



Voting Practices & Shareholder Engagement

NOVEMBER 2021



VOTE



About GASLA

The Global Alliance of Securities Lending Associations (GASLA), is a collaboration of leading global securities lending industry associations.

The Global Alliance of Securities Lending Associations (GASLA) provides a single voice across global securities lending markets, advocating for transparent and standardised practices that include the integration of Environmental, Social and Governance (ESG)

factors and the important digital evolution that supports efficient, liquid, and sustainable capital markets.

As a collective global voice for the securities lending industry, GASLA seeks to enable positive

and impactful engagement with stakeholders, including regulators, policymakers, and standard-setting bodies in all regions. GASLA was formed with inclusivity as a core principle and welcomes securities lending and financial markets associations globally.

GASLA is comprised of five founding member associations:



[Canadian Securities Lending Association \(CASLA\)](#)



[International Securities Lending Association \(ISLA\)](#)



[Pan Asia Securities Lending Association \(PASLA\)](#)



[Risk Management Association \(RMA\)](#)



[South African Securities Lending Association \(SASLA\)](#)



Voting Guide

The shareholder or owner of a security is the investor holding the voting rights associated with that security and, as the registered holder, is entitled to vote on all corporate events that arise. In the context of securities lending, it is important to determine the registered holder, where securities are out on loan.

Securities lending involves a temporary transfer of title, from the lender to the borrower including the transfer of voting rights. Therefore, in order for the lender to cast a vote over securities which have been temporarily lent out, those securities must be recalled in advance, to ensure the lender is the legal registered holder of record, on the voting record date. The ability for a lender to recall securities is a standard feature of industry securities lending contractual documentation.

To support the sustainability ambitions of asset owners and their focus on incorporating Environmental, Social and Governance (ESG) principles into their lending programs, GASLA (the Global Alliance of Securities Lending Associations), have been working with a broad range of securities lending market participants to drive best practice, to support integration of corporate governance policies around voting, stewardship and active ownership. GASLA advocates that a lenders ability to fulfil their stewardship responsibilities over their underlying investments, should not be impeded by their participation in securities lending.

In fact, the application of a corporate governance policy on proxy voting in the context of a securities lending program, is an established best practice for many lenders today and ensures the compatibility of a lenders lending program with their stewardship responsibilities. GASLA encourages lenders (asset owners, managers & institutional investors), to actively engage with their lending agent, to establish an effective and efficient operational structure, that serves the interests of the lender, as well as adhering to their governance and responsible investment policies. GASLA also promotes the duty of lenders, to encompass ESG considerations into their overall fiduciary duties.

There are several benefits for lenders to participate in a securities lending program, and these are not limited to the direct incremental returns for the securities lent but include the wider benefits of reduced dealing and operational costs to the long term investment community, such as pension funds and insurance companies, synonymous with a well-functioning and liquid capital market infrastructure.

In addition to facilitating efficient and liquid capital markets, securities lending can effectively support the transition to a sustainable economy by increasing transparency, through enabling market participants to take short positions on issuers and thereby, influencing those issuers to align their investment practices and behaviours, with ESG tenets. By participating responsibly in securities lending, GASLA believe that the industry can contribute to increased levels of robust governance across capital markets.

Active ownership that helps to communicate shareholder views and drive impact, is a vital component for firms when considering their responsible investment guidelines, and securities lending is intentionally complimentary to shareholder engagement, with industry standard documentation supporting the recall of lent securities.

In 2006, the United Nations Principles for Responsible Investment group ([UN PRI](#)) set out six core Principles for the integration of ESG into investment strategies, to guide their global signatory base of institutional investors and asset owners, as the world's largest voluntary corporate sustainability initiative.



GASLA has created this best practice paper to assist lenders seeking to align their securities lending programmes, with the UN PRI Principle 2¹ which states:

'We (asset owners & managers) will be active owners and incorporate ESG issues into our ownership policies and practices.'

The UN PRI also provide recommendations on how to develop an active ownership policy around voting, in which they specifically propose that firms should form their approach to securities lending, including establishing a clear policy, setting out the criteria for when shares on loan should be recalled for voting purposes and suggesting that the decision to recall should be actively evaluated, assessing the materiality of the vote, versus the securities lending revenue.

On balance, however the UN PRI recommends that:

'Recalling all shares is usually a rare approach, as this could cause clients or beneficiaries to incur financial losses greater than the negative impacts of not exercising voting rights (for example, when there are no controversial items on the agenda.)'²

¹ <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

² <https://www.unpri.org/download?ac=4151>



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Why is voting important in the context of ESG?

