Proxy advice reform is about transparency

By Josh Frydenberg

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Comment

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It's no surprise vested interests, cheered on by the Labor Party, oppose the Morrison government's reforms to proxy advisers. Indeed, many of the same voices opposed moves to introduce Australian Financial Service Licences for litigation funders and legislate the "Your Future, Your Super" reforms – changes that support the economy, enhance accountability and save consumers, in the case of the superannuation reforms, more than $17 billion.

So, too, when it comes to proxy advisers, the government is seeking increased transparency and accountability in a highly concentrated sector that plays an increasingly important role in Australia's corporate governance regime.

There are four key reforms.

First, advisers providing proxy advice to institutional clients will need to hold an Australian Financial Service Licence (AFSL). Second, proxy advisers will be required to share their advice on a company with that company on the same day it is provided to institutional clients.

These two reforms begin from February 7, to align with the mini-AGM season which starts in the first quarter of next year.

Third, proxy advisers will need to be independent of their institutional clients. Consideration should be given to ownership structures, personnel arrangements and capacity to influence decision-making.

Fourth, superannuation funds will be required to publish more detailed information about their voting record at company meetings. This includes whether they received proxy advice and the voting position taken on each resolution in which they exercised voting rights on behalf of members. These final two reforms start from July 1.

Up to now, the four main proxy advice firms were not required to have an AFSL covering their advice on important matters like board appointments, remuneration reports and general governance arrangements.

Given proxy advisers advise institutional investors, including superannuation funds, which collectively hold around 40 per cent of issued capital on the ASX, this is a loophole that needs closing.

AFSLs, which are overseen by the corporate regulator, will require proxy advisers to act honestly, efficiently and fairly in respect of their services. Expecting this sort of standard should not be controversial. Even Ownership Matters, one of the four main firms, said if there were concerns about firms relying on exemptions to the AFSL regime, then those exemptions "*could be removed or altered*".

The recommendations of proxy advisers can have a material impact on investor confidence and the valuation of a company. Providing greater transparency around proxy advisers' reports and recommendations will mitigate the risk that investors are basing their voting intentions on incorrect information.

An Australasian Investor Relations Association survey on listed entity views on proxy advisers indicated that around 20 per cent of proxy reports contained factual errors.

Introducing a formal requirement that proxy firms be independent of institutional clients is designed to avoid conflicts of interest. It also reduces the risk that a small number of investors could wield disproportionate influence over investor voting.

I understand this reform may require a change in existing ownership structures for some. But meaningful independence and transparency around decision-making is surely more important.

Under current legislation, super fund trustees are only required to publish their proxy voting policies and a summary of their votes for listed companies.

The pool of superannuation assets already sits at over $3.4 trillion and is growing rapidly as a result of government mandating contributions. This is members' money and does not belong to the trustees, the fund managers or the proxy advisers. Members are entitled to be provided with simple and clear information as to how their money is managed, including the exercise of voting rights in listed equities they own.

The government's reform purpose is to increase accountability and transparency in what is an influential and highly concentrated industry.

Despite the hyperbole from some, these are measured and sensible reforms that recognise the oversight of the sector has not kept pace with its influence.

They ensure a level of transparency and accountability that is now expected in a largely compulsory system.

Josh Frydenberg is the federal Treasurer.