

Thank you for the opportunity to speak to your team last Thursday as part of Treasury's consultation on the adequacy of the regulatory regime for proxy advice, and options to improve the transparency and accountability of proxy advice.

As we discussed, Vanguard's main concern as a user of proxy voting research in many markets around the world is with the process envisaged in Option 3 of the Consultation Paper, whereby proxy advisers would be required to provide reports to companies 5 days in advance of the reports being issued to subscribers, for review and possible amendment.

Our concerns regarding this Option primarily relate to its adverse implications for the timeliness and quality of proxy advice in the extremely tight time period between the issuance of a Notice of Meeting and the record date by which voting instruction need to be lodged, via the complex chain of intermediaries and agents involved in the proxy voting process. They also reflect our views about the practical utility of the mooted pre-vetting process, and the availability of other avenues for companies to take action in cases where they believe that factual errors (as opposed to mere disagreements with issuer companies' views) have been made in proxy adviser reports.

As you know, institutional investor and issuer perspectives on these issues were extensively canvassed in a recent US regulatory consultation by the Securities Exchange Commission (SEC). Whilst a very similar 5-day pre-notification option had initially been proposed by the SEC, it was ultimately abandoned in favour of a requirement for proxy adviser reports to be issued to companies *at the same time* as they are issued to subscribers. The reasoning for this outcome was set out in some detail in the [SEC's Final Ruling](#) in July 2020 (pages 68 onwards). The institutional investor perspectives that contributed to this outcome being reached by the SEC were expressed quite succinctly in comment letters from investor peak bodies the [Council of Institutional Investors \(CII\)](#) and [Investment Companies Institute \(ICI\)](#), to which Vanguard contributed. We believe that the same substantive comments apply to the equivalent measure being considered in Australia, and expect other investment managers and users of proxy adviser research will have similar views.

Vanguard does not have any formal comments to make about other Options considered in the Treasury Consultation Paper, although we expect we will be contributing to a collective industry response via the Financial Services Council which may touch on some of these issues.

In relation to the other matters we discussed regarding Vanguard's own approach to investment stewardship, disclosure and proxy voting activities, I am pleased to forward the following links to public material from Vanguard which I expect will be of assistance to Treasury:

- [Investment Stewardship Annual Report](#) – our most recent public report on investment stewardship activities globally over calendar year 2020. Much of this report is taken up with an explanation of the key pillars of Vanguard's stewardship approach and individual case studies that exemplify these pillars. There is also aggregated data on all votes cast (176,834 proposals across over 12,000 companies in 27 markets – p.35), and details of the identities and topics of 655 companies engaged, including 29 companies in Australia & NZ (pp. 36-53)
- [UK Stewardship Code 2020 Report](#) – Vanguard's first report issued under the revised UK Stewardship Code, which has a number of mandated reporting requirements including disclosure of third party research providers. As you'll see, the two major global proxy advisers ISS and Glass Lewis are listed as 2 of 9 external research providers to our global Investment Stewardship team (p. 14). The overall approach to proxy voting, including how proxy adviser research is used, is detailed on p. 26. (Please note that this report has been made public but is still awaiting FRC approval in the UK).

- Vanguard’s [Significant Votes Report](#) for 2020, issued under the EU’s *Shareholder Rights Directive II*, which requires investors to report on votes they consider to have been ‘significant’ over the reporting period.
- [The Investment Stewardship section](#) of our Australian website. This is an organic repository of publicly-available reporting, data and commentary on stewardship issues. Of particular interest in this regard is the “Perspectives and Commentary” section, which includes some very recent case studies of Vanguard’s voting decisions at prominent ASX listed companies Rio Tinto, Santos and Woodside, as well as recent topical issues in other companies in the current northern hemisphere voting season.
- The [online reporting tool](#) under which Vanguard discloses all proxy voting decisions globally in arrears, on a six-monthly (soon to be quarterly) basis. This tool is searchable by market, product, date range or individual security, and is reported down to an individual resolution level (including whether the proposal was initiated by Management or shareholders, whether management was for or against the proposal, and how the relevant Vanguard fund(s) voted). Note that there is no field showing what the recommendation was from either or both of our proxy advisers – while such information could conceivably be added, we believe it is not material to disclose, and if anything would only lead to misconceptions about there being some kind of causal link between those recommendations and our voting decisions.

I trust this material is of interest, and would be happy to answer any questions you may have about any of it. I wish you well in progressing this industry consultation.

Yours sincerely,

Paul Murphy

Head of Advocacy & Strategy

Vanguard Australia

Level 13
130 Lonsdale Street
Melbourne VIC 3000