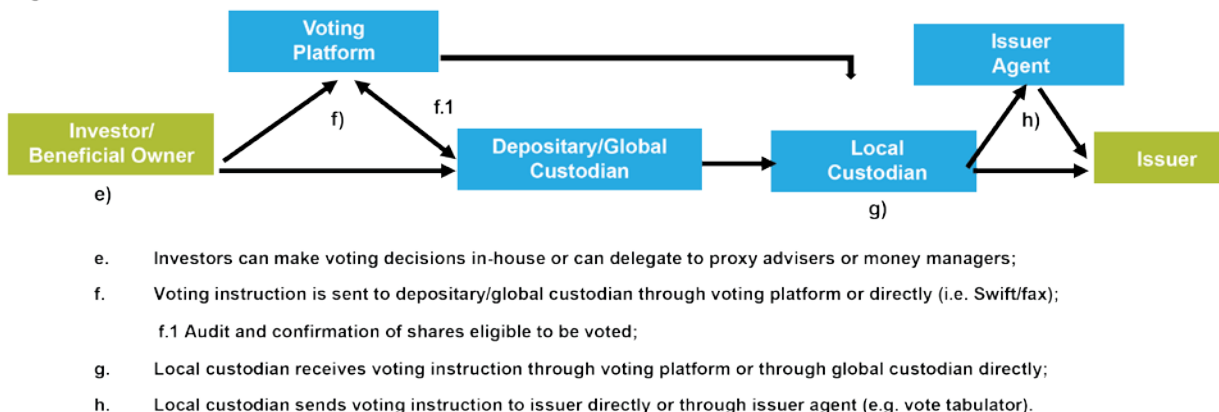
investor through the proxy adviser's platform. Whether the investor votes through a proxy adviser or another voting platform, most likely Broadridge will be involved in processing and transmitting the vote. The

votes will be transmitted to the subcustodians or agents in the relevant market, and then to the tabulator or transfer agent. After that, the votes will finally reach the company.

Meeting Information Flow:



Voting Information Flow:



Should investors bring voting execution and decision-making in-house?

Ideally, the answer is yes, because it provides a greater level of control over the process and a stronger assurance that the vote will be placed according to the standards set by the particular investor. However, each investor must weigh the pros and cons, taking several factors into account:

- **Added cost.** Voting overseas shares in-house entails tangible expenses, starting with staff to review the proxy statements, make decisions and place the votes. Then there are the extra costs associated with the international proxy voting

arena. These include legal bills for complying with specific country requirements to obtain a power of attorney or re-register shares. Research fees for international proxy advisers may also be a factor.

- **Knowledge required.** Many U.S. institutional investors have holdings in many markets; investments in those markets typically are made without regard to local shareowner rights and proxy voting regulations. Staying up to date on the varied, quickly changing rules in foreign markets can be time consuming. Those with voting responsibility also need an understanding of local market pressures, corporate laws, political activities and other issues that may affect the eventual vote on agenda items or director elections. An investor will ultimately need to determine whether it has the knowledge base – or the time and ability to

increase its knowledge base – to be able to make effective voting decisions. If not, it may be in the best interests of the beneficiaries to delegate such decisions to international money managers, so long as the managers have the specific market knowledge required.

- Resolving conflicting votes.** Large investors often have several money managers that hold the same stocks but have different views about how to vote certain ballot issues. If your fund delegates proxy voting to the managers, the managers will rely on their own voting guidelines, and may end up voting contrary to one another. This reduces your fund's voting power and means that at least some of the votes may not be cast in the best interests of fund beneficiaries. Oftentimes, the only audit done regarding international proxy voting by money managers takes place at the end of the year, which means that an institutional investor would not even know until the annual audit that its managers were voting in conflict to each other. Voting in-house avoids these potential consequences.
- Changing votes.** If your fund wants to change a vote after it has been cast, it can be simpler and less time-sensitive to make the change when voting in-house. Otherwise, the fund has to determine which managers hold the stock and whether and how they have already voted, and then it has to contact them to change the vote and trust that they can make it happen in time.
- Vote confirmation.** Technically difficult in the United States, this can be even more daunting in the international arena. As discussed in more detail below, layers in the proxy voting chain can make it hard to obtain vote confirmation at any level, let alone determine whether your fund's votes were cast and counted as intended. Voting in-house (or through a proxy adviser that provides electronic confirmation when votes are cast), eliminates one step in the proxy voting chain. Relying on money managers to cast votes adds an extra layer of verification. A fund that delegates to money managers may need to conduct a vote audit, on its own or by a third party, to determine whether votes were cast properly.
- Fiduciary responsibilities and transparency.** Institutional investors have a fiduciary responsibility to make decisions that are in the best interests of the beneficiaries of the fund. Voting in-house will

allow the investor to take control of the process. The fund will have an additional level of certainty that the vote was cast, and it can affirmatively communicate to its beneficiaries that the shares were voted pursuant to the guidelines of the fund (even if the votes cannot be tracked to the end).