The decision to exercise ones right to vote is an important way for active investors to influence corporate behaviour on ESG and sustainability issues. Voting can promote greater accountability of senior corporate management on issues such as climate change, diversity or human rights and thus, investors can help improve risk management in these areas and long-term return potential.

2

What is proxy voting?

Proxy voting is a practice by which the voting obligation or power of a shareholder, is passed to an alternate decision-making body or representative. A legal person or firm that is selected as a proxy, will cast a proxy in line with the directions of the shareholder.

3

How does GASLA support active engagement?

GASLA promotes industry standard legal documentation, such as the [Global Master Securities Lending Agreement](#), which incorporates effective safeguards to ensure securities lending can be conducted as a complementary activity to a lenders ESG and responsible investment strategies, as shown in the below examples:

Borrowers Warranties

‘Each Party hereby warrants and undertakes to the other on a continuing basis to the intent that such warranties shall survive the completion of any transaction contemplated herein that, where acting as a Borrower: [...] it is not entering into a Loan for the primary purpose of obtaining or exercising voting rights in respect of the Loaned Securities.’

Lender’s right to terminate a Loan

‘Lender shall be entitled to terminate a Loan and to call for the delivery of all or any Equivalent Securities at any time by giving notice on any Business Day of not less than the standard settlement time for such Equivalent Securities on the exchange or in the clearing organisation through which the Loaned Securities were originally delivered’

Failure to comply with the above provisions would constitute a breach of contract.

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Examples of global rules & regulations that cover voting practices

In the UK, the Bank of England [Money Markets Code](#) sets out best practice for the securities lending market. Section 6 - Environmental, Social and Governance Criteria, outlines guidance for voting rights. The guide stipulates that 'It is accepted good practice in the market that securities should not be borrowed solely for the purpose of exercising the voting rights'.

The European Union's [Shareholders Rights Directive II](#) (SRD II) forms requirements with regards to the exercise of shareholder rights linked to voting, to enable issuers of European securities to gain greater identification of its shareholders. In addition, it forms the requirement to boost long term shareholder engagement and helps to increase transparency and prevent the misuse of voting rights.

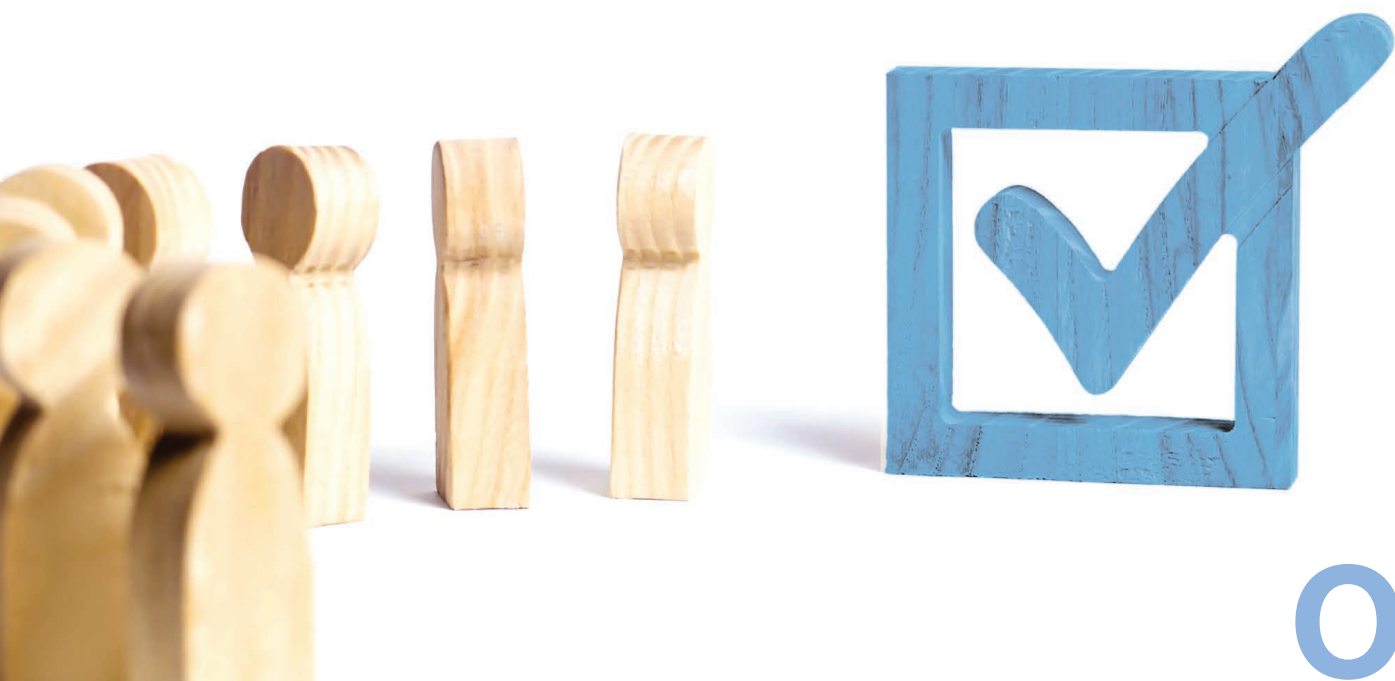
Many investors have developed their lending programs in line with SRD II, specifically [Article 3i \(1\)](#) 'Transparency of Asset Managers', in which asset managers must disclose their investment strategy to include the 'use of proxy advisors for the purpose of engagement activities and their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies'

