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# A perspective on Proxy Voting in the Netherlands

A Broadridge contribution to Stemmend Nederland

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2009

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# Letter from Sponsor

Dear Colleagues

The European Corporate governance environment has changed rapidly over the last decade, while regulatory and legal structures have struggled to keep up. This has prompted a review of governance structures throughout the European Union by both national and EU regulators. This review has resulted in a concentrated focus by all market participants on the central importance played by shareholders through the informed exercise of their governance rights at portfolio companies. The dramatic events in the world financial markets of the last few months have not changed the clear need for action in this area. While national differences on the best form of exercise of governance rights by shareholders remain significant, the essential part played by proxy voting in this process has been recognized by all participants, bringing a specific focus on this key mechanism by regulators. Expectations for change in the next few years are high, but the form and nature of this change are still being debated by regulators in most EU countries.

The longstanding participation in and openness of the Dutch economy and capital markets to the global economy and financial system means that these trends have been felt and understood in the Netherlands for some time. Indeed, the importance of Dutch investment capital in the global system has ensured that the managers of this capital have been keenly aware of the changes for many years, and in many cases they have spearheaded changes and improvements in global governance standards. However, formal change in their home market has been slower as a result of the perceived need for a coordinated policy proposal on proxy voting by EU regulators.

That policy proposal is finally taking shape at EU level. As with much other EU legislation however, the proposals are broad and designed to provide substantial leeway for individual countries to legislate based on their national needs. While the final details are still far from clear, the broad outlines are now fairly well known, and Dutch regulators have responded by moving ahead quickly with their own proposals for the Dutch capital markets within that framework.

But expectations of change and the removal of uncertainty about its direction has prompted Dutch market participants to begin actively debating the best way to respond to the expected new regulatory environment, with a goal of designing a process that respects the needs and desires of all participants. For this reason we have been active participants and sponsors of the Stemmen Nederland initiative. By commissioning this report and the research - executed by PerspeXo - we aim to support Stemmen Nederland in a practical way. We would like to thank all participants - more than 35 experts in the field - for their participation in the study and Feedback Round Table. Contributing to and facilitating the debate on how to further enhance proxy voting in the Netherlands has been the focus of this research study, and we hope this White Paper has helped to clarify and highlight those goals.

At the highest level, the common goal of all participants in the study is for a process that enables issuers and their shareholders to communicate freely and effectively in a cost-efficient manner that respects the legitimate privacy and security concerns of shareholders and the intermediaries that service them. Broadridge is proud to be the sponsor of and a participant in this study. We earnestly hope that the results contained in this paper contribute meaningfully to both the debate in the Netherlands, and the EU.

Sincerely

Bruce A. Babcock  
Broadridge

# CONTENTS

1 Summary & Recommendations .....	4
1.1 Introduction .....	4
1.2 The 9 key findings of the overall study .....	5
1.3 The Dutch system and five concrete steps for improvement .....	6
1.4 The recommendations from experts in the field .....	8
2 Introduction & Research methodology .....	10
2.1 Introduction .....	10
2.2 Background & Research design .....	11
3 Shifting paradigms .....	13
3.1 Introduction .....	13
3.2 Shifting paradigm 1 - Interests of the shareholder versus interest of all stakeholders .....	14
3.3 Shifting paradigm 2 - Voting with your feet (the 'Wall Street Walk') versus voting at the AGM .....	15
3.4 Shifting paradigm 3 - 'Returns' versus 'returns + corporate governance' .....	16
3.5 Shifting paradigm 4 - Discussion forum versus decision making platform .....	18
3.6 Shifting paradigm 5 - Regulatory requirements versus moral suasion .....	19
4 The System: Proxy voting, custodians & the AGM .....	22
4.1 Proxy voting - a cross border, global game .....	22
4.2 The Dutch system .....	24
4.3 The Dutch system in context .....	28

## Appendices

I Development and background of proxy voting – North America .....	28
II Feedback Round Table September 24th .....	32
III Relevant sources .....	36
IV List of participating experts in the field .....	38
V List of participating institutions in the field .....	39

# GRAPHS & IMAGES

## Graphs

Graph 1 Participants in survey.....	4
Graph 2 Participants in interviews .....	4
Graph 3 Will effective proxy voting enhance the value of listed companies?.....	5
Graph 4 Is electronic availability of information enough? .....	8
Graph 5 Should institutional investors be encouraged to vote?.....	8
Graph 6 Should retail investors be encouraged to vote? .....	8
Graph 7 Should shareholders identities be disclosed to the company? .....	8
Graph 8 Voting in Europe, 2007 .....	15
Graph 9 What are the most important reasons for voting? .....	16
Graph 10 Why will proxy voting enhance value?.....	17
Graph 11 Do you think having a solution which enables retail investors to vote from their bank's website could increase voting participation? .....	19
Graph 12 Should there be a punishment for non- voting? .....	20
Graph 13 Should there be a reward for voting?.....	20
Graph 14 Who should pay for voting? .....	21
Graph 15 Global proxy voting activities .....	22
Graph 16 How effective is the Dutch system? .....	28
Graph 17 In your opinion how can the Dutch system be improved? .....	28
Graph 18 Which system do you consider best practice example? .....	29
Graph 19 Physical mailings eliminated.....	30
Graph 20 Reduced spending by companies .....	30
Graph 21 Average quorums .....	31

## Images

Image 1 Needs of all the stakeholders.....	6
Image 2 Voting at the AGM.....	7
Image 3 The global proxy voting process .....	23
Image 4 The Euroclear system .....	25
Image 5 The working of omnibus accounts.....	25
Image 6 The working relationship from issuer to beneficial owner.....	25
Image 7 From the listed company's point of view .....	26

# 1 Summary & Recommendations

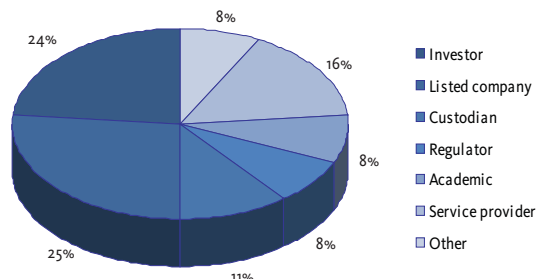
## 1.1 Introduction

In the last five years the proxy voting landscape has changed substantially in Europe and the Netherlands. Companies are increasingly aware of the importance of corporate governance and the role of proxy voting. Many pension funds now have a voting policy and often publish their votes on their websites. Asset managers and insurance companies are more slowly following suit. Retail shareholders are increasingly seeking to make their voices heard. In addition, an increasing number of foreign investors are casting their votes at Dutch AGMs.

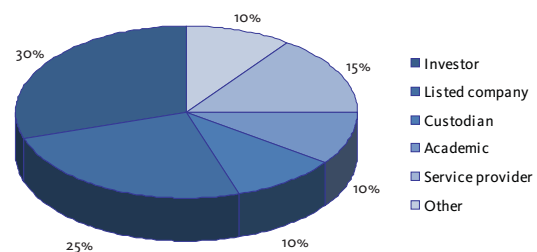
The central question of this study was how to create an efficient proxy voting system for the Netherlands that meets the varying interests of the parties involved:

- Institutional investors
- Retail investors
- Listed companies
- Service Providers
- Custodians (Institutions)
- Retail banks
- Regulatory bodies
- Academics

In order to do this, we contacted a representative cross-section of experts participating in the voting system in the Netherlands. Through in-depth interviews we identified a number of views about the current process that are shared, and have also formed a consensus on recommendations for moving ahead.



Graph 1 - Participants in survey



Graph 2 - Participants in interviews

## 1.2 The 9 key findings of the overall study

The following 9 key points were identified in the study.

1. All experts are of the opinion that proxy voting is expected to continue to rise substantially in the next two to three years.

*“Voting at AGMs has increased and more and more institutional investors will exercise their voting rights in the future”*

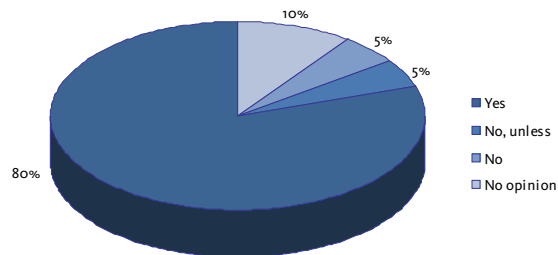
*“If more companies offer proxy voting facilities, more investors will use these facilities and vote”*

2. 80% of the experts are of the opinion that (regular) shareholder identification is important to create a level playing field, and establish better and ongoing communication between listed companies and their increasingly diverse shareholders.

*“Identity should be disclosed, otherwise you can not have real communication”*

3. 80% of the experts are of the opinion that proxy voting enhances the value of listed companies.

*“Shareholders should let management know if they agree or disagree with the strategy. It is too easy to hide and only to show yourself when the company is weak”*



*Graph 3 - Will effective proxy voting enhance the value of listed companies?*

4. Turnout at Dutch annual shareholder meetings could increase by 40% (from the current 50% to 70%), if a variety of bottlenecks are removed from the process.
5. The perception of the Dutch voting process by international investors is still quite negative despite positive steps taken by many participants to improve the process.
6. The role of the proxy advisors has become more influential, as investors use external research capacity to vote in an informed way at annual shareholders meetings globally.

*“The more investors are actively interested and involved in the company the more fair value a company can be priced”*

*“Activism is no longer a dirty word. Being an active shareholder is part of a transparent, honest long term share ownership”*

7. The Netherlands is one of the few countries in Europe that has electronic systems in place for proxy voting by retail investors.
8. Electronic distribution of information is the way forward, with the website of listed companies as the preferred source of this information.
9. A number of current challenges can only be solved at a European level.

## 1.3 The Dutch system and five concrete steps for improvement

During the interviews strengths and weaknesses of the current Dutch system, in relation to other systems in use worldwide, were discussed. The interviews with over 35 experts in the field provided a wide range of answers, depending on the experience of the experts with different parts of the overall system and their knowledge of international custodian practices and systems in use.

During the Feedback Round Table, the outcome of the individual meetings was shared with all participants and this provided some additional points of attention and clarification. The needs of the 5 key stakeholders have been identified, and can function as a guide for future decision making.