What are the most common obstacles U.S. funds face in voting international proxies?

Share blocking

The U.S. uses a record date system, by which a company sets a specific date prior to the annual meeting on which to take a “snapshot” of current equity holders. That snapshot is then used to determine the number of shares each investor is eligible to vote. Once the record date has passed, shareowners may trade those shares with no impact on voting rights at the upcoming meeting. The number of shares that the shareowner holds before and after the record date is not relevant for purposes of voting at the annual meeting.

Many other markets do not have a record date system in place, but still want to ensure that only the proper number of shares is voted at each annual meeting. In fact, many European markets do not favor the record date system because it creates the potential for non-shareowners to cast votes at general meetings of shareowners. Thus, some markets have implemented “share blocking.” This refers to a rule prohibiting shareowners from trading or loaning shares that they intend to vote for some period of time leading up to, and sometimes following, the annual meeting date. For example, a particular market may require a 10-day share blocking period prior to and including the day of the meeting; an institutional investor that votes its proxies at that meeting cannot trade or loan the shares during the blocked period.

For many investors, this restriction on trading is essentially a deal breaker. When they weigh the benefits of voting against the risks to liquidity in their portfolios, they often choose to forgo voting in favor of maintaining trading rights.

Where share blocking is in place, it is important that the investor communicate clearly to its investment staff the intention to vote well before the voting deadline. If a

trade is made after a vote has been cast during the share blocking period, it can create an administrative hassle for the custodian or vote processor. If the trade fails, the fund may have to pay penalties for non-settlement.

While share blocking can have a major impact on whether U.S. shareowners choose to vote, some markets are starting to shift toward a record date system. For example, the European Commission's Shareholder Rights Directive (SRD) requires all member states to eliminate share blocking. All member states were supposed to have implemented conforming rules by Aug. 3, 2009. According to the most recent update from the European Commission, all EU member states except Spain have now put such rules into place. Even so, share blocking remains in effect in some EU countries where local custodians have not amended their rules.

Share lending programs

Share lending has become an increasingly common way for institutional investors to recover some or all of the costs of hiring a global custodian. Institutions allow their custodians to loan shares in all or specified securities and custodians keep the interest earned and use it to offset custodial fees.

In the United States, many investors are aware of the problems associated with voting loaned shares. The investor (the lender) retains the economic interest in the shares on loan (e.g. dividend payments), but the voting rights are transferred to the borrower. Institutional investors that want to vote shares they have loaned must recall them. But the record date often is earlier than the date on which the company releases annual meeting proxy materials, so the investor has no way of knowing if there is anything of special import (and worthy of voting) on the agenda until after the record date. The same problem crops up in global markets. But delays in receiving company documents and getting them translated make the time squeeze worse for shareowners trying to evaluate the importance of a particular vote in time to recall the shares.

Timing of disclosures

In the United States, the Securities and Exchange Commission (SEC) sets clear guidelines about when public companies must send proxy voting materials to shareowners. At a minimum, the guidelines require that

proxy materials be sent with ample time for delivery, consideration and voting by beneficial owners, and processing of votes. In many other markets, the timing is often not as favorable to investors.

In the EU, the SRD provides some clarity; in most cases, it requires annual meeting materials to be released no later than 21 days prior to the meeting. However, shareowners in non-EU markets may not receive materials far enough in advance of the meeting date to make an informed decision. This problem is exacerbated by language barriers, the amount of time it takes to mail materials internationally (some companies still send materials via "snail mail" instead of or in addition to email), less knowledge or information generally about market-specific items, longer time delays in casting votes and the clustering of annual meeting dates. Further, other non-U.S. jurisdictions may have lower disclosure requirements, so investors need to do more research to have a full understanding of ballot issues.

Re-registration requirements

For many institutional investors, shares are held in street name, so the beneficial owner (the investor) is not the registered owner (the broker or custodian). Some markets require such shares to be re-registered in the name of the beneficial owner prior to the vote. The beneficial-owner institution must disclose its ownership and ensure the shares are registered in its name for the vote, and then registered back in street name after. This can pose both timing issues, as the re-registration must be done in advance, and confidentiality concerns for investors that want to maintain their privacy. For a more detailed example of re-registration requirements, see the section on Sweden below.

Power of attorney requirements

In some markets, either beneficial owners or custodians are required to submit a power of attorney (POA) prior to voting. The POA can be a long-term power, or it can be meeting specific. Because the requirements differ from market to market, an investor must take steps early on to ensure that it has a proper POA in place or risk rejection of its votes. For a more detailed example of POA requirements, see the section on Brazil below.

