

Canadian Coalition for
GOOD GOVERNANCE

THE VOICE OF THE SHAREHOLDER

November 13, 2013

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial and Consumer Affairs Authority
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

C/O: The Secretary
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Ms. Anne-Marie Beaudoin
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Dear Sir/Madam:

Re: CSA Consultation Paper 54-401 Review of the Proxy Voting Infrastructure (the “Consultation Paper”)

The Canadian Coalition for Good Governance (“CCGG”) has reviewed the Consultation Paper and we thank you for the opportunity to provide our comments.

CCGG’s members are Canadian institutional investors that together manage approximately \$2 trillion in assets on behalf of pension funds, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders and to promote the efficiency and effectiveness of the Canadian capital markets.

A list of our members is attached to this submission.

OVERVIEW

CCGG supports this important initiative by the CSA and recognizes the daunting nature of the task. The significance to CCGG’s members of rectifying the deficiencies of the proxy voting system cannot be overestimated. Its integrity is fundamental to shareholder democracy and the proper functioning of the Canadian capital markets and thus central to CCGG’s mission. The Consultation Paper points out the importance to both issuers and investors, as well as to the public capital markets as a whole, of having confidence that shareholder votes are accurately reconciled, received and tabulated and we strongly echo that view.

We note that the majority of the specific questions set out in the Consultation Paper are of a fact-specific nature, touching as they do on the practical experience of intermediaries and other participants in the proxy voting system. CCGG has encouraged our members to submit a response to these questions based on the member’s particular experience with this system. In this letter, however, we restrict our comments to high level ones shared by our members regardless of individual practices or experiences with the proxy voting infrastructure.

We begin by reiterating our comments from our March 2011 response to the OSC’s Staff Notice 54-701 *Regulatory Developments regarding Shareholder Democracy Issues*. It is time for securities regulators to take ownership of the issue of the shortcomings of the proxy voting process. We emphasize this point because in the Consultation Paper, the CSA states that “[d]epending on the outcome of our review and consultations we may conclude that no further regulatory action is required ... **We stress that we have not come to any conclusions whether any specific regulatory measures are desirable.**” While we support the CSA’s efforts to gather more information about the operation of the proxy voting system and deficiencies within that system and recognize that the nature of regulatory reform should be affected by the responses to the questions posed by the Consultation Paper, there can be no doubt of the need for regulatory action and thus the CSA should review the comments received on the Consultation Paper with the view that such comments will provide input on how to proceed rather than whether to proceed. The CSA cannot realistically expect a solution to be forthcoming from the private sector given the vested interests of many of the participants in the existing system. Proxy voting is

fundamental to the operation of the Canadian public capital markets and accordingly it is appropriate that securities regulators take ownership of fixing the system.

The CSA can leverage off work that has already taken place which extensively documents the deficiencies of the proxy voting system, such as those which the Consultation Paper mentions¹, which evidences that regulatory action is required.

As we stated in our March 2011 Shareholder Democracy comment letter, we think securities regulators should adopt a principles based approach by articulating an appropriate series of principles that must be reflected in an effective proxy voting system. However, we also anticipate that there will be circumstances where principles will not be sufficient, given the complexity of the issues and the number of players involved, and rules will have to be prescribed.

It is CCGG's view that reporting issuers should bear the ultimate legal responsibility to ensure compliance with the finalized principles and rules. The CSA should take the view that issuers must accept responsibility for ensuring the accuracy of their shareholder voting and should invest in fulfilling that obligation. It may also be necessary for some market intermediaries to assume some legal responsibility.

After a reasonable time for transition to allow the necessary framework to be put in place, reporting issuers and, if appropriate, market intermediaries should be required to certify to securities regulators that their policies and practices for proxy voting comply with the rules and principles for an effective proxy voting system.

We recognize that this proposal might require securities regulators to have regulatory oversight of all relevant participants in the proxy voting process. Ultimately, securities regulators will be required to monitor and oversee the certification process on an ongoing basis. As part of this oversight we believe that the CSA should conduct regular audits of the proxy system in order to seek to ensure that it is working effectively.