I-Investors	R-Investors	Companies	Custodians	Regulator
<b>Preliminary results presented at Feedback Round Table</b>				
<b>One system</b> <b>Vote on all positions (globally)</b> Easy to check, track and change Integrated with voting advisors <b>Votes confidential</b> Transparent process Price/quality ok Confirmation of cast votes No abuse of the system	<b>Easy</b> <b>For Free</b> No extra handling Yes, they are interested in voting Want to be heard by the board No abuse of the system	<b>Efficient AGM</b> <b>Sufficient quorum</b> <b>Being prepared/</b> <b>No nasty surprises</b> Responsible voting shareholders Price / quality ok Cost efficient No abuse of the system	Integrated with their systems <b>Solution for all Dutch listed companies</b> Information on AGM's in one central place STProcessing instead of STPrinting No incentive, the cheaper the better No abuse of the system	Level playing field Transparent system Good position for Dutch capital markets within international context No abuse of the system
<b>Added at the Feedback Round Table</b>				
Automatic Power of Attorney No blocking status Record dates early announced Standard record date (globally) More developed market for voting advisors	Want to visit the AGM Want to be heard by management Want less information Want paper version of annual report?	No blocking status Voting advice	All companies a record date 1 record date for all Dutch companies 1 record date in Europe/ Globally Record dates early announced standard timing for the full process (see slide 13)	

Image 1: Needs of the 5 key Stakeholders

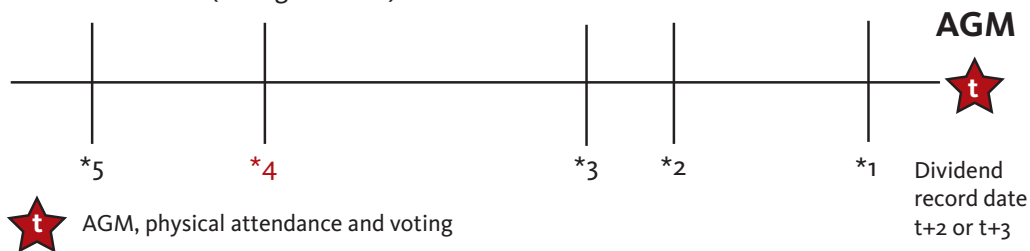
In the experts opinion the most efficient way to attract more investors to vote is to reduce costs and remove obstacles to exercising voting rights. One of the major impediments for investors is the practice of share blocking. This practice effectively prevents investors from selling their shareholdings and creates an economic risk unacceptable to most institutions. Share blocking can happen for a number of practical reasons - such as no record date, too short a record date, voting deadline before record date - or due to individual custodian practice.

In order to have efficient and transparent cross border proxy voting processes and systems, it is therefore essential to have a non-blocking environment. A number of experts indicated that removing this obstacle in the voting process is the best way to move forward and obtain higher quorums at Dutch shareholders meetings. The latest Dutch legislative proposals (issued October 2008, and effective from August 2009 onwards) prohibit blocking of shares by custodians. This rule, in combination with the newly proposed harmonized record date of 21 days before the annual meeting, will remove the most serious existing hurdles in the Dutch proxy voting process.

The new legislation proposes that the agenda for shareholder meetings be sent out 30 days before the meeting. This provides ample time for investors to study the material and cast their vote through the custodian chain, electronically or otherwise. The custodians from their part indicated that they would prefer to have one central location for all relevant information on the AGMs of all Dutch listed companies.

### The following five concrete steps can be taken on a Dutch level:

1. Some very practical ideas were given to improve the voting and custodian processing issues:
  - a. All companies should have a voting record date.
  - b. Record date should at least be 7 days, but preferably 21 days.
  - c. All custodians should have the same - efficient - timelines for handling voting instructions. This way institutional investors, their advisors, proxy agents and other intermediaries can know what to expect and adapt.
  - d. Cut off (voting deadline) date should never be before record date.



- \*1. Power of Attorney/Volmacht RvB (x days before or at AGM)
- \*2. Market deadline/cut off (17.00 Depot Bank) (x days before PoA)
- \*3. Custody/Client deadline/cut off (1 day before Market deadline)
- \*4. **Voting record date/Registratiedatum (7-30 days today, will become 21 days before AGM)** (x days before Client deadline)
- \*5. Announcement of AGM and Agenda (will become 30 days before AGM)

**Remark: separate dividend and voting record date will enhance voting (security lending)**

Image 2: Voting at the AGM

2. Investors would like to receive feedback on the actual votes cast on their behalf.
3. Shareholder identification is important.
4. The Dutch system needs to be explained better to international investors, as the perception is lagging reality.
5. The national 'blocking country' status needs to be lifted.

By providing most of the information electronically, and using the website of the company as the main source for storing information and data, the cost of informing investors in a timely manner with all relevant information can be minimized.

#### What is a record date?

- Record date = date that determines who is entitled to vote at AGM
- Record date = date that determines who is entitled to receive dividend
- Record date = any date in the custodian system that determines who is entitled to a corporate action
- All of the above

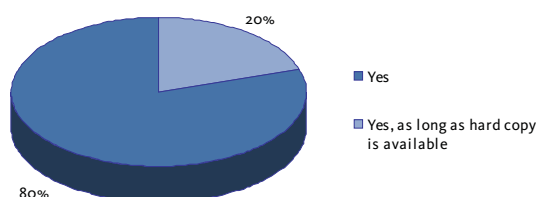
## 1.4 The recommendations from experts in the field

The following recommendations were supported by a clear majority of all participants, in some cases extra conditions were specified (yes, but/ no, but) which we have included as much as possible under notes.

- Electronic distribution is key for efficient and timely dissemination of relevant information to all shareholders at the same time.

- Company website is the number one choice.
- Other ways of dissemination are fine.
- Custodians would prefer one website for all Dutch listed companies.

*Note: Paper distribution is considered outdated and costly, but should be provided upon request.*

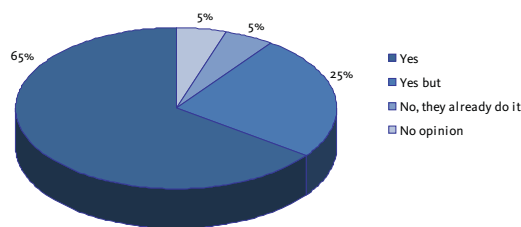


Graph 4 - Is electronic availability of information enough?

- Investors should be encouraged to vote.

- 2.1 Institutional investors should vote because:

- They have a fiduciary responsibility.
- It helps to improve financial performance.
- They are an influential part of society, therefore they have a duty to society to exercise their governance rights in an informed way.

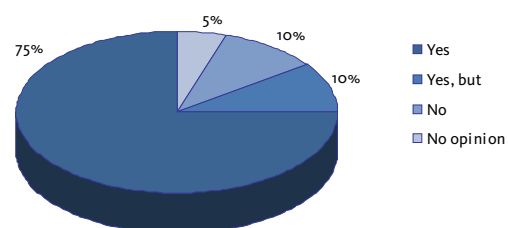


Graph 5 - Should institutional investors be encouraged to vote?

- 2.2 Retail investors should vote because:

- All shares are equal - so is the responsibility to vote.
- In a shareholder democracy, all should vote.
- It is good when their voice is heard.

*Note: With little apparent benefit (small stakes, minor influence), cost and effort of voting for retail investors should be minimal, preferably free of charge.*

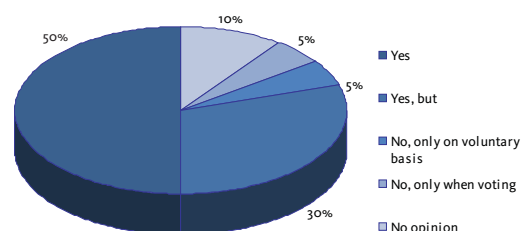


Graph 6 - Should retail investors be encouraged to vote?

3. Companies should know the identities of their shareholders.

*Note: All agree that if shareholders vote their identity should be known to the company.*

*Note: Some felt votes should be kept confidential to all until the actual AGM.*



Graph 7 - Should shareholders identities be disclosed to the company?

4. In general the company should take care of the costs involved in all aspects of the annual shareholder meeting, including providing information and proxy voting facilities, as long as the cost is reasonable.

*“In the end it is the shareholder that pays anyway, as there will be less profit”*

*“The party that acts should also pay the costs of the action”*

- This is most efficient, and avoids free rider behaviour between different types of shareholders.
  - Shareholders remain responsible for doing their own research to make informed decisions.
  - If shareholders with 1% or 3% shareholding want to communicate to other shareholders, the company website should be used as the most practical and efficient means.
5. In a shareholder democracy, it should be made as easy as possible to vote, and investors have a moral obligation to act as responsible shareowners.
    - Reward and punishment do not fit in this philosophy, and might lead to unwanted behaviour distorting the outcome of an informed corporate governance process.
  6. Optimize the process. With a relatively low number of listed companies, custodians and retail banks, an efficient system for the Netherlands should be possible.
    - One record day in the Netherlands, the sooner the better. 21 days is considered workable by all parties. This will create clarity and remove the current blocking country status.
    - Announce the record date early, as custodian systems ‘think’ in record dates.
    - The sooner a record date is known the quicker stocks on loan can be called back for exercising voting rights.
    - Uniform dates for the full process from voting record date until voting deadline.
    - Voting record date should never be after voting deadline.
    - Have the shortest possible voting deadline (preferably 2 days) before the actual AGM, shorter for a fully electronic process.
  7. Work towards a European standard for a number of cross border issues.
    - Create one definition of settlement (settlement and not trading).
    - Have 1 voting record date for Europe (or no more than 4 instead of the 30 today).
    - Identify an easy-to-use system to track the identity of foreign investors.
    - Develop a consensus for dealing with conflicting national laws (like privacy protection).
  8. Identify, discuss and find a reasonable solution to the potential conflicts of interest between sharing information on shareholders with the company and other shareholders.
    - A majority of the experts are of the opinion that management of companies should be allowed to know who their shareholders are, both for AGM and ongoing communication reasons.
    - The debate on the above question is still open, with the four most common positions being:
      - a. Shareholders identities should be disclosed to the company at all times.
      - b. Only when shareholders vote should their identities be disclosed to the company.
      - c. Shareholder identities should only be disclosed to the company for AGM purposes.
      - d. Shareholder identities should be disclosed to company and also to other investors, unless they opt out.
  9. Define what the normal codes of conduct between company and shareholders are in normal times and in times of conflicting interest (like proxy fights).

## 2 Introduction & Research methodology

### 2.1 Introduction

The environment in the proxy voting area has changed substantially and will further develop significantly in the next few years. This is due to a changed view on corporate governance, a rebalancing of the rights and obligations of owners and management of listed companies, new technological possibilities, outcome of academic research, recent developments in the capital markets and their impact on the economy and the influence of European legal harmonization.