Custodial cut-off dates

Cross-border voting entails multiple voting deadlines. Not only do the company and the market regulator set deadlines for companies to receive proxy votes, the proxy adviser and custodian will require lead time beyond that to receive votes from their clients. A custodian that uses more than one sub-custodian in a market may juggle different deadlines from one sub-custodian to the next. Thus, shareowners may face voting deadlines that are earlier in some accounts than in others – for the same meeting. This pushes up the timing in an already tight voting schedule, and can cause shareowners to fail to vote their shares when they are actually still within the acceptable timeframe.

Advisers and custodians may provide shareowners with the most conservative voting deadline so they do not miss voting any shares, but shareowners may not realize that the deadline does not necessarily apply to all of their accounts. Thus, if they hold a small amount of shares that go through a particular sub-custodian and miss that deadline, but hold a much larger number of shares that have a later deadline, they might assume that they can no longer vote at all and miss their opportunity on the remaining shares.

Navigating market-specific agenda items

In some markets, there are very specific agenda items that would not appear on a typical U.S. proxy statement, and with which U.S. investors would not be familiar. Some items considered routine in other markets would not be routine in the United States. For example, in many European nations, investors vote each year to release the directors from liability for any actions taken in the past year. Investors also vote each year to approve the company's financial statements. These are both widely considered routine items in European markets, but they might give U.S. investors pause. Companies might also have to include specific agenda items based on new regulations in their home country. Research related to the new regulations and the agenda items can be hard to come by, making it a challenge for non-resident investors to make informed decisions.

Roadblocks to vote confirmation and omnibus accounts

Because of additional market-specific regulations and the many parties involved in the cross-border proxy-

voting chain, non-U.S. votes are at greater risk of being rejected or lost than domestic votes. A shareowner may be able to receive confirmation from its proxy adviser or custodian that its vote was submitted to the next intermediary in the chain. However, a shareowner typically cannot get confirmation from the end of the chain that its votes were actually counted as it intended to cast them.

In a recent case in Brazil, Sodali analyzed one company's annual meeting vote and found that, based on the number of votes sent to the registrar and the number of votes that were finally confirmed, approximately 20 percent of the votes cast were lost somewhere along the chain. In that case, as will be discussed more below, burdensome power-of-attorney requirements likely caused some votes to go missing. But the reason(s) for the remaining leakage are unclear.

Omnibus accounts are often used to reduce custodial fees, but they can cause problems when it comes to voting proxies, especially in markets where split or partial votes are not allowed. In those markets, an entire account has to be voted, and it must be voted the same way. The custodian cannot split the votes in an omnibus account, nor can it vote less than all of the shares in that omnibus account.

Thus, even if the custodian submits your fund's vote as it was cast, there is a risk that it will either not be counted, or that it will be changed to match the majority of votes in the omnibus account. Your fund might still receive confirmation from the custodian that the vote was cast as the fund intended, but in reality it may have been rejected or modified at a later point in the chain.

Several ongoing initiatives are helping to create a better audit trail for proxy votes outside the United States. One of the most promising is the EU's proposed Securities Law Directive. While still in draft form, the recommendations on vote confirmation could provide accountability at all levels of the proxy voting chain such that both beneficial owners and companies could verify that the votes of all eligible shareholders are counted properly.

Proxy Voting in Specific Markets

The chart below shows which primary voting barriers/concerns discussed above are applicable in the focus countries. The text following the chart provides an overview of some of the largest issues impacting voting in the specified markets.

Country	Issue						
	Share Blocking	Late Timing of Disclosures	Poor Disclosures	Registration Obligation	Disclosure of Beneficial Owner Required	Power of Attorney	Split Voting Not Allowed
France					X		
Greece					X	X	X (see Note 1)
Sweden				X	X	X	X
Switzerland	X (see Note 2)	X	X	X	X (see Note 3)		X (see Note 4)
Japan		X	X				X (see Note 5)
South Korea		X	X		X		X (see Note 6)
Brazil					X	X	X (see Note 7)
Mexico		X					

Key: X = Yes this is a potential issue for this market

Notes:

- Greece ¹ Not prohibited by law, but company statutes may prohibit it
- Switzerland ² Blocking is in effect by some sub-custodians
- ³ No, but there may be limits on the number of shares that can be voted in nominee name, so it may be necessary to register in beneficial owner name to vote all shares.
- ⁴ Partial voting not prohibited by law, but company bylaws can still prohibit it
- Japan ⁵ Requires pre-notification to sub-custodian
- South Korea ⁶ May require pre-notification to company
- Brazil ⁷ Split voting is allowed in certain circumstances, but is not allowed where votes would be split between against/for on the same item.

Europe

France

Multiple Voting Rights: French law permits different voting rights for the same classes of shares. For example, companies are allowed to set a minimum number of shares that an investor must hold in order to vote at annual meetings. This threshold is very small, and would not affect the voting rights for institutional investors. However, the law also permits French companies to provide double voting rights for so called “senior” shareowners – generally those that have been registered for more than two to four years, as set forth in the company’s bylaws. Companies have the ability to set other unequal voting rights, and to require additional disclosures for shareowners that hold more than 0.5 percent of the stock – with the potential to lose voting rights for two years should they fail to comply.

