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Tom Dickson
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4 June 2021

Dear Mr Dickson

Treasury consultation paper: Greater Transparency of proxy advice

Thank you for the opportunity to provide a response to the Treasury consultation paper: *Greater transparency of proxy advice* (the consultation paper).

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to debate that seeks to develop a strong and prosperous economy and welcome the opportunity to provide a response to this consultation paper.

KPMG's Performance & Reward team advise boards and management on all aspects of remuneration strategy, design, reporting and implementation. Our clients include a wide range of ASX100 companies, with strong representation of the ASX20. The team includes reward, tax and legal subject matter experts and we regularly advise on remuneration report design and communication, including engagement with investors and proxy advisers.

KPMG is supportive of reforms that enable greater engagement between proxy advisors and the companies that they research ahead of Annual General Meeting (AGM) voting resolutions. Overall, it is acknowledged that proxy advisers have an important role to play to enable the effective management of investor interests. Given the absolute number of listed companies that are to be covered it is impossible for all funds to be able to develop their own research on resolutions, no matter how desirable this may be. KPMG also notes that proxy adviser research can assist in helping investors hold boards accountable for governance.

At the same time there is a need for companies to have the ability to engage constructively with proxy advisers. Constructive engagement would allow for explanation of the business context that sits behind various resolutions and allows for testing of various approaches that were considered in arriving at decisions. Also, given that companies have significant disclosure obligations, they should expect that proxy adviser research is accurate so that the market is properly informed.

KPMG supports the requirement for proxy firms to obtain an Australian Financial Services License (AFSL), noting that proxy advisors are currently required to hold an AFSL. If the obligations are strengthened to cover advice not relating to financial products, then this would appear to enhance the current regime.

In the United Kingdom, proxy advisers are required to disclose actual or potential conflicts of interests, disclose information about their research capabilities and disclose instances where there are deviations from the firm's code of conduct or why the firm has not adopted a code of conduct. Adopting a code of conduct model, like the one in the UK, could be an alternative way to achieve consistency in approach, disclosure on research parameters and potential conflicts.

KPMG supports steps that would enable better engagement between companies and proxy firms. A requirement for proxy advisers to provide their research ahead of time to companies would allow companies to identify any material errors of fact. KPMG notes that there are practical considerations regarding the time allowed for company responses and confidentiality requirements in handling the research that would need to be addressed in developing such a requirement.

Finally, to further enhance transparency for investors, KPMG is supportive of processes that would facilitate access to company responses to proxy recommendations in a timely manner. This would in our view enhance transparency for investors when evaluating proxy advice.

KPMG notes the consultation paper's consideration of superannuation funds and their independence from proxy firms. We believe that if the areas above are addressed, these specific reforms may not be necessary.

We hope these insights have been valuable and we would be happy to discuss further at any stage.

Yours sincerely,

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Partner
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