These interacting developments effect local general accepted market principles all over the globe, and are rapidly creating shared norms and values for good corporate governance practices on a global level. The main drivers of change affecting and shaping the proxy environment in the Netherlands are the following;

1. **More shareholder rights and introduction of new (European) legislation.** The Shareholders Rights and Transparency Directives have been major drivers for enhancing shareholder rights, including voting rights at AGMs. Dutch listed companies have traditionally had a large portion of their shares held by foreign shareholders. In order to have sufficient quorum at their AGM, a number of companies worked in the past with non-voting certificates (via Administratiekantoren). With the new European and national regulations and the guidelines of the Code Tabaksblat (2004) most companies have stopped this practice and more than 90% now have shares with voting rights. In order to facilitate cross-border voting, European legislation provides for (electronic) voting access to all investors. Electronic voting has from 2007 been incorporated in Dutch law.
2. **Moral obligations for institutional asset managers.** Due to more focus on the fiduciary role of institutional managers and a new vision on good share ownership, it is now considered a moral (but often not legal) requirement for European and American pension funds and institutional investors to vote at AGMs. By combining know-how and research capacity on a local level - like Eumedion - and a global level (for example the ICGN) - institutional asset managers are rapidly developing a common framework of thinking and exercising their voting rights at AGMs.
3. **Transparency in share ownership.** Dutch listed companies have very little information on the constitution of their shareholder base. This is a major impediment in communicating on an ongoing basis with their shareholders. New legislation will provide a first step towards shareholder identification on a regular basis. The challenge is how to identify, in a cost efficient way, the international shareholders.
4. **Changing technology and communication platform.** At the same time the banks and custodians are considering how to facilitate the process of collecting shareholders data and managing the voting access process without negative effects on privacy of individual shareholders. The international harmonization processes on SWIFT will help to develop a common proxy voting language throughout the custodian chain.

These different developments have had a profound impact on the Dutch capital markets and the voting practices at the annual shareholder meeting. In the (near) future this process is expected to continue and to have a clear effect on:

- Investors behaviour - if it is easy to vote a much larger turnout might be achieved;
- Better communication between company and shareholders whereby the AGM becomes part of an ongoing communication process instead of a once a year formal meeting;
- Newly defined rights, duties and obligations of all parties involved in the voting process;

- Balancing the influence of institutional and retail shareholders in a more proportional way;
- Streamlining internal and external banking processes linked to proxy voting, instead of separate manual actions.

A number of parties are involved in this delicate process: policy makers, issuers, institutional and retail investors, banks and custodians and their representative bodies. In order to have a comprehensive view, taking all interested parties views into consideration is of key importance.

## 2.2 Background & Research design

The changing needs of investors and listed companies with regard to proxy voting has implications for all parties involved in the voting chain; from the ultimate shareholder and their proxy advisors, through the processing parties, to the listed company. The voting process and good practices are also affected by new regulations, new technologies and the changing norms & values in corporate governance.

The Netherlands is somewhat ahead in Europe in trying to reach a new way of facing the current challenges. This is due to the following conditions:

- The Netherlands is a small country, it is therefore easy for local investors to visit all AGMs (all within 1,5 hour driving range);
- Local investors on average make up only 20 to 50% of the overall shareholder base. In order to have sufficient quorum at AGMs it is necessary to attract international investors to vote, by proxy or electronic voting;
- The Netherlands is one of a few European countries where an electronic voting system for retail is functioning - Stichting Communicatiekanaal and ABN AMRO.
- The Netherlands has a large capital market, with a relative high number of large pension funds and asset managers, who on average take their fiduciary and social responsibilities seriously;
- Well developed and efficient banking and custodian systems, but designed primarily for the registration of monetary rights (such as distribution of dividends) but not necessarily for the process of voting;
- In the last two years a number of new rules and regulations were introduced with some unwanted societal impact, raising the question on how to balance the interests of diverse groups of shareholders and the longer term stakeholders of companies;
- 'Polder culture' of the Netherlands.

In order to obtain a balanced view, more than 35 experts in the field - representing a diverse range of the Dutch financial industry, academic world and listed companies - were interviewed from May to September 2008. A number of conferences have been held this year – 30th annual VEEO conference, Eumedion symposium, NEVIR proxy voting meeting - and a large number of publications on the subject have been issued. The presentations and other material provided during these conferences, publications on new legislation and reactions to diverse rounds of consultations have been used for the desk research. A list of relevant sources can be found in Appendix 3.

In the Netherlands most sector specialist and interest groups are organized within representing bodies, like VEUO, NEVIR, VEB, EUMEDION or sector professional bodies, like SECVA, DACSI, Custodian Expert Group and European Swift Harmonization Group. Often the key opinion leaders in financial institutions and listed companies act both in the interest of their own company and are part of the board of a representing industry body.

The diverse sectors of the Dutch industry represented through the interviews are:

1. Issuers (including NEVIR and VEUO)
2. Institutional Investors (including EUMEDION)
3. Retail Investors (VEB)
4. Global and local custodians (including SECVA)
5. Experts in the field (including RiskMetrics, Broadridge, Stichting Communicatiekanaal, EV Boxx, Euroclear)
6. Legal experts in the field
7. Academic world

The list of experts in the field and a list of institutions in alphabetic order can be found at the back of this report. All interviews were done on an anonymous basis.

As the overall proxy voting process is quite complicated - involving often multiple cross-border processing, different legal frameworks and different parts only visible to 'specialist insiders' with a partial view on the overall process (either hidden deep within the banking business or within the corporate secretary function). We therefore used this research also as a study on the current status in the Dutch industry for institutional and retail proxy voting. The graphs on the actual process (Chapter 4) could not have been created without the help of the custodians (Fortis, Kasbank and BNP Paribas) and RBS/ABN AMRO depot bank.

On September 24th 2008 a Feedback Round Table (see Appendix 2 for presentation slides) took place to share the initial results from the interviews with the group of experts. Based on the outcome of this discussion some extra focus points were added (see Image 1).

This research was set up as a qualitative study. Due to the large number of participants (in the interviews and round table) we have been able to identify some interesting trends supported by qualitative and quantitative data.

Just before finalizing the results of the interviews and Round Table some new legislation was proposed to the Tweede Kamer. Where useful we have incorporated the outcome of the new legislation into this White Paper.

## 3 Shifting paradigms

*“Changing worlds create different views,  
new views create a new world”*

### 3.1 Introduction

Dutch society, like all societies, is confronted with some major shifts in the local and global economy, balancing the rights and obligations of all stakeholders and the interaction of the different players in that economy. This trend has speeded up the evolutionary process of the interaction between the owners (shareholders), the managers (board & supervisory board) and the other stakeholders (employees and society at large) of listed companies. In a way we are witnessing five paradigm shifts, happening at the same time but each with their own pace and momentum. Within some paradigm shifts the direction of movement is clear and the outcome on its way to crystallization, others are in the middle of the process and the outcome far from certain, some are only at the beginning of the process or are undergoing a structural rethinking.

The five major paradigm shifts are:

1. Interest of the shareholder **versus** interest of all stakeholders
2. Voting with your feet (the ‘Wall Street Walk’) **versus** voting at the AGM
3. ‘Returns’ **versus** ‘returns plus corporate governance’
4. Discussion forum **versus** decision making platform
5. Regulatory requirements **versus** moral suasion

## 3.2 Shifting paradigm 1 - Interests of the shareholder versus interest of all stakeholders

The Netherlands company law framework is designed with the stakeholder's model as its base. This implies that the Board of companies needs to take the interest of all stakeholders - shareholders being one of the important stakeholders - into consideration. Another feature of the stakeholder mindset is the role of the supervisory board, which should act in the best long term interest of the company and again take the interest of all stakeholders into consideration.

Therefore in principle all stakeholders are equal, though in Dutch practice some stakeholders - the shareholders - are more equal than others. The Dutch legal mindset therefore straddles the norms and values of most European countries (France, Germany,) and the US and UK.

The mindset of UK company law is setting out from a different point of view; the owners of the company - shareholders - determine the course of the company. As a large portion of the European assets are outsourced to fund managers based in London, the UK legal mindset has become a major force across the European capital markets. This shift in thinking resulted in the European Transparency Directive and the Shareholders Rights Directive and is translated into national legislation and national codes throughout Europe.

In the Netherlands the Code Tabaksblat was introduced in 2004, with the goal to achieve more transparency and provide more rights to shareholders. As a result most companies reduced the number and nature of protective measures and introduced shares with voting rights and record dates for voting. Today approximately 70% of Dutch companies have a record date for voting, and the remaining protective measures are mainly in place for management to create sufficient response time.

It is becoming increasingly clear that not all shareholders are the same. Some are (and act) as long term investors, investing with both a short and long term risk/reward view. Therefore their interests are aligned with management - trying to reach optimal value creation for the company. However other investors might be mainly interested in making short term capital gains based on event driven situations or break-up scenarios. In the latter case there is a direct conflict of interest between the Board of the company - managing the company for the short and long term - and some investors - trying to make a quick and high return on their (leveraged) investment.

*“Asset managers have two roles, which can conflict and therefore create an imperfection in the system. On the one hand they have share ownership, with the duty to vote on an informed, well thought through basis. On the other hand they are investment manager, with the task to create the highest rewards”*

In a number of countries across Europe de-listings by private equity, rumor around stability of financial institutions and takeover battles resulted in unwanted social and economic implications. In the Netherlands a number of cases in the last two years have sparked the debate of shareholders rights versus the rights of other stakeholders.

Driven by these and other developments Dutch society demands more and more that investors are also transparent in their actual holdings, votes cast and their intentions with regard to their holdings.

**The stakeholder framework of thinking is moving towards a new common guideline for management = ‘managing the company for long term value creation’.**

### 3.3 Shifting paradigm 2 - Voting with your feet (the ‘Wall Street Walk’) versus voting at the AGM

The Netherlands traditionally is an open economy, with very little cross holdings (very different from countries like France, Belgium, Italy, Germany, Japan, etc). A relatively large portion (more than 50%) of the listed companies are internationally active and have a large portion of their shares held by non-Dutch investors. This is very different from most markets where normally 20 to 30% of the listed companies are internationally active. Therefore in most countries the majority of listed companies have mainly local shareholders, and only the top 20% of companies have a large foreign investor base, although this is steadily changing.