Record Date: In 2007, France implemented a record date system that sets the record date at three days prior

to the annual meeting date. This eliminated the prior share blocking procedures.

Vote Confirmation: As discussed earlier, vote confirmation is a problem in every jurisdiction, but some Council members perceive a complete lack of accountability in the vote process in France. Investors feel like they have no way to tell whether their votes are ever counted.

Greece

In view of Greece’s dire financial and economic straits, it is critical for foreign shareowners in Greek companies to understand their rights and to exercise them at annual meetings.

Information Disclosure: Greece has recently implemented both the EU Shareholder Rights Directive and other changes to its own laws on corporate governance. The reforms require Greek companies to

disclose their corporate governance code and to beef up financial disclosures in annual meeting documents. While the timeliness of required disclosures was still considered a problem in 2011, the transparency of information has improved under the new laws.

Power of Attorney: POAs are required to vote proxies in Greece. However, the process is not as onerous for investors as in other markets; the custodian bank provides the POA.

Record Date: Greece adopted a record date system when it recently revised its corporate governance laws. The system sets the record date at the opening of the fifth day preceding the annual meeting (in practice, this sets the record date at meeting day -6.)

Sweden

Power of Attorney: This is generally the most burdensome requirement in Sweden. Beneficial owners are required to issue a POA to have a representative vote their proxies at the annual meeting. Because several meetings may be held at the same time, investors need to complete separate POAs to ensure that they can be represented at each meeting. To create an approved POA, a shareowner must include an Authorized Signature List and a Certificate of Secretary. Note that an original POA is required, and that the POA can be rejected for various reasons, such as if the fund name is abbreviated. New regulations have improved the process somewhat, making it possible for POAs to be valid for five years.

In contrast, Nordic neighbor Finland has completely eliminated the POA requirement so long as the shareowner is represented by a Finnish sub-custodian.

Re-registration: Shares must be registered in beneficial owner name to be voted at the annual meeting. Investors that hold shares in nominee name must disclose their beneficial ownership to the company. The deadline for re-registration is the same as the record date, which is typically five days before the meeting date. However, companies have the right to set a different record date.

The registration process is generally not burdensome, provided that the instructions are submitted in a timely fashion. Institutional investors that submit votes through Broadridge do not need to take any additional steps. Re-registration is completed by the sub-custodian upon receipt of the voting instructions and the applicable information, including full legal name of the beneficial owner. Investors

should discuss with their global custodians the best way to ensure that re-registration is completed.

Multiple voting rights: Swedish law does not permit shares to be issued without voting rights. However, a company may issue separate classes of shares that each have different voting rights. This is a common practice in Sweden, typically with Class A shares carrying 10 votes to each Class B share carrying one vote. In these situations, Class A shares are commonly held by family groups.

Switzerland

Registration Requirements: Swiss law does not require registration of shares in beneficial owner name, but does permit companies to place certain voting restrictions on shares registered in nominee name. For example, companies often limit nominees to voting a certain number of shares, which, in the case of a large global custodian that holds shares in omnibus accounts, can mean that the custodian can only vote a very small percentage of the shares that it holds. To avoid this restriction, shares must be registered in beneficial owner name. The approval process can be time consuming, so investors should start early and communicate with their custodians often during the registration process to confirm that the registration is accepted.

Voting Rights Restrictions: Even where beneficial owners register their shares in their own name, they still face voting restrictions. Swiss companies are permitted to limit the percentage of total shareowner votes that can be made by one shareowner, often setting that limit in the range of 3-5 percent, regardless of actual ownership.

Share Blocking: While share blocking is not required by law, it is permitted at the sub-custodian level and is common in Switzerland. In addition to the normal problems associated with share blocking, investors must navigate different share blocking policies of various sub-custodians. Thus, many advisory services will flag all shares in Switzerland as being blocked from submission of voting instructions until the day after the meeting, when, in fact, the blocking rules might vary. With some sub-custodians, investors can actually still trade the voted shares, but new voting instructions would need to be submitted prior to settlement of the trade.

Asia

Japan

Consolidated Meeting Schedule: This more than any other issue gives foreign investors heartburn. Japanese companies are required to hold annual meetings within three months of the end of the fiscal year. For a large majority of companies, the year closes on March 31, which means that most of the annual meetings are held at the end of June. In the 2011 proxy season, more than 41 percent of Japanese companies listed on the Tokyo Stock Exchange (TSE) held their annual meetings on one single day in June, the TSE reported on its Web site. For investors that hold shares in numerous Japanese companies, this makes it extremely difficult to fully evaluate the issues on each proxy ballot. Investors must have multiple representatives to attend more than one meeting. Further, some companies only allow shareowners registered on the company's shareowner lists to attend meetings, so if shares are held in street name, the beneficial owner may not be admitted.