ADDITIONAL COMMENTS

Need to act

We believe that the CSA should not wait to address whether changes to the NOBO/OBO system or other interrelated elements of the current regime are desirable before it acts on reforming the proxy voting infrastructure. There is a danger that because of the complexity of the proxy voting infrastructure, regulators will be hesitant to start the work necessary to fix the proxy system and we encourage the CSA to resist this temptation. In particular, many of our members support the NOBO/OBO system as essential to maintaining trading strategy confidentiality and would not want to see a review of the proxy voting infrastructure used to challenge the NOBO/OBO system indirectly.

¹ *The Quality of the Shareholder Vote in Canada* Discussion Paper October 2010, released by Davies Ward Phillips & Vineberg; the June 2011 Shareholder Voting Symposium, of which CCGG was a co-host; and the Canadian Society of Corporate Secretaries Shareholder Democracy Summit held in October 2011.

Area of additional focus

We agree with the CSA's approach to focussing on the two issues highlighted in the Consultation Paper, namely (i) is accurate vote reconciliation occurring within the proxy voting infrastructure and (ii) what type of end-to-end vote confirmation system should be added to the proxy voting infrastructure. We believe, however, that the CSA review also should focus on the issue of the separation of voting rights from ownership interest, which is an issue arising in several contexts including empty voting and securities lending or when securities are posted as collateral.

In addition, we believe it essential that any solution for the end-to-end vote confirmation system be universal and not rely on whether the intermediary or investor employs a particular service provider.

In summary, we support the CSA's initiative in this important area and encourage you to maintain the urgency of this focus with the understanding that the CSA must move to regulate in this area.

Thank you for the opportunity to provide you with our comments. If you have any questions regarding the above, please feel free to contact the undersigned at 416.847.0524 or serlichman@ccgg.ca or our Director of Policy Development, Catherine McCall, at 416.868.3582 or cmccall@ccgg.ca.

Yours very truly,

Stephen Erlichman,
Executive Director
Canadian Coalition for Good Governance

CCGG MEMBERS

Alberta Investment Management Corporation (AIMCo)
Alberta Teachers' Retirement Fund Board
Aurion Capital Management Inc.
BlackRock Asset Management Canada Limited
BMO Asset Management Inc.
BNY Mellon Asset Management Canada Limited
British Columbia Investment Management Corporation (bcIMC)
Burgundy Asset Management Ltd.
Canada Pension Plan Investment Board (CPPIB)
Canada Post Corporation Registered Pension Plan
CIBC Global Asset Management Inc.
Colleges of Applied Arts and Technology Pension Plan (CAAT)
Connor, Clark & Lunn Investment Management Ltd.
Franklin Templeton Investments Corp.
GCIC Ltd.
Greystone Managed Investments Inc.
Healthcare of Ontario Pension Plan (HOOPP)
Jarislowsky Fraser Limited
Leith Wheeler Investment Counsel Ltd.
Lincluden Investment Management Limited
Mackenzie Financial Corporation
Manulife Asset Management Limited
NAV Canada (Pension Plan)
New Brunswick Investment Management Corporation (NBIMC)
Northwest & Ethical Investments L.P. (NEI Investments)
Nova Scotia Pension Services Corporation
Ontario Municipal Employees Retirement Board (OMERS)
Ontario Pension Board
Ontario Teachers' Pension Plan (Teachers')
OPSEU Pension Trust
Public Sector Pension Investment Board (PSP Investments)
RBC Global Asset Management Inc.
Régime de retraite de la Société de transport de Montréal
Russell Investments Canada Limited
Sionna Investment Managers Inc.
Standard Life Investments Inc.
State Street Global Advisors, Ltd. (SSgA)
TD Asset Management Inc.
Teachers' Retirement Allowances Fund
UBC Investment Management Trust Inc.
UBS Global Asset Management (Canada) Inc.
The United Church of Canada (Pension Board)
University of Toronto Asset Management Corporation
Workers' Compensation Board - Alberta
York University Pension Fund

Collaboration Partner

Caisse de dépôt et placement du Québec