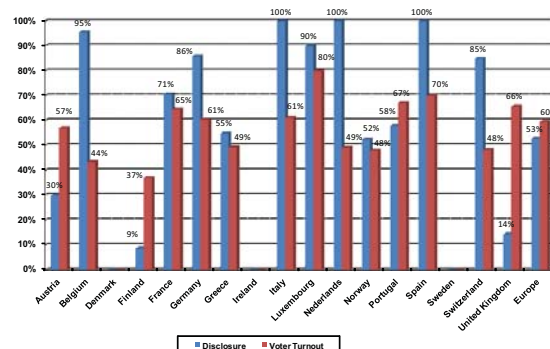
Dutch companies have, on average, between 40 to 80% foreign investors, 10 to 20% retail investors and around 10 to 40% local institutional investors. In order to have sufficient quorum at shareholder meetings - and as a protective instrument - a number of Dutch companies until recently used an Administratiekantoor, who kept the shares with voting rights and issued certificates with full economic rights but no voting rights.

*“More and more investors vote, especially in markets where they need to disclose the actual cast votes. More is not always better; it could be just for compliance reasons”*

Due to the Code Tabaksblad most companies have abandoned this system. At the moment a handful of listed companies are still using the Administratiekantoor system. Most of these companies use the Administratiekantoor as a facility to obtain sufficient quorum at their shareholder meetings, and shareholders can exchange their certificates for shares with voting rights for the AGM. Shareholders therefore can now vote at almost all Dutch companies.

The flip side of the coin is that Dutch companies have become more dependent on a sufficient turnout at their annual meeting in order to reach quorum.

*“Companies are part of society and therefore the owners - shareholders - also have a responsibility to society (or social responsibility). Shareholders have rights and obligations. If they only focus on profit the company becomes detached from society”*



Graph 8 - Voting in Europe, 2008 (Source Risk Metrics)

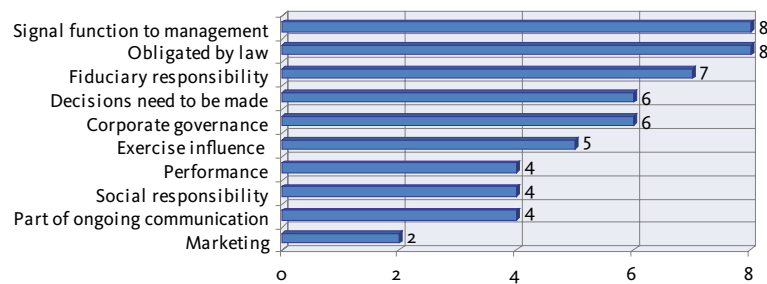
With an average 49% turnout at the AGMs in 2008, the Netherlands is in line with the average turnout of most European countries. France and Germany witnessed increased participation of approximately 10% recently, mainly due to the introduction of one standard record date nationwide.

With the newly proposed nationwide record date of 21 days before the AGM, and the electronic voting possibilities (introduced since 2007) Dutch companies can expect a higher turnout of shares at their AGMs. While investors will continue to sell shares of underperforming companies, the growing share of passive investment and otherwise institutionally managed shares means that even if positions are reduced in poorly performing companies, rarely will all shares in a given company be sold. Therefore, shareholders can be expected to show their positive and negative reaction to Management’s proposals at the AGM through voting. This trend is also confirmed by the study of the Monitoring Commission by ACLE/Rematch (2008).

**The ongoing ‘voting with your feet’ is more and more combined with an active ‘showing agreement and disagreement with the plans and action of management for long term value creation’.**

### 3.4 Shifting Paradigm 3 - 'Returns' versus 'returns + corporate governance'

There are a number of reasons why institutional investors vote at AGMs. The reasons most often mentioned are: regulation, fiduciary obligations, recognition of the value of voting in an effective governance framework, a way to communicate to management (dis)agreement with the strategy or specific policies, and acting as a responsible citizen in a global shareholder democracy.



Graph 9 - What are the most important reasons for voting? (Source PerspeXo)

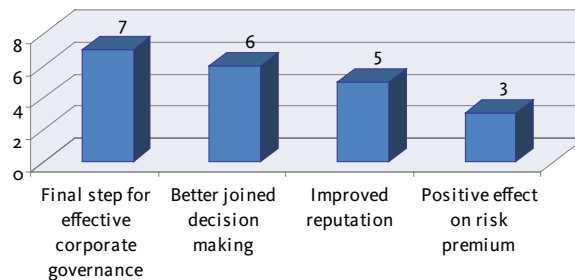
In the US most institutional investors are obliged by law to either have and publish a voting policy and/or publish their votes cast. These legal requirements kick-started the proxy voting tradition in the US roughly twenty-five years ago, and currently a large portion of US institutional investors exercise their voting rights both for their US and foreign investments. Often proxy advisors assist in the research and the decision making process for agenda items. A number of asset managers have outsourced the voting process completely to proxy advisors.

*“Do they vote knowingly, or is it a tick the box exercise?”*

*“Good corporate governance - as a management system between Board and shareholders - will provide long term, better value creation results”*

In Europe, voting is considered often a moral - and not regulatory - obligation and at large pension funds it is often an integral part of the overall investment policy/strategy. 80% of the experts indicated that they think that voting enhances the value of listed companies. The idea is that when investors can and will cast their vote this will enhance the monitoring strength of shareholders on management, resulting in more effective corporate governance. When managers listen better to their shareholders the decisions taken will be better, resulting in an improved reputation, performance and/or a reduction in the risk premium. Ultimately, one or all of these intertwined effects should have a positive effect on the value of listed companies.

In the Netherlands the code Tabaksblat encourages - but does not oblige - institutional investors to vote. Most pension funds, banks and asset managers in the Netherlands take their fiduciary and share ownership responsibility seriously and voted in 2008. The latest study in the Netherlands by the Monitoring Commissie showed that 57% of institutional money in the Netherlands voted. This is a steep increase from just two years ago, when only a small portion of institutional investors would vote on a small percentage of their shareholdings.



Graph 10 - Why will proxy voting enhance value?

*“Shareholders feel obliged to vote due to the Code Tabaksblat, but there is also some real commitment”*

*“Most of the time you should vote in support of the management (otherwise sell the stock), also to show your support of management. Very high levels of voting against management suggest either a poor - unrealistic or irrelevant - governance and voting policy or a poor portfolio”*

More and more investors incorporate corporate governance in their investment decision making process and vote at annual shareholder meetings. Often different departments are involved at the institutional investors;

- the asset manager deciding on buying and selling of shares;
- the corporate governance department deciding how votes will be cast;
- the security lending department deciding which shares will be lent.

Therefore it might be worthwhile for listed companies to establish relationships - in addition to the traditional ones with buy side analysts and fund managers - with the proxy voting/corporate governance departments at institutional investors.

**Performance, governance and socially responsible investing are more and more aligned and integrated within the investment process. The ‘Triple P’- framework of thinking has evolved through ‘SRI/CSR’- thinking into ‘ESG as integral part of investment process’.**

## 3.5 Shifting paradigm 4 - Discussion forum versus decision making platform

The Netherlands is a small country - approximately 260 by 310 kilometers - with the majority of the 150 listed companies based in the Randstad, making it relatively easy for local retail investors to visit AGMs. The majority of institutional share ownership in Dutch companies is foreign, and most local institutional investors do not have the capacity to attend 150 AGMs in one-and-a-half months. Most institutional investors therefore vote by proxy, either using the custodian services, EV Boxx or the (Eumedion) network, and only a handful will actually be present at the physical AGM.

*“Dutch institutions are selective, they might only visit 10 to 15 Dutch annual shareholders meetings per annum”*

Traditionally the AGM in the Dutch context is the place where discussion between shareholders and board of the company takes place. Retail investors, and their representative bodies, use the AGM as an opportunity to share their ideas with management and express their opinion to the full board of directors and supervisory board. Most institutional investors are not present in person at the AGM but instruct agents to vote on their behalf. These agents in general have straightforward yes, no or abstain instructions on every agenda item. Most are instructed to vote against a new or changed item on the agenda, introduced during the AGM. The agents will not participate in any discussion, but will cast their votes, and in rare occasions express opinions, as instructed.

The institutional asset managers and proxy representatives may be a small number of people but represent a large portion of the capital present. The retail constituency of companies is normally local and traditionally a relatively large number of retail investors visit the AGM. Normally more than 80% of the people attending the AGM are retail investors, representing less than 5% of the capital present. The challenge at AGMs therefore is to balance the interest of the large shareholders - represented mainly by a small number of agents and a few 5% plus investors - and a large number of retail shareholders holding just a small fraction of the share capital.

*“The main benefit of voting at AGMs is that it creates a discipline in the management/shareholder relationship. Management puts a substantial effort in preparing a good annual report and annual shareholders meeting. Once a year the AGM is the place where management is held accountable for their actions”*

*“Retail investors add to the debate. Most funds represent a diverse group of clients with different interests and ideas, making it difficult to take strong public stance. Very often private investors ask refreshing and direct questions, which influence the debate – offsetting their small stakes”*

With a large number of the current shareholders being represented by agents at the AGM, the question arises if the AGM is still the main place for discussion or is becoming a mere formal decision-making platform (like in the UK, where AGMs take approximately 45 minutes).

*“Voting in itself is not communications. If you vote against a policy, for example on remuneration, you have to follow it up with communications by phone, letter or in meetings. Otherwise there is no learning effect”*

*“It would help if speaking time of investors would be limited at annual shareholders meetings, either by number of minutes, number of questions or written questions pre-AGM. A few lunatic individuals sometimes use this as their moment of glory, and it is actually sometimes quite offensive to the Board”*

There is no clear winner here; the shareholders meeting in the Dutch context is, and will remain in the near future, a mix between formal decision making and a discussion platform. Retail investors and institutional investors will continue to vocally express at the AGM their opinion, while most institutional investors will signal by proxy approving or disapproving on agenda items. At the same time most experts are of the opinion that the exchange of ideas and opinions between institutional shareholders and board takes place before the AGM. **The AGM is becoming more and more part of the ongoing communication between company and investors, in addition to being the formal place for decision making.**

### 3.6 Shifting Paradigm 5 - Regulatory requirements versus moral suasion

By giving all investors - institutional and retail - the possibility to cast votes electronically or in person at the AGM, a shareholder democracy has been created. And as with all elections in democratic societies, it is difficult to interest and mobilize all to vote. Under special circumstances - like a takeover battle or proxy fight - it will be relatively easy to mobilize shareholders, however under normal circumstances this will be more difficult.