Disclosure of Materials: Japanese law only requires meeting materials to be disclosed 14 days in advance of the annual meeting. Companies tend to wait until the last moment to release proxy materials, usually in Japanese only. Traditionally, proxy materials were sent by regular mail, where they could take as much as 10 days to reach investors. As of 2010, Japanese companies listed on the TSE were required to post their proxy materials on the TSE Web site. Even with this recent change, between the consolidated voting schedule, the late release of information and the language barrier, investors have very little time to evaluate the materials and make voting decisions.

Cutoff Date: This can be as much as eight days before the meeting to accommodate arrival and processing of paper ballots by the company.

Bundling of Agenda Items: Japanese companies often bundle proposed amendments to the Articles of Incorporation, which makes it difficult for investors to individually evaluate the proposed changes.

Record Date: The record date is set three months prior to the meeting date.

Potential Solutions: In 2005, the TSE and the Japan Securities Dealers Association teamed up with Broadridge to offer an electronic voting platform, ICJ, for Japanese companies. ICJ lets investors receive proxy materials the day they are released and vote up to the

day before the meeting. So far, according to the TSE, almost 400 companies have signed up to participate in the platform. That is a small fraction of the more than 1700 listed companies in Japan with a March fiscal year end date, but it is a start.

Also, in a 2011 TSE survey, more than half of the responding companies said that they planned to send out proxy materials about 20 days before the meeting. While many investors would prefer even earlier disclosure, this is an improvement over earlier practice and should help open up voting in Japan.

South Korea

Consolidated Meeting Schedule: Similar to Japan, the majority of annual meetings take place during two days in March. Korean companies are required to hold their annual meetings within three months of the end of their fiscal year, which for most is December 31. The compressed timeframe not only makes it tough for shareowners to vote their shares (and impossible for them to attend the meetings in person), it also makes it harder for issuers to achieve quorum at annual meetings.

Disclosure of Materials: Korean law requires proxy materials to be distributed 14 days prior to the meeting date. It takes some time for the materials to finally reach the investors, and the vote deadline, set by the sub-custodians, is often eight days before the meeting. Thus, investors typically have just two or three days to review materials and cast votes.

Bundling of agenda items: Companies in South Korea frequently bundle items on the ballot, forcing investors to either cast one vote for or against all of the proposals. Many times the bundled items are amendments to the articles of incorporation, including amendments on items like board size, debt and equity issuances, stock options and changes to authorized share capital. Making voting even more difficult, the changes to the text are often not available in English.

Record Date: South Korea provides clarity in setting the record date – it is set at the company's fiscal year end.

Potential Solutions: In September 2010, Korea launched an electronic voting platform, the K-Evote, for shares deposited at the Korea Securities Depository (KSD). Under this platform, investors are able to vote up to two days before the meeting date. However, foreign shareowners cannot use the system – the local custodian must be the party to place the votes. Further, once an investor votes electronically on the K-Evote

system, they may not change their votes in person at the annual meeting.

Latin America

Brazil

Power of Attorney: The requirement that a POA be submitted prior to the meeting is the biggest impediment. The POA must be notarized and “consularized,” meaning that the shareowner has obtained approval from the local Brazilian consulate. Further, few law firms in Brazil validate POAs, and they might only receive the POA a few days prior to the meeting. At that point, if a POA is rejected by the law firm, the vote is also rejected, but the investor is not informed. An institution could assume it had voted all of its shares and never realize that the votes were not counted because of a failed POA. Thus, it is important for investors to begin the process early and make sure that they have a valid POA.

Shareowners new to Brazil might find it beneficial to ask a law firm that validates POAs to help confirm that the shareowner’s POA will be acceptable, at least the first time. One investor familiar with the Brazilian market suggested that any investor new to the market should submit its POA four months prior to the meeting date to ensure that it will be accepted. After that, although POAs are required each year, the process will be familiar and should pose less of a concern. The POA is sometimes generated by custodians, but the beneficial owner may also be required to complete it. Investors should consider using a Portuguese, rather than English, version of the POA, as it is likely that the company will eventually require one.

Inaccurate Translations: In Brazil, it is the responsibility of the sub-custodian to translate the proxy information from Portuguese to English, and then submit that translation to the custodian or other advisers. In some cases, different sub-custodians provide slightly different translations, resulting in custodians receiving agendas that are in a different order or that have combined or missing items.

Potential Solutions: MZ Consult, an investor relations and communications consulting firm, developed an online voting platform for the Brazilian market that could help to alleviate some problems. However, at this point the majority of votes still pass through Broadridge and proxy adviser Institutional Shareholder Services (ISS), and the online platform is little utilized. The Brazilian securities regulator (CVM) has been promoting the greater use of technology and the electronic voting platform to facilitate better communication, and is attempting to solve any problems with the platform. A second electronic voting platform has also been launched in Brazil.

Under CVM’s Instruction 481, companies are required to put all general meeting materials on the CVM Web site the same day the meeting notice is published.

