May 15, 2019

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549
Rule-comments@sec.gov

Dear Mr. Fields:

Re: File No. 4-725

Comments on Statement Announcing SEC Staff Roundtable on the Proxy Process

The Canadian Coalition for Good Governance (CCGG) welcomes the opportunity to comment on the ongoing process at the U.S. Securities and Exchange Commission (SEC) on considering updates to current rules related to proxy advisers and shareholder proposals. CCGG encourages the Commission to resist pressure to modify the regulations for proxy advisory firms, current ownership requirements and resubmission thresholds.

CCGG's members are Canadian institutional investors that together manage approximately CDN $4 trillion in assets on behalf of pension funds, mutual fund unit holders, and other institutional and individual investors. A list of our members is attached to this letter as Appendix A. CCGG promotes good governance practices in Canadian public companies in order to best align the interests of boards and management with those of their shareholders. We also seek to improve Canada's regulatory framework to strengthen the efficiency and effectiveness of the Canadian capital markets. Because a significant portion of our members' assets are invested in U.S. companies, our members also have an interest in the U.S. capital markets and their regulation.

CCGG has in the past provided comments to Canadian regulatory authorities when the matter of proposed regulation of proxy advisors arose in Canada. In September 2016, we also provided comments to the U.S. Senate Committee on Banking, Housing, and Urban Affairs regarding proposed legislation relating to proxy advisory firms, which comments included as an appendix our earlier comments to Canadian regulators[1].

Summary

- Substantial changes to regulation of proxy advisors risks significantly impairing proxy advisors' ability to provide independent, decision-useful information to inform investors' proxy voting decisions. Policy changes that impair investors' access to high-quality information from proxy advisory firms would be particularly damaging to small- and medium-sized asset owners and managers, who would have trouble dedicating resources to independent analysis of proxy matters.

- Current ownership requirements for submission of shareholder proposals are set at the appropriate levels and should not be changed. Increases in ownership requirements would exclude many shareholders from engaging with companies on material issues. Shareholder proposals serve as an important tool that allow investors to engage with issuers on material environmental, social and governance (ESG) matters and over half of shareholder proposals are withdrawn after dialogue between management and investors.[2]

- Resubmission thresholds for shareholder proposals are currently set at the appropriate levels and should not be changed. Increases in resubmission thresholds would limit shareholders' engagement with companies on emerging material risks.

Proxy Advisory Firms

Proxy advisory firms conduct the important and necessary work of providing high quality, impartial analysis of corporations, including their management of ESG issues, and link this analysis to voting recommendations based on institutional investors' stated priorities. Proxy advisory firms help investors monitor what their companies are doing and fulfil their ownership obligations at a manageable cost. Companies' ability to access low cost capital through open capital markets depends, to some extent, on investors' ability to rely on mechanisms that enable them to fulfil their

[1] Comment letter to Committee on Banking, Housing, and Urban Affairs, September 16, 2016

[2] https://www.cii.org/files/10_10_Shareholder_Proposal_FAQ(2).pdf

voting obligations on everything from re-electing board members, to accepting audit reports, to more nuanced issues such as casting votes on shareholder proposals.

Shareholders use proxy advisory firms' recommendations to supplement their research and understanding of multiple, detailed and sometimes dense proxies for their portfolio. Without proxy advisory firms, most shareholders would lack the capacity required to synthesize information to vote proxies and, therefore, would have difficulty performing their fiduciary duty to their beneficiaries and clients. We are of the view that if issuers and their advisors believe that institutional investors are inappropriately delegating their voting responsibilities to proxy advisors, then this issue should be taken up with investors and not the proxy advisors.

In addition, requiring proxy advisory firms to share voting recommendations with corporations in advance would allow corporations to intercept recommendations critical of the corporation or its management. This would undermine the checks and balances necessary for functioning markets.

Further, we do not think that proxy advisors should be required to address issuer comments in their reports. Institutional investors engage proxy advisors to obtain the benefit of their research and analysis, not to provide a forum for issuers' responses. Issuers are free to comment publicly or post comments and corrections to their websites if they disagree with the analysis prepared by a proxy advisor. Issuers can also reach out directly to their shareholders to engage in a discussion of their corporate governance practices and any disagreement they may have with the analysis prepared by a proxy advisory.

Finally, it is important to bear in mind that if the reports of proxy advisors routinely contained material errors of fact, poor analysis or unsupported recommendations, it is unlikely their services would continue to be retained by sophisticated institutional investors. We believe market forces will prove the most effective regulation of the quality of services provided by proxy advisors.

We suggest the approach taken by the Canadian Securities Administrators ("CSA"). Following a multi-year review of the issue, the CSA released a set of guidelines for proxy advisors as to suggested policies and practices to be followed by them, but these guidelines are not prescriptive.[3] A voluntary approach that allows proxy advisors to adapt the guidelines to their particular circumstances without

---

[3] CSA Notice of Publication National Policy 25-201 *Guidance for Proxy Advisory Firms* *https://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20150430_25-201-proxy-advisory.pdf*

prescribing specific behaviors is more consistent with the general approach to corporate governance regulation of market participants taken in North America and indeed, globally.