*“In order to get sufficient quorum it might be an option to count the non-voted shares as “pro agenda item”, like in the US”*

*“Institutional investors should vote, they hold the large percentages of shares. If they vote it will influence. Shareholders do not only have rights, they also have obligations”*

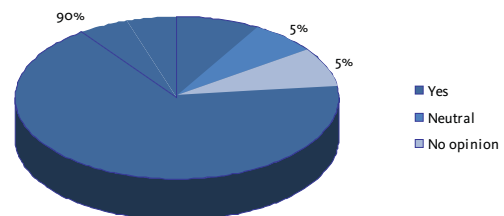
The experts are of the opinion that responsible shareholders - both retail and institutional - should vote. The idea is that just like in any other system all votes count, and that in this sense there is no difference between institutional and retail investors; all shares are the same and carry the same one vote per share.

*“It is better to vote, than not to vote”*

*“All shareholders should vote, as long as they put in the effort to take informed decisions. Voting by large numbers of non-informed investors can be quite influential. Thoughtless voting can dilute thoughtful voting”*

The costs of voting and the benefits are however not equally distributed amongst all classes and types of shareholders. All shareholders benefit equally when corporate governance is well executed. However not all investors have equal means or interest to inform themselves about the issues at hand, take an informed stance and make the effort to actually vote. The costs of research might be prohibitive or the effort too much for investors to actively vote. This is especially the case for retail investors - as they only have limited influence the incentive to vote is not high.

For this reason a large number of experts indicated that voting for retail should be as easy and convenient as possible, and free. There are currently two electronic systems open to retail investors in the Netherlands, Stichting Communicatiekanaal owned by listed companies and the ABNAMRO voting website. Both are used by a limited number of companies and retail investors. This makes the Netherlands the only country in Europe with electronic voting systems in place for retail investors. The other option used by a number of retail investors is to give an ongoing mandate to the VEB to vote on their behalf at annual shareholders meetings.



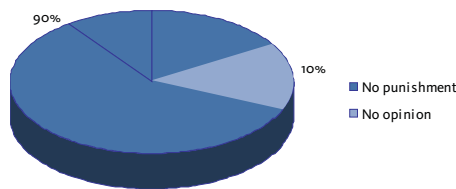
*Graph 11 - Do you think having a solution which enables retail investors to vote from their bank's website could increase voting participation?*

How to attract investors to vote?

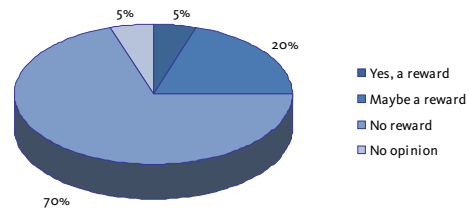
In the US different regulatory measures have been taken for different classes of institutional investors; some are obliged to vote, some are obliged to publish their voting policy, some are obliged to publish how they voted and some are not regulated at all. Most US institutional investors therefore have both some form of regulatory and moral pressure to cast their vote.

*“Being the owner of a share also brings the responsibility to actively make use of your voting rights”*

This is not the European mindset. The experts are of the opinion that because institutional investors see the benefit of exercising voting rights in combination with their fiduciary responsibility they will cast their vote; if the costs - in relation to the benefit - are not too high.



Graph 12 - Should there be a punishment for non-voting?



Graph 13 - Should there be a reward for voting?

Most respondents are strongly against punishment, as this does not befit the idea of a free shareholder society. Voting is considered a right of investors, and not an obligation.

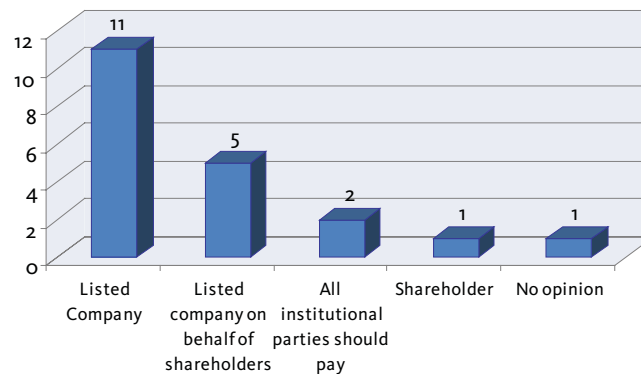
*“You can not treat the one child better than the other”*

With regards to a reward for voting, 70% of the experts are of the opinion that giving a reward to voting investors is not a good idea, as:

1. the reward to the voting shareholder will punish indirectly the non voting shareholder
2. reward might lead to 'buying votes'
3. this might create a tick the box mentality (either blindly voting or blindly following advice)

The 20% positive answers on reward came mainly from investors. The reasons are twofold; on the one hand these investors are putting a lot of effort and cash into voting, and a small reward would be a compensation for their effort. Secondly a major complaint of investors is that they seldom receive confirmation on how their votes have been cast. The system of some Spanish companies providing a few cents per cast vote, therefore can act as a confirmation that their votes have been cast.

A majority of the experts are of the opinion that the company should pay the costs of voting at shareholder meetings. Most indicated that this way of course also the investors pay, as in the end the costs are reducing the profit of the company (= the reward of the shareholders).



Graph 14 - Who should pay for voting?

The reasons mentioned are mainly of a practical nature:

- The management of the company has, of all stakeholders, the most incentive to ensure a well functioning shareholders' meeting
- As diverse shareholders are difficult to unite, arranging proxy voting through the company is the easiest way
- It is part of the normal annual shareholder meeting cost, just like arranging for the room and drinks at the AGM
- No free rider benefits for non-voters, as the cost of voting is shared by all shareholders equally. At the same time the experts are of the opinion that shareholders should also bear the costs of doing their own research to make informed decisions.

It seems that in the Netherlands - and Europe - a dual approach is becoming the way forward. On the one hand investors feel a sense of moral obligation to vote and on the other hand companies have a shareholder friendly approach to vote. **It seems the balance is tipping towards moral suasion - instead of forcing by regulation.**

## 4 The System: Proxy voting, custodians & the AGM

### 4.1 Proxy voting - a cross border, global game

Worldwide the voting process has been driven by large institutions seeking to exercise their shareholder rights. Large institutional investors usually hold their shares at a global custodian, which carries out proxy voting through a network of sub-custodians in various markets. In 1994, the US Department of Labour decided that global assets carried the same fiduciary obligations as US assets, and therefore should be treated equally, albeit with the allowance of a cost-benefit analysis. This resulted in significant movement on non-US voting from pension funds and their fund managers. They began to pressure their global custodians to provide proxy voting services internationally.

	2005	2006	2007	2008
Global Shareholder Meetings	20,060	23,410	27,370	30,011
Global Proxy Ballots Sent	1,239,087	1,536,945	1,752,243	2,145,970
Global Proxy Ballots Received Back	712,219	872,274	1,060,682	1,238,976
Vote Return Ratio	57.48%	56.75%	60.53%	57.74%

Graph 15 - Global proxy voting activity, ex North America (source Broadridge Financial Inc.)

Cross border proxy voting activity has been rising steadily over the last decade. Institutions now routinely vote in over 90 countries and in increasing numbers of meetings within those countries. This process is supported for the most part by their global custodians, for whom global proxy voting has become a must-have offering to retain and capture new clients. This international service is almost exclusively electronic, except for the final step in the chain, from sub-custodian to the issuer. In most countries (including The Netherlands), this last step reverts to paper.

Initially, global proxy voting was carried out almost exclusively by Anglo-Saxon based institutions, such as the US and the UK. But in the last few years, demands on global custodians for voting services have been increasing dramatically from a wider range of institutions, including those in emerging markets such as China, Brazil and India.

There are in general two types of shares, each with their own benefits and costs.

1. **Registered shareholders** are those whose names and addresses are directly maintained on the company share register, usually a bank designated by the company.
2. **Beneficial shareholders** are those whose shares are held in an account under a nominee name, in the US commonly called a street name, usually a broker for individual shareholders and a custody bank for institutional shareholders.

*“Nominee accounts work very efficient in the processing system, however very inefficient in the voting tracking system”*

Most countries and companies use the street name or nominee system to gain processing efficiencies. In this case asset managers, brokers and custodians will collect all the positions of diverse clients into one single account and report this onwards to the next party in the chain. Their position will be seen as one nominee account, and will be lumped together with more nominee accounts into one new nominee account to the next level in the custodian chain. In effect the ultimate beneficial shareholder ID is lost in this process.

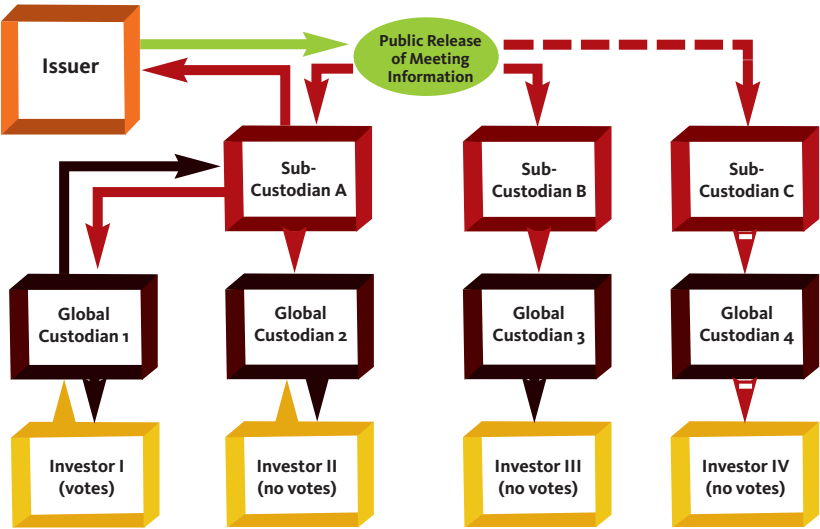


Image 3: The global proxy voting process (source Broadridge)

The proxy service process is roughly similar in the US and worldwide: data is exchanged as needed through a proprietary data exchange system. Shareholder information from the various custodians, US and global, is gathered when a meeting is announced. Local agents of the global custodians in each market notify the proxy service provider of a shareholder meeting when it is announced in any market, and provide key meeting information such as meeting date, record date and an agenda. After shareholder data is received from the global custodians, the agenda for the meeting is distributed to the beneficial shareholders electronically, for example through ProxyEdge. Votes are collected back through the same tool. The votes are then returned to the local sub-custodian in each market, who lodges the votes with the local company registrar.

## 4.2 The Dutch System

A quick three step overview of the general system is provided below.