Mexico

Timing of Disclosures: Annual meeting materials must be made available 15 days prior to the meeting date. As with several other markets, this creates a system where investors sometimes do not receive the materials in time to make an informed voting decision. One investor reported that annual meetings appear on the voting platform after the cut-off date, so they do not even have an opportunity to vote.

Restricted Voting Rights: Mexican law allows for Class C shares to be issued with no voting rights. Other shares may be restricted in some manner, and often Class A shares may be restricted for foreign investors. However, even when voting rights are limited, they will generally allow for investors to vote on major decisions like mergers, dissolutions and changes in the company’s purpose.

Shareowner Proposals

Can a U.S fund file a shareowner proposal in a foreign jurisdiction?

In the United States, the ability to add a proposal to the annual meeting agenda is considered a basic shareowner right, subject to certain restrictions as to holdings and subject matter. In many other markets, investors also have the ability to add items to the agenda. We have outlined below some of the major requirements in various jurisdictions that relate to filing a shareowner proposal. This is not meant to be a comprehensive list of all requirements, and the rules are subject to change at any time by the relevant jurisdiction. If your fund is mulling whether to file a proposal, staff should seek legal advice to make sure the fund meets all necessary requirements.

France

To place a resolution on the agenda at the annual meeting, shareowners must:

- Hold 0.5-5 percent of the company's total outstanding share capital, depending on the size of the company's share capital;
- Submit the proposal to the company so that it is received at least 25 days before the meeting or no more than 20 days after the meeting notice if it was published more than 45 days before the meeting. During a takeover bid, the proposal must be received within five days after the meeting notice is published. For an extraordinary general meeting, the request must be received at least 10 days prior to the meeting;
- Include with the request both the motivation for and the text of the resolution; and
- Prove their share ownership both at the time of the proposal as well as three days prior to the meeting date.

The board of directors may reject a shareowner proposal if the subject matter of the proposal is outside the scope of the general meeting.

Greece

Shareowners must control or represent at least 5 percent of the issued share capital and submit the proposal at least 15 days prior to the meeting date.

Sweden

Any shareowner may submit an item to be included on the agenda at the annual meeting provided it is received in a timely manner prior to publication of the notice of meeting. There are no specific timelines or holding requirements, but generally the proposal should be received at least a week before the notice is required to be published.

Switzerland

Shareowners must control at least 1 million CHF in shares and submit the proposal 60 – 90 days before the company's meeting date, as set forth in the company's articles.

The board of directors may reject a shareowner proposal if the subject matter of the proposal is outside the scope of the general meeting.

Japan

Shareowners must have been the registered owners of at least 1 percent of the company's capital or 300 share units for six months, and they must submit the proposed agenda item to the company in writing at least eight weeks before the meeting. A company may reject a proposal if the same proposal was filed within the last three years and did not achieve support from at least 10 percent of the shares outstanding. However, slight wording changes to the proposal by the shareowner often overcome this impediment. If the proposal is eligible for consideration at the annual meeting and does not violate the law or the company's articles of incorporation, the company must include the proposal on the agenda and in the proxy materials, along with its rebuttal.

South Korea

Shareowners must own at least a 1 percent stake in the company (0.5 percent for a company with capital stock of KRW 100 billion or more). A proposal that previously failed to win majority support may not be resubmitted for three years.

Brazil

For companies that have adopted electronic voting, shareowners that own more than 0.5 percent of share capital are able to place items on the general meeting agenda. For companies that have not adopted electronic voting, a shareowner would be entitled to some level of reimbursement for having to file a separate set of documents to put an item before shareowners.

Mexico

Shareowners that hold 10 percent of the shares may file shareowner proposals. There are no prescribed timeframes for receipt of the proposal under the law, but companies may set out rules for shareowner proposals within their bylaws.

Are efforts underway to eliminate or reduce obstacles to cross-border voting?

Yes, on various fronts, with the EU taking the lead in several areas.

Shareholder Rights Directive

The Shareholder Rights Directive (SRD) is a set of provisions, applicable to EU member states, that aims to ensure that non-resident investors have an equal ability with resident investors to exercise their rights as shareowners. The SRD was adopted in 2007 with an implementation deadline of Aug. 3, 2009. Although some EU countries did not meet the deadline, changes based on the SRD are already evident in annual meetings in Europe.

One of the key components of the SRD is to make sure that investors have both timely access to information necessary to vote and the ability to vote from a distance. The SRD mandates that member states allow for electronic voting. It also requires meeting notices and

agendas, along with other information for the general meeting, to be released at least 21 days before the annual meeting. The SRD eliminates share blocking and institutes a record date system. It also provides for more uniform minimum standards for shareowners to participate in an annual meeting by asking questions or placing items on the agenda. For example, it requires that where an ownership threshold is in place for filing shareowner proposals, the bar can be no higher than 5 percent. To improve communication and accountability, the SRD also requires that companies post voting results on their Web sites no later than 15 days after the meeting date (EU member states are free to shorten the deadline).