Another alternative to prescriptive regulation would be to encourage proxy advisory firms to develop a voluntary code of best practices. The European Securities and Market Authority recommended this course of action in 2014 after studying the issue and a voluntary code of best practices was released the same year by a group of proxy advisors with operations in the EU.[4]

Ownership and Resubmission Thresholds

The shareholder proposal process is critical to the functioning of the investment intermediation chain. CCGG believes that the current ownership requirements and resubmission thresholds are set at the appropriate levels and should not be changed.

SEC rules require that a shareholder owns at least $2,000 worth of stock or 1 percent of the company's stock for at least one year to be eligible to submit a proposal for a vote at a company's annual meeting. The current resubmission thresholds for a corporation to exclude a resubmitted proposal are set at 3 percent since the last time it was voted on, 6 percent if it was voted on in the last five years, and 10 percent if it was voted on three or more times in the last five years.[5] The SEC has stated that it will consider whether minimum ownership thresholds need to change and whether resubmission thresholds are fair.[6]

The shareholder proposal process is a core characteristic of the rights of investors, and the savers on whose behalf they invest, to enable investors to engage the companies they own on issues such as shareholder rights, corporate disclosure and other ESG issues, such as board diversity. Significant increases in ownership or resubmission thresholds would make it difficult, and in some cases prevent investors, on behalf of savers, from raising these issues with companies and holding companies to account. These are issues that materially impact corporate performance.

---

[4] *Best Practice Principles for Providers of shareholder Voting Research & Analysis* *http://bppgrp.info/wp-content/uploads/2014/03/BPP-ShareholderVoting-Research-2014.pdf*

[5] https://www.unpri.org/sustainable-markets/the-shareholder-voting-process-esg-integration-and-proxy-advice-in-the-us/3789.article

[6] https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process#_ftnref6]

For example, a 2018 GAO literature review[7] cited a 2017 study commissioned by the Department of Labor[8] that reported that, while some investors may believe integrating ESG issues will lead to lower returns, the GAO found in its literature review that integrating ESG issues, which includes participating in the shareholder proposal process, typically leads to similar or improved performance compared to traditional strategies.

Conclusion

The existing process allows shareholders to engage on issues that affect their portfolio and potentially the company's reputation. Changes to the current process recommended by some issuers would make it harder for investors to access and receive impartial advice and to engage with issuers on important ESG matters necessary to participate in the proxy process. [9]

CCGG encourages the Commission to refrain from changing existing rules related to proxy advisor regulation and shareholder proposals.

Best regards,

Marcia Moffat

Marcia Moffat
Chair of the Board
Canadian Coalition for Good Governance

[7] https://www.gao.gov/assets/700/691930.pdf page 8
[8] https://www.gao.gov/assets/700/691930.pdf page 14
[9] https://www.centerforcapitalmarkets.com/wp-content/uploads/2018/10/ProxySeasonSurvey_v3_Digital.pdf

CCGG Members 2019

- Alberta Investment Management Corporation (AIMCo)
- Alberta Teachers' Retirement Fund (ATRF)
- Archdiocese of Toronto
- Aviva Investors Canada Inc.
- BlackRock Asset Management Canada Limited
- BMO Global Asset Management Inc.
- Burgundy Asset Management Ltd.
- Caisse de dépot et placement du Québec
- Canada Pension Plan Investment Board (CPPIB)
- Canada Post Corporation Registered Pension Plan
- CIBC Asset Management Inc.
- Colleges of Applied Arts and Technology Pension Plan (CAAT)
- Connor, Clark & Lunn Investment Management Ltd.
- Desjardins Global Asset Management
- Fiera Capital Corporation
- Franklin Templeton Investments Corp.
- Galibier Capital Management Ltd.
- Healthcare of Ontario Pension Plan (HOOPP)
- Hillsdale Investment Management Inc.
- Investment Management Corporation of Ontario (IMCO)
- Industrial Alliance Investment Management Inc.
- Jarislowsky Fraser Limited
- Leith Wheeler Investment Counsel Ltd.
- Letko, Brousseau & Associates Inc.
- Lincluden Investment Management Limited
- Mackenzie Financial Corporation
- Manulife Investment Management Limited
- NAV Canada Pension Plan
- Northwest & Ethical Investments L.P. (NEI Investments)
- Ontario Municipal Employee Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- PCJ Investment Counsel Ltd.
- Pension Plan of the United Church of Canada Pension Fund
- Pier 21 Asset Management Inc.
- Public Sector Pension Investment Board (PSP Investments)

- QV Investors Inc.
- RBC Global Asset Management Inc.
- Régimes de retraite de la Société de transport de Montréal (STM)
- Scotia Global Asset Management
- Sionna Investment Managers Inc.
- State Street Global Advisors, Ltd. (SSgA)
- Sun Life Institutional Investments (Canada) Inc.
- TD Asset Management Inc.
- TD Greystone
- Teachers' Retirement Allowances Fund
- UBC Investment Management Trust Inc.
- University of Toronto Asset Management Corporation
- Vestcor Inc.
- Workers' Compensation Board - Alberta
- York University Pension Fund