### Step 1

Dutch shares of local and international retail and institutional investors are eventually all kept in the account of local custodians, with Euroclear (either directly or as the end result of the overall custodian chain). The shares owned by international institutional investor ('IM') or beneficial owner ('BO') are kept in custody by their own custodian ('c'). As local foreign custodian ('c') only keep their local shares, the international shares are kept in nominee accounts with global custodians ('C'). As eventually all local shares are kept by local custodians, the international shares of the global custodian will be kept by a local custodian ('c') in the country of origin of the share.

Therefore all Dutch shares ultimately will be kept with a local custodian in the Netherlands (see graphs below). This means in practice that custodians acting as a clearing member will hold their total position in an omnibus account with the central clearing house (Euroclear). If shareholder A, banking with clearing member 1, sells her shares to shareholder B, banking with clearing member 2, only the overall position (omnibus account) of CM1 and CM2 will change with Euroclear. Only the bank's administrative system has the position of their client, and can report on the actual shareholding at record date.

Under Dutch law electronic voting is allowed and all companies must provide proxy voting facilities for investors. Real time electronic voting at the AGM is not yet happening in the Netherlands. At a number of annual shareholders meetings, votes in the physical AGM can now be cast using an electronic voting device, often called electronic voting by listed companies.

Most institutional investors will use some form of electronic voting system to cast their votes. The proxy advisors and processing companies will forward the instruction through the custodian chain until it will reach the final custodian, arranging registration with the Depot Bank. Retail investors in the Netherlands can use the Stichting Communicatiekanaal to cast electronically their vote for the AGMs of the companies participating in the Stichting Communicatiekanaal.

Electronic voting ('EV') is therefore done by institutional and retail investors for most of the process, up to the final step, after which it reverts to paper in some form. In the AGM itself, votes can be collected electronically through hand-held devices, but this is currently practiced mainly at the large caps. Currently straight through voting (from website straight through to the AGM) is not practiced in Europe or the Netherlands.

(Verzameldepot)  
Omnibusaccount

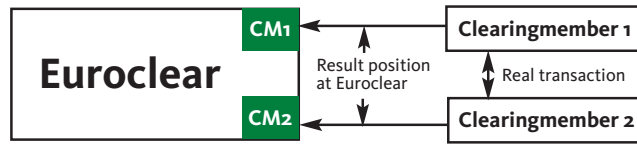


Image 4: The Euroclear System

CM: ClearingMember  
▶ Retail Bank  
▶ Custodian

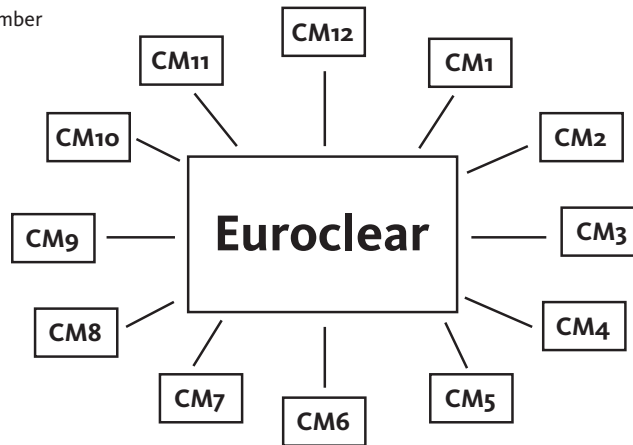


Image 5: The working of omnibus accounts

The working relationship  
between Issuer - Agent -  
custodian (local) - Institutional  
Manager - Beneficial Owner

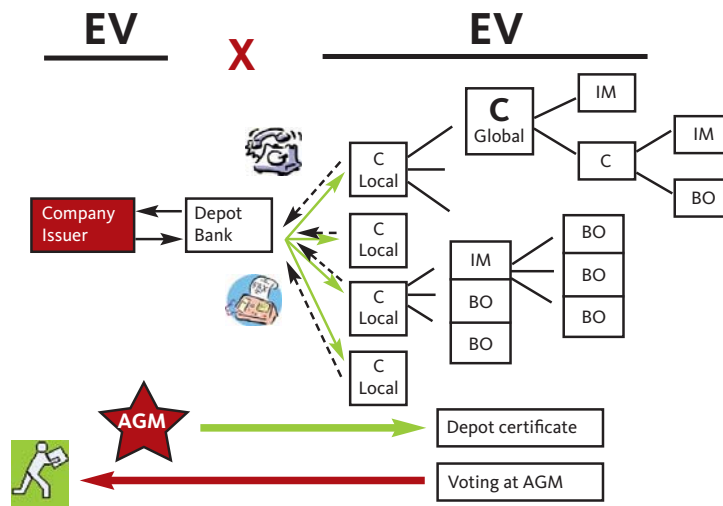


Image 6: Working relationship from issuer to beneficial owner

## Step 2

Votes are cast in an electronic way, moving through the nominee chain with diverse custodians until they reach the ultimate local custodian. The local custodian will obtain a registration number from the depot bank (without any formal checking of actual records) for a number of shares related to a specific shareholder. This registration number will be passed from Depot Bank to listed company, and will be checked at the entrance to the AGM.

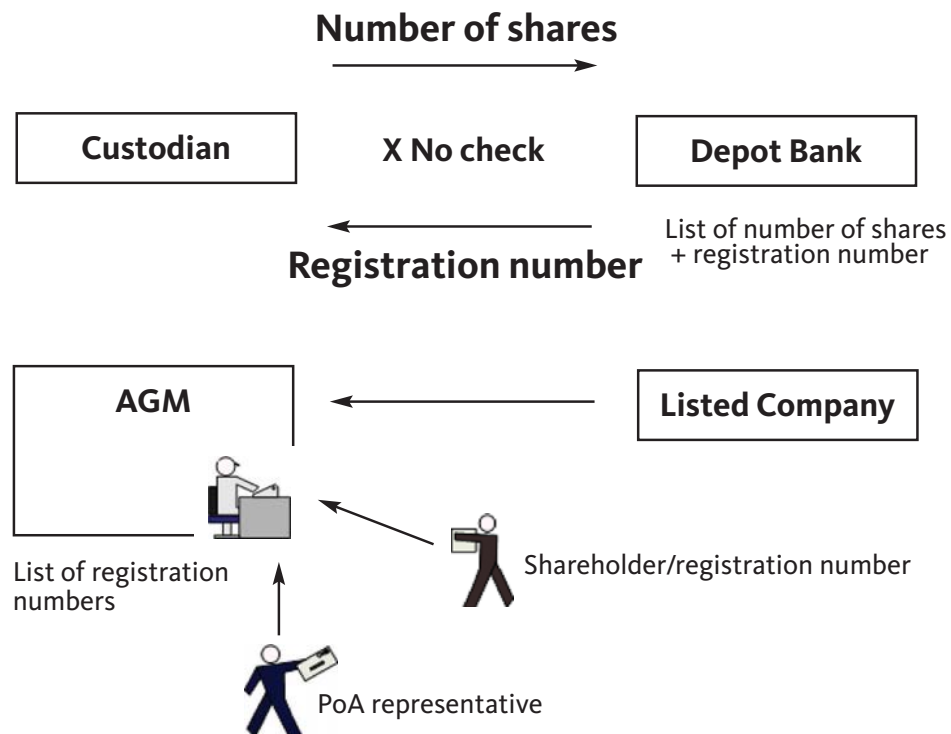


Image 7: From the listed companies point of view

### Step 3

Shares can currently only be cast in person at the AGM. A shareholder can enter the annual shareholders meeting in person or give a Power of Attorney to a third party to enter and vote on their behalf.

*“It would be great if we can have STP (straight through processing) in place, instead of the current straight through printing system at the moment”*

*“It normally takes one person's full week at the corporate secretariat to check all records sent from the depot bank and deal with requests from investors and power of attorney holders”*

The total voting chain therefore consists of the (or part) of the following steps:

1. The investor wanting to vote
2. The investor deciding how to vote (independently or using the assistance of a proxy voting advisor)
3. The investor casting its vote through an electronic system
4. The instructed votes move from local custodian (used by investor) to global custodian to end local custodian (holding the local shares with the central depository)
5. The end local custodian requesting a registration number with the depot bank
6. The depot bank providing a registration number to custodian and to listed company
7. The listed company will record the number plus number of shares for entry to the AGM
8. The custodian will forward registration number (plus number of shares and voting instructions) to the investor or to the vote casting agent
9. Investor or vote casting agent – for example a custodian, company secretary, EV Boxx, VEB etc – visits the AGM and votes on behalf of investor.

There are therefore three separate systems with regards to the diverse corporate actions working in parallel:

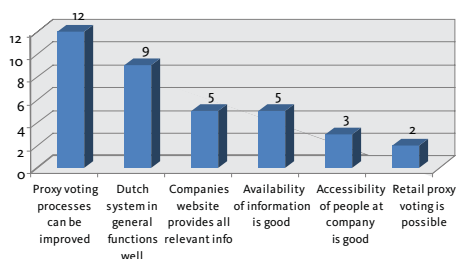
**System 1 Dividend and stock related corporate actions** – like stock splits - through the custodian system. This system works very well and is efficient (cost and time wise). The company pays dividend to an omnibus account (verzameldepot) which is then, percentagewise, distributed to the appropriate accounts. This way cash, changes in rights per share or information flows easily from the listed company to the beneficiary.

**System 2 Exercising of voting rights.** This system works but can be improved substantially, which will improve transparency and efficiency (both time and cost wise). Currently the information flows more or less efficient down the chain, but there very little information and confirmation going up the chain.

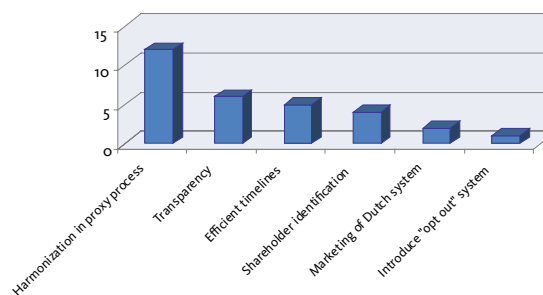
**System 3 Shareholder identification.** This system is not functioning very well and is currently costly and not real time.

## 4.3 The Dutch system in context

During the interviews strengths and weaknesses of the current Dutch system, in relation to other systems in use worldwide, were discussed. The interviews with over 35 experts in the field provided a wide range of answers, depending on the experience of the experts with different parts of the overall system and their knowledge of international custodian practices and systems in use.



Graph 16 - How effective is the Dutch system?