In the [Japanese Stewardship Code](#) produced by the Financial Services Agency, Principle 5.2 states 'Institutional investors should have a clear policy on voting and publicly disclose it. When they have a practice of lending stocks across the determination date of the voting right, their voting policy should include a policy on lending stocks.'

In North America, [Regulation T](#) specifies the conditions under which a US broker dealer may engage in a lending transaction. Regulation T 'contains a "purpose test" generally limiting the borrowing or lending of securities by broker-dealers to situations involving short sales or "fails" to receive securities needed for delivery.' Borrowing to vote a proxy is also not a permitted purpose, under Regulation T.

In addition, the Investor Stewardship Group (ISG), has created a [Corporate Governance](#) framework and [Stewardship Principles](#) for US-listed companies around voting.

Failure to comply with the above provisions would constitute a breach of contract.



Best Practice Recommendations

- Lenders should ensure that they have in place a firmwide stewardship policy, and that their policies around securities lending and voting are aligned with the wider governance strategy of the firm. There should be no conflict between securities lending and a lender's ability to vote. The policy should consider interests of the lender, including but not limited to, the materiality of the vote evaluated against the incremental securities lending revenue, generated by continuing to lend over the voting period. Lenders should establish an informed policy on when to recall securities and should communicate this policy to their lending agent, where relevant.
- A lender's decision on whether or not to recall securities for voting should take into consideration a balanced analysis of:
 - i) The overall investment strategy of the firm, including responsible investment strategies and,
 - ii) the generation of incremental lending revenue for long term investors

When conducting a thorough assessment, lenders should consider whether the voting outcome would result in financial or non-financial impact which is material to the lender, as defined in the lender's stewardship and engagement policy. Lenders may choose not to recall securities for voting purposes, in respect of corporate events that are not considered by the lender to have material economic consequence, as defined by their policy. Alternatively, lenders may, depending on their ESG strategy, choose to recall securities due to an ESG-related vote which is material under their policy, irrespective of potential lending revenue.

- Lenders should consider the scope of their governance policy on voting and whether a targeted approach by market or corporate events should be adopted. Where possible, lenders should ensure they are well informed about materiality of upcoming votes, which may require them to utilise specialist market service providers or in-house responsible investment teams to obtain ESG-specific proxy information that will assist in the decision-making process towards enhancing the long-term performance of their investments.
- When voting, the lender should ensure they have title to all securities upon which the vote is to be cast, which may or may not require recalling securities that are on loan through their lending agent. Lenders should discuss with their lending agent the appropriate notice period required to recall securities for voting, which may vary depending on the market.
- Lending agents should, where possible, ensure reliable recall of securities where lenders have instructed a recall in a timely manner. Lending agents should work with lenders to understand their voting policy and where appropriate, lending agents may provide data that can support a lender's decision-making process around recalls.
- Where key proxy voting information is not made available in the market well in advance of the event period date, lenders that wish to vote on such an event should engage with their lending agent, with a view to establish when to recall the securities in sufficient time to return title. Advance recalling of securities however, where the required future event information is unknown, is not encouraged.
- Lending agents should look to actively manage market liquidity through proactive management of the recall process around corporate event dates.
- Borrowers should return securities upon request of a recall in a timely manner and within the relevant settlement cycle. If the securities have been onward lent and the borrower has not yet received back the securities, the borrower must make reasonable effort to source the securities elsewhere to return to the lender, to fulfil their obligation.
- It is not considered acceptable practice to borrow securities for the sole purpose of exercising a vote, as reiterated in several global codes of conduct and master agreements. Similarly, intermediaries holding securities as collateral should not be expected to exercise any associated voting rights.



If you would like to find out more, please reach out to your regional contacts listed below.

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