The SRD acknowledges that the effectiveness of voting instructions can be limited by the efficiency of each member of the chain of intermediaries involved in the voting process. While the SRD did not develop a specific mandate in this context, it does contemplate that the European Commission will give further consideration to the issue to ensure that voting rights are exercised according to the instructions provided by investors.

A current list of EU member states and their SRD status is attached as Appendix B.

Securities Law Directive

The EU is in the process of developing a Securities Law Directive aimed at removing certain barriers to the creation of a single EU post-trading market. One of the main issues being studied is the exercise of investors' rights when their investments flow through a chain of intermediaries. As discussed above, quirks in the intermediary chain can prevent votes from being counted accurately and confirmed eventually. One of the Directive's recommendations that may be further developed is to require all parts of the intermediary chain to pass information up and down, thus allowing information to flow more freely so that votes can be counted and confirmed properly.

ESMA initiative on empty voting

On Sept. 14, 2011, the European Securities and Markets Authority (ESMA) [issued a call](#) for evidence of the extent to which empty voting practices exist and the effects of such practices.

Electronic Voting Platforms

While electronic voting is used widely in the United States, and EU member states are required to allow for it under the SRD, it is still less common in other markets.

Several countries have begun implementing electronic voting platforms, including Japan, South Korea and Brazil. As these systems become more popular, voting in these countries should become more streamlined.

Autorité des Marchés Financiers (AMF) Working Group

In France, the AMF put together a working group on general meetings to try to facilitate the participation of all shareowners in the general meeting. Their strategic plan includes dialogue with both companies and investors. The working group had its first meeting in May 2011, and is focused on three main things: 1) dialogue between shareowners and issuers at general meetings, 2) functioning of general meetings and 3) voting on regulated agreements. As part of the focus on general meetings, the group will be looking at how to more effectively transmit votes from foreign investors to issuers.

What steps can the Council and its members take to help eliminate obstacles to cross border voting?

Council members have many opportunities to get more engaged in cross-border voting practices and to help smooth the path to voting:

- **Work directly with global custodians** to reduce contractual provisions that can impede voting, and instead develop contracts that facilitate it. Some of the main global custodians that provide services to Council members are Bank of New York Mellon, State Street Corporation, Citigroup and JPMorgan Chase.
- **Pressure sub-custodians.** Shareowners do not have easy access or leverage with sub-custodians or agents, but they can communicate with their global custodians to seek action. The global custodians are in a better position to put pressure on the agents to set more consistent voting deadlines, provide better vote accountability and eliminate share-blocking restrictions. Some global custodians already evaluate their agents regarding these issues, but others may need more direct engagement from investors to take action. It may be most effective for investors to have an initial conversation with their own custodians, and then consider reaching out with other investors and the Council to present their concerns jointly.

- **Engage directly with portfolio companies.** In many cases, timeliness issues are company-driven, not market-driven. Companies often wait until the last moment to distribute proxy materials. While the delay may be because they are going through the legal process internally, investors can encourage companies to push up the timeline so that they have more time to make an informed decision. This is also beneficial to the company, which needs to achieve quorum for the meeting. Company-level engagement would also apply to disclosure of materials via the company's Web site, availability of information in English, unequal voting rights and other provisions of the company's articles that may impact shareowner rights. Because the global marketplace is so large, and Council members have a presence in every region, a focused approach will be important.

- There are a number of different possibilities to **develop a focus group of companies.**

- (1) Members could launch a dialogue with the 10 largest companies in a country to begin to understand the rationale for certain practices, and look for common ground. If the largest companies are willing to act, then it will be more likely that others will follow suit – or that the regulators will take notice.
- (2) Members should start keeping track of company-specific concerns throughout the proxy season so that they are prepared to have an effective engagement when the proxy season ends.
- (3) Some Council members are already engaging with non-U.S. companies on other governance issues. This may present an opportunity to expand the discussion to issues related to cross-border voting. Ultimately, it is important to companies that they have good representation at general meetings.

Approaching any engagement with that perspective should help to keep both parties focused on collaborative solutions.

- **Work directly with custodians** to create leverage to eliminate burdensome re-registration requirements that exist under local laws. Again, this can be beneficial to both parties. Custodians are

concerned about protecting the privacy of their clients, and re-registration places additional burdens on custodians as well as investors. From a broader perspective, it might be helpful to start a dialogue with custodians regarding effective ways to eliminate uncertainty in the ownership chain while still protecting investor privacy. In a comment letter to the consultation preceding the Shareholder Rights Directive, the International Corporate Governance Network (ICGN) recommended that the European Commission develop a framework to determine the identity of the “ultimate owner” in the chain of intermediaries. Such a framework could help to facilitate better communication between companies and shareowners.