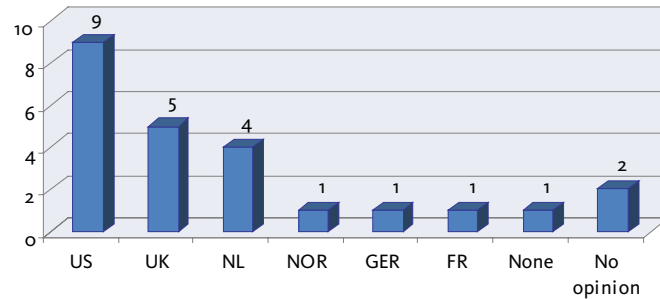
Graph 17 - In your opinion how can the Dutch system be improved?

The following conclusions can be drawn:

1. Most experts consider that the current Dutch (giraal effectenverkeer) system was set up in a very cost efficient way and works quite well. The banking and custodian systems however need to be adapted to the new requirements concerning cross border voting and shareholder identification.
2. Most Dutch companies provide adequate information on their AGM on their websites.
3. The professionals responsible for dealing with the annual shareholder meetings - company secretaries and investor relations - are accessible and most companies facilitate and welcome shareholders to vote at their meeting.
4. Interaction between company secretary and depotbank and custodians normally works well, though time consuming due to manual correcting of mistakes (not straight through processing)
5. A large number of experts indicated that - just like in most other European countries - the opaqueness of individual custodian customs is part of a perceived and real blocking risk.
6. Dutch companies currently still have a wide range of record dates (ranging between 8 to 30 days) which creates opaqueness and is part of the perceived and real blocking risk.
7. The Netherlands has a functioning, proven system integrated with all custodians for retail voting.

The US system came in first, with UK and the Netherlands following close behind.

The US is by far considered the best system, as it is considered easy, quick, safe and a high vote return is achieved, particularly among institutions. Quick, easy and safe are the most important features for the system to have and are necessary to make sure it will be used. Another feature which has been mentioned is that the voting system shouldn't be expensive.



Graph 18 - Which system do you consider best practice example?

The positive new feature in the German and French system is that there is now one record date, which lifted the blocking country status, and resulted in a 10% increase of cast votes in 2008. In the Norwegian system every company can in real time - and at no additional cost - find out who their shareholders are.

### The features for a best practice system are therefore:

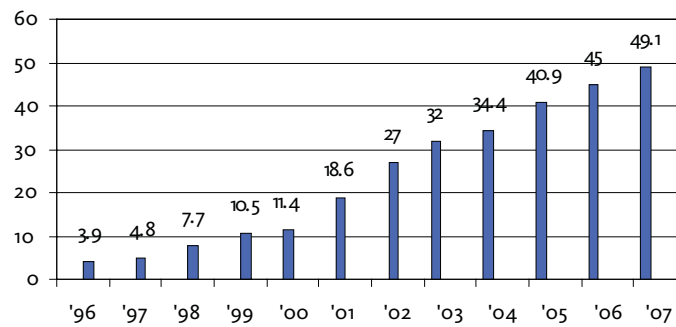
- ✓ safe
- ✓ quick
- ✓ easy
- ✓ international
- ✓ well known
- ✓ low cost
- ✓ cooperation and participation by all intermediaries
- ✓ vote confirmations available
- ✓ more than one language plus home language
- ✓ a system providing the company with information on who the shareholders are, how many shares they have and what they have voted
- ✓ standard procedures and time tables
- ✓ electronic, including voting by phone

# Appendix I

## Development & background of proxy voting - North America

### Developments from the listed company's perspective

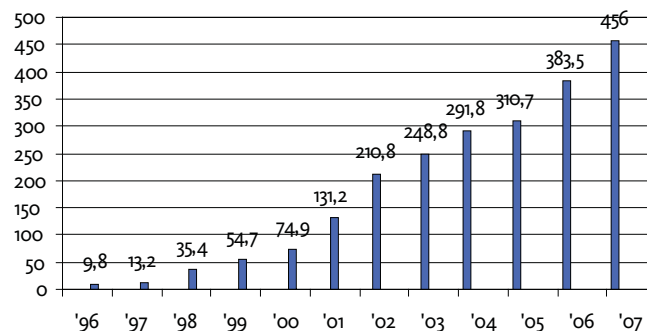
In the US and Canada, companies are required by securities law and listing requirements to distribute shareholder meeting materials to all shareholders, for accounts held through brokers (beneficial) as well as accounts that are held directly through the Company or their Transfer Agent (registered). Shareholder notification via paper was and is still the default required by law, however electronic distribution is definitely on the rise.



Graph 19 - Physical mailings eliminated (Source Broadridge)

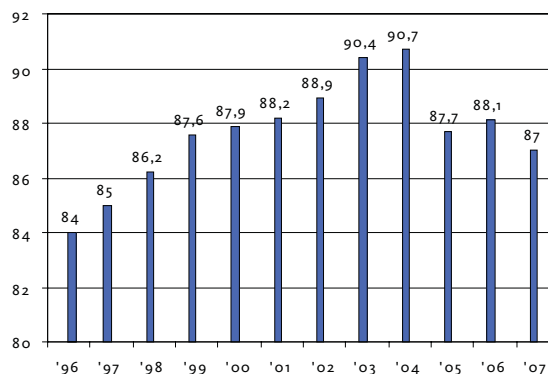
In 2007 more than 13,817 meetings in North America were processed, with over 156 million accounts representing almost 699 billion shares. Of those shares, 315.9 billion were voted with 89% of all voted shares being voted electronically.

In the 1980s, more and more individual and institutional investors moved their accounts into street (also known as nominee) names, making it increasingly difficult and expensive for company registrars to identify all shareholders, mail materials, and receive votes back. Since the early 1990s, Broadridge gradually became the provider of a nationwide outsourcing service to custody banks and brokers, with over 600 banks and brokers participating in the service. All listed companies are part of the system. Companies pay for every step of the process - Broadridge's fees to issuers are set by the regulators and the NYSE.



Graph 20 - Reduced spending by companies (Source Broadridge)

Broadridge - on behalf of the issuers - takes responsibility for gathering shareholder names and addresses, mailing out the various meeting documents (annual reports, proxy statements, etc.), taking the votes back in from shareholders, and returning the voting results to the company registrars. The distribution and vote return process was a completely paper one in the early 1990s, with electronic distribution becoming more and more the standard, increasingly for individual shareholders as well.



Graph 21 - Average quorums (Source Broadridge)

The collection of shareholder information and vote returns to registrars has been fully automated, easing the workload of the banks and brokers. Companies save money from lower printing and postage costs. The average quorum at AGMs in the US has been between 85 and 90% for the last ten years.

### Developments from the institutional shareholders perspective

From the 1990s onwards pressure began to build from institutions to develop a more efficient system for handling proxy voting. Institutional shareholders were receiving thousands of documents and ballots in the mail during the busy annual meeting period from March to May. For example, if Fidelity held IBM shares in 400 separate accounts, they would receive 400 pieces of mail for IBM, each of which had to be opened, the paper ballot removed, marked, and then returned by mail. If their portfolio included several thousand securities, then they would receive the same amount for each security held. This became a huge processing issue for institutions, especially after the US Department of Labor made voting of shares by corporate pension funds mandatory in the early 1990s. Demands on fund managers for full proxy voting services from these pension funds rose sharply.

To solve this problem, Broadridge began to work with major institutions in the US to develop an electronic means of distributing ballots and receiving votes. This resulted in the development of ProxyEdge®, used primarily by institutional shareholders. This software enables institutions to receive all their meeting materials and ballots electronically, and group them into voting blocks for ease of voting. For example, to follow on from the above case, Fidelity could receive its 400 IBM ballots through this software, and vote all 400 ballots with one mouse click, then electronically return those ballots to Broadridge. Records are saved automatically for reporting purposes, a key requirement of the process in North America. This greatly eases the processing work for institutions, and also resulted in lower materials and postage costs for companies. Currently there are over to 3,200 users of ProxyEdge around the world, voting in both North American and other global markets.

## Developments from the retail investors point of view

In the last ten years, electronic materials distribution and proxy voting by individual shareholders is also on the rise ([www.proxyvote.com](http://www.proxyvote.com)). Individuals can sign up for a full electronic service, and receive web links to meeting materials and ballots via email, and execute their votes back over the web. Shareholders who receive paper ballots and materials in the mail can also return votes through the web or over the phone.

For the full electronic proxy service, individuals sign into a preference database, register the securities accounts they want to receive electronically, and establish a password or PIN. From that time on, they will receive an email notification that one of their portfolio companies is having a meeting or making an announcement, including a link to the materials and voting website. When individuals access the voting site, they enter their PIN and their unique ballot is shown. They make their voting decision, and then return the ballot electronically from the same site.

For shareholders receiving paper materials and ballots, the process is a little different. On all ballots, Broadridge prints a control number, a number unique to this ballot and this shareholder. By using this unique number, shareholders can access the ballot over the web at [www.proxyvote.com](http://www.proxyvote.com), or over the phone, and execute their vote (in this case there is no need to return the paper ballot).

Most recently, brokers in the US have sponsored voting links within their own websites for the individual clients. In this process, individuals are able to vote at any time from within their brokers website, without the need for email notification or shareholder identification. Brokers that have introduced this model have seen retail proxy voting double upon introduction.

## The process today: connecting investors, brokers and listed companies

Listed companies notify Broadridge that a shareholder meeting is to be held, and provide the record and meeting date. The record date is the date on which holders of company shares gain the right to vote, receive dividends, etc. Broadridge enters this information into its database, which begins a series of automated processes. This fully automated process for communicating with bank/broker clients is using a trigger/response call system. When a record date/meeting date is entered into the database, it automatically sends a request for shareholder information for that company to its participating bank/broker clients, the 'trigger' file. The banks/brokers systems have been developed to automatically take these files from Broadridge, process them overnight or in as little as a few hours, and then return a file of all necessary shareholder information, the 'response' file. This process takes place before the record date. The returned shareholder data from all the bank/broker clients is aggregated, the company notified how many shareholders it has, and how many annual reports and proxy statements it will need to notify all these shareholders. No beneficial shareholder details are provided to the company (as this is confidential information) just the total number of shareholders requiring notification and the banks and brokers represented.

When record date arrives, the database sends a trigger file to its participating banks/brokers, and they send the response file with final positions back through the same automated process. This is the final shareholder list, and establishes which shareholders have the right to vote at the upcoming meeting.

The companies then provide Broadridge with the final proxy materials for the upcoming meeting. If IBM, for example, is notified that it has 10,000 shareholders, IBM would arrange to have 10,000 sets of materials delivered to Broadridge. Upon receipt of these materials, the agenda for the meeting is entered into the database and necessary ballots for each shareholder are printed using the data received from its bank/brokers clients. Each ballot includes a unique number, called a control number. The database also keeps track of how each shareholder is to receive their materials, either electronically over its software products, via email, or via paper.

When an agenda is complete and the ballots printed, the database is used to distribute them by whichever method the shareholder has elected. The ballots are either sent to institutions over ProxyEdge, to individuals via an email generated from the preference database, or via mail. In the case of mail ballots, Broadridge maintains a large processing facility in New York, on Long Island. The printed ballots are combined with the various materials from the company at this facility, including a postage-paid return envelope, and then mailed out via the US postal service.

Shareholders then have up to the day before the meeting, sometimes the day of the meeting, to return their votes to Broadridge, either over the Internet, via telephone, or paper. Broadridge collects these votes in its database, and then sends the tabulated results to the company registrar or its agent beginning 15 days before the meeting date with a final report being delivered on the day of the meeting. Companies can view this information online as it accumulates in the database. Votes that are returned electronically are immediately in the database. Ballots that are returned via paper are scanned into the database as they arrive, and errors, damaged or unclear ballots are entered manually, if possible.

As the process is almost fully automated in a centralized database, records are available to all parties in the event of questions being raised about a vote. In addition, the process is audited quarterly by a leading audit firm, and this report is made available to interested parties. The highest level of security possible is applicable to all processes, using state-of-the-art technology to protect information. No hackers or viruses ever managed to enter the system to any critical level. In addition, there is a comprehensive leading edge disaster recovery capability and business continuity plan.

# Appendix II

## Feedback Round Table



### Changing rules of the game

a perspective on proxy voting in the Netherlands

Anneleen Blokpoel

24 September 2008

### Agenda for the Round Table

- ❖ 10.15 - 11.00 : Findings of the research project and recommendations
- ❖ 11.00 - 11.30 : Market practice in the US and recent developments in Japan  
Bruce Babcock, Broadridge Financial Solutions
- ❖ 11.45 - 12.30 : Open discussion
- ❖ 12.30 - 13.00 : Informal lunch

### Background

- Contribution of Broadridge to Stemmend Nederland (being for 10 years involved in Communicatiekanaal)
- 24 interviews with investors, listed companies, custodians, science, lawyers, NEVIR, SECVA, VEB, etc
- Today: Sharing results and feed back + US + Japan
- Latter part of the year White Paper

### Feedback & results

- The context
- Feed back & practical implications
- What can we do in the Netherlands?
- What are some European/global issues?

### The context

- Traditionally a large open capital market
- Large and vocal community of investors
  - Investing only a small portion in Dutch companies
  - Large amounts invested abroad (and voted)
  - A number of 5% shareholder stakes
  - Strong ideas about fiduciary role
  - Dutch "polder culture" mindset
- Relative large portion of Dutch stocks (40 to 75%) are owned by European/global investors
- Retail is 10-15%, but vocal at AGM's

### New rules of the game or a new game?

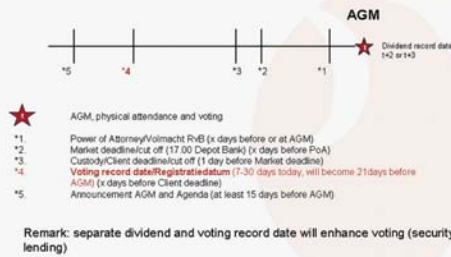
- Dutch response in the new world
- Code Tabaksblad, obligations for companies
  - Monitoring Commissie Frijns: obligations for all parties in the capital markets
  - Eumedion, representing a number of institutional investors
  - Changes in legal system to increase shareholder participation
    - Record date introduced
    - Electronic voting allowed
  - Number of initiatives to facilitate proxy voting in the Netherlands
    - Listed companies: Stichting Communicatiekanaal, for institutional and retail voting
    - More than 70% of listed companies have a record date (and most with 21 days or more)
    - Custodians: SECVA and EV Box, providing services to custodians
    - Depot Bank: ABN AMRO website
  - Number of initiatives in the market
    - Get rid of "blocking country status"
    - Harmonization of SWIFT codes (mainly 2009)
    - Stemmend Nederland initiative



# Appendix II

## Feedback Round Table continued

### Voting record date and process



### What are the +/+ and -/- of the Dutch system

#### Plusses

- Good and open communication of companies
- Easy accessible IR and agenda items in time
- Interaction between company secretary/ depotbank/custodian ok
- Only European country with proxy voting facilities for retail

#### Minuses

- Dutch companies do not know who the shareholders are
- The voting/custodian processing system is opaque
- No feed back on actual cast votes (to investors)
- Practical process issues:
  - No record date
  - Record date too short (7 days)
  - Cut off date before record date
  - Not one system: "blocking country"

### Recommendations

- With so few listed companies, custodians and retail banks: create an effective system
- One record day in the Netherlands, the sooner the better (21 days is considered good)
  - One system creates clarity (blocking country issue)
- Announce record date early on
  - The custodian systems "think" in record dates
  - Stock lending can be called back in time
- If shareholders with 1 or 3% stake want to communicate to other shareholders, use the company website

### European issues

1. Create one definition of settlement
2. Have 1 voting record date for Europe (or no more than 4)
3. How to track the identity of foreign investors?
4. How to deal with different national privacy regulations/laws?

### Discussion items

### Challenge

- How can we create an efficient proxy voting system for the Netherlands that meets the interest of:
  - Institutional investors
  - Retail investors
  - Listed companies
  - Custodians (Retail banks)
  - Regulator

## Needs of the different stakeholders

I-Investors	R-Investors	Companies	Custodians	Regulator
<ul style="list-style-type: none"> <li>One system</li> <li>Vote on all positions (globally)</li> <li>Easy to check, track and change</li> <li>Integrated with voting advisors</li> <li>Votes confidential</li> <li>Transparent process</li> <li>Price/quality ok</li> <li>Confirmation of cast votes</li> <li>No abuse of the system</li> </ul>	<ul style="list-style-type: none"> <li>Easy</li> <li>For free</li> <li>No extra handling</li> <li>Yes, they are interested in voting</li> <li>Want to be heard by the board</li> <li>No abuse of the system</li> </ul>	<ul style="list-style-type: none"> <li>Efficient AGM</li> <li>Sufficient quorum</li> <li>Being prepared! No nasty surprises</li> <li>Responsible voting</li> <li>Price/quality ok</li> <li>Cost efficient</li> <li>No abuse of the system</li> </ul>	<ul style="list-style-type: none"> <li>Integrated with their systems</li> <li>Solution for all Dutch listed companies</li> <li>Information on AGM's in one central place</li> <li>STProcessing instead of STPrinting</li> <li>No incentive, the cheaper the better</li> <li>No abuse of the system</li> </ul>	<ul style="list-style-type: none"> <li>Level playing field</li> <li>Transparent system</li> <li>Good position for Dutch capital markets within international context</li> <li>No abuse of the system</li> </ul>

## Needs of the different stakeholders (2) ADDED AT THE MEETING

I-Investors	R-Investors	Companies	Custodians	Regulator
<ul style="list-style-type: none"> <li>Automatic Power of Attorney</li> <li>No blocking status</li> <li>Record dates early announced</li> <li>Standard record date (globally)</li> <li>More developed market for voting advisors</li> </ul>	<ul style="list-style-type: none"> <li>Want to visit the AGM</li> <li>Want to be heard by management</li> <li>Want less information</li> <li>Want paper version of annual report?</li> </ul>	<ul style="list-style-type: none"> <li>No blocking status</li> <li>Voting advises known in time</li> </ul>	<ul style="list-style-type: none"> <li>All companies a record date</li> <li>1 record date for all Dutch companies</li> <li>1 record date in Europe/Globally</li> <li>Record dates early announced</li> <li>Standard timing for the full process (see slide 13)</li> </ul>	

NO TIME FOR DISCUSSION!

## What is a record date?

1. Record date = date that determines who is entitled to vote at AGM
2. Record date = date that determines who is entitled to receive dividend
3. Record date = any date in the custodian system that determines who is entitled to a corporate action
4. All of the above

## Discussion item: opt in or opt out

1. Shareholders identities should be disclosed to the company at all times.
2. Only when shareholders vote their identities should be disclosed to the company.
3. Shareholders identities should only be disclosed for AGM practicalities to the company.
4. Shareholders identities should be disclosed to company and also to other investor, unless they opt out.

## Discussion item: function of the AGM

1. The AGM of a listed company is the place where formal decisions are taken. The exchange of ideas and opinions between shareholders and board takes place before the AGM. It should therefore be just a meeting where decisions are taken in an efficient way.
2. The AGM is the place where discussion between shareholders and company take place. In addition it is the place where formal decisions are taken.
3. It is a mix between formal decision making and discussion.

## Appendix III

### Relevant sources

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## Appendix IV

List of experts who participated in interviews and/or Round Table (in alphabetic order).

Rients Abma	Hans Kadiks
Bruce Babcock	Diana van Kleef
Willem van den Berg	Liesbeth Kik
Anja Bergen-Van Kruijsbergen	Carola van Lamoen
Willem Beltman	Fons van Lith
Jean-Claude Berthelot	Alex Otto
Erik Breen	Jan van der Plas
Ernst Debets	Professor Geert Raaijmakers
Penny Dekker	Michiel Roovers
Michelle Edkins	Joost Slooten
Richard van Etten	Hugo Spanjer
Nancy Evers	Jos Streppel
Paul Frentrop	Arnout Stroeve
Marnix van Ginneken	Tamis Stuker
Bram Hendriks	Lizeth Tijssen
Professor Jaap van den Herik	David Tomic
Jillis Herpers	Henk van Vliet
Wilco van Heteren	Charles Wijnker
Jennifer Jumbe	Professor Jaap Winter

## Appendix V

List of institutions represented (in alphabetic order).

ABN AMRO	KasBank
AEGON Holding	Ministerie van Financiën
APG	NautaDutilh
Arcadis Holding	NEVIR
BNP Paribas	Ex-NVB Custodian Expert Group
Broadridge	Philips Holding
DACSI	RiskMetrics
Delta Lloyd	Robeco
Dockwise Holding	Royal Bank of Scotland
Eumedion	SECVA
Euroclear	Stemmend Nederland
Fortis	Stichting Communicatiekanaal
Governance for Owners	Unilever Holding
Houthoff	VEB