- **Review internal policies.** In order to have an effective cross-border voting program, investors need to make sure their own houses are in order. Investors should draft clear and comprehensive policies governing international proxy voting, exert strong controls over managers that are voting proxies and ensure that any such managers have a copy of, and comply with, the investor’s proxy voting guidelines. Because each country has its own nuances, investors will need to work closely with both money managers and proxy advisers to develop voting policies that can be applied effectively. Investors should also make sure they are using proxy advisers to their greatest benefit, so that the information provided by the advisers is applied within the investor’s own standards and investment objectives. One additional item

investors should have in place is a policy governing the conditions under which shares on loan will be recalled for voting.

- **Collaborate with others.** Consider collaborating with other institutional investors and shareowner groups, such as: the Council, ICGN and the Asian Corporate Governance Association (ACGA). Many of these groups already have ongoing initiatives where your fund might be able to offer assistance, as well as materials and information that will be useful in your own engagement efforts. Also, get to know local activist investors and non-governmental organizations (NGOs) in priority markets for your fund.
- **Provide comments to government-issued proposals** that seek to amend governance and proxy voting rules. The comment process in many places is similar to that in the United States, and comments can often be submitted in English. The European Union has been taking steps to strengthen governance and improve proxy voting processes. In many cases, it has issued proposals for public comment. Beginning with the EU may be the best place for many investors to start, because it is likely that documents will be in English and policies may track more closely with what Council members are used to.
- Don’t forget the **stock exchanges**. Council members have a long track record of dialogue with U.S. exchanges, and such opportunities exist in foreign markets as well.

APPENDIX A

GM International Proxy Voting Survey

1. To what extent does your fund vote shares in its non-U.S. equity portfolios?

	Number of Response(s)	Response Ratio
All proxies are voted	31	83.7%
Some proxies are voted	3	8.1%
No proxies are voted	3	8.1%
No responses	0	0.0%
Total	37	100%

2a. Who is responsible for voting your fund's shares in its U.S. equity portfolios?

	Number of Response(s)	Response Ratio
In-house staff	15	40.5%
Money manager	6	16.2%
Proxy advisers	18	48.6%
Other	2	5.4%
Total	37	100%

2b. Who is responsible for voting your fund's shares in its non-U.S. equity portfolios?

	Number of Response(s)	Response Ratio
In-house staff	9	24.3%
Money manager	18	48.6%
Proxy advisers	11	29.7%
Other	2	5.4%
Total	37	100%

3. How are voting decisions made?

1 = Follow in-house voting guidelines, 2 = Follow in-house voting guidelines, with some exceptions, 3 = Vote as management recommends, 4 = Delegate decisions to money managers, 5 = Delegate decisions to proxy advisers, 6 = Other

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	1	2	3	4	5	6
U.S. equities	18	4	0	5	4	6
	49%	11%	0%	14%	11%	16%
Non-U.S. equities	11	6	0	11	3	6
	30%	16	0%	30%	8%	16%

4. How do the following issues affect your decision about whether to vote your fund's non-U.S. shares?

1 = Definitive, 2 = Some impact, 3 = No impact

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	1	2	3
Share blocking	6	10	14
	20%	33%	47%
Record date system	2	9	17
	7%	32%	61%
Power of attorney requirements	2	11	18
	6%	35%	58%
Re-registration	2	10	18
	7%	33%	60%
Share lending programs	5	7	17
	17%	24%	59%
Timing of disclosures for meeting	1	12	16
	3%	41%	55%
Fullness of disclosures	2	6	20
	7%	21%	71%
Size of holdings	1	5	23
	3%	17%	79%
Cost of voting	3	5	22
	10%	17%	73%
Proxy adviser recommendations	4	8	18
	13%	27%	60%

4. (Continued) How do the following issues affect your decision about whether to vote your fund's non-U.S. shares?

1 = Definitive, 2 = Some impact, 3 = No impact

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	1	2	3
Asset manager recommendations	0 0%	10 34%	19 66%
Custodial cut-off dates	1 3%	11 37%	18 60%
Availability of electronic voting	3 10%	6 20%	21 70%
Availability of vote confirmation	1 3%	6 20%	23 77%
Privacy concerns	1 3%	3 10%	26 87%
Withdrawal rights for non-voters	1 4%	3 11%	24 86%
Vote on compensation policy	1 3%	5 17%	23 79%
Specific governance issues on the ballot	0 0%	6 21%	23 79%
Confusing market-specific agenda items that reflect local legal requirements	2 7%	9 30%	19 63%
Size/perceived importance of issuer	2 7%	4 14%	23 79%

5. Would you consider filing a shareowner resolution in a non-U.S. country? What country/countries?

	Number of Response(s)	Response Ratio
Yes	12	32.4%
No	22	59.4%
No Responses	3	8.1%
Total	37	100%

APPENDIX B

EU Member Countries (as of Sept. 9, 2011)

All current members have implemented the Shareholder Rights Directive with the exception of Spain.

Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
Netherlands
Poland
Portugal
Romania
Slovakia
Slovenia
Spain
Sweden
United Kingdom