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2 CANADIAN SECURITIES ADMINISTRATORS

3 AUTORITÉS CANADIENNES EN VALEURS MOBILIÈRES

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6 ROUNDTABLE DISCUSSION RE

7 CSA CONSULTATION PAPER AND REQUEST FOR COMMENT

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9 REVIEW OF THE PROXY VOTING INFRASTRUCTURE

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13 DATE: Wednesday, January 29th, 2014

14 HELD AT: Ontario Securities Commission

15 22nd floor, 20 Queen Street West

16 Toronto, Ontario

17

18 BEFORE:

19 MARY G. CONDON Vice-Chair

20 JAMES E. A. TURNER Vice-Chair

21 DEBORAH LECKMAN Commissioner

22

23

24

25

1	PANELLISTS:	
2	Lara Donaldson	STAC
3	Stéphanie Lachance	Public Sector Pension
4		Investment Board
5	David Masse	Canadian Society of Corporate
6		Secretaries
7	Eric Miller	Agrium Inc.
8	Zach Oleksiuk	BlackRock
9	Scott MacDonald	RBC Investor
10	Jeri Trotter	Broadridge
11	Chip Pasfield	
12	Penny Rice	Shorecrest Group Ltd.
13	Narry Teemal	Canadian Imperial Bank of
14		Commerce
15	Hooman Tabesh	Kingsdale Shareholder Services
16		Inc.
17	Fran Daly	TMX Group, CDS Clearing and
18		Depository Services Inc.
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20		
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1 --- Upon commencing at 9:00 a.m.

2 INTRODUCTION AND OPENING REMARKS:

3 THE CHAIR: There is a hush descending
4 over the room, so I think it must be time to get
5 started.

6 Good morning, everybody, and welcome to
7 our round table on the proxy voting infrastructure. My
8 name is Mary Condon, I'm one of the vice-chairs at the
9 Ontario Securities Commission and I'm co-moderating
10 this panel this morning with my fellow vice-chair,
11 James Turner, and Commissioner Deborah Leckman.

12 Welcome to everybody. Let me just begin
13 with a few remarks to kick us off and to address some
14 housekeeping issues. As you know, the reason why we're
15 all here this morning is that proxy voting is a
16 fundamental feature of our modern capital markets.

17 It's the centrepiece of shareholder democracy and a
18 number of our initiatives of securities regulators
19 depend on the idea of the integrity of the shareholder
20 vote.

21 We think that a fair and efficient
22 capital market and market confidence requires a proxy
23 voting infrastructure that's accurate, and by accurate
24 we mean that every vote counts and no vote counts more
25 than once.

1 So, as you know, we issued a
2 consultation paper last year. We received a number of
3 comment letters based on that consultation and I think
4 it's clear, if you look at those comment letters, that
5 there is a certain consensus that there are issues with
6 the proxy voting infrastructure as it currently
7 operates. What's not so clear and about which there is
8 less consensus is exactly what those issues are, how
9 significant they are, and what we as regulators should
10 be thinking about in terms of policy solutions.

11 One of the things that is also clear
12 from the comment letters is that there are a large
13 number of participants involved in operating the proxy
14 voting infrastructure, and so one of the things that we
15 felt would be useful to do as a next step after our
16 consultation paper was try to bring all of the
17 participants with all of their different perspectives
18 together to have a conversation about the issues that
19 are raised by the proxy voting infrastructure.

20 We thought that it would be helpful for
21 us as regulators to hear everybody's perspective in an
22 open forum like this, and also for the participants to
23 hear from each other. And so we're very pleased that
24 all of our panel members this morning have been able to
25 join us. Some of them have come from outside Ontario.

1 Indeed, some have come from outside of Canada.

2 Let me just very briefly introduce our
3 panellists before I deal with a couple of housekeeping
4 comments and discuss how the forum this morning will
5 play out.

6 So I've got Lara Donaldson from the
7 Securities Transfer Association of Canada on my right.
8 Scott MacDonald from RBC Investor and Treasury
9 Services. Narry Teemal from CIBC. Jeri Trotter and
10 Chip Pasfield from Broadridge. Eric Miller from
11 Agrium. Zach Oleksiuk, and I apologize if I'm
12 mispronouncing your name, from BlackRock Asset
13 Management. Stéphanie Lachance from the Public Sector
14 Pension Investment Board. Fran Daly from the TMX.
15 Penny Rice from Shorecrest. Hooman Tabesh from
16 Kingsdale. And David Masse from the Canadian Society
17 of Corporate Secretaries.

18 So we thank you all very much for taking
19 the time to come and have this discussion with us this
20 morning. So as all of you can see from the schedule
21 that hopefully you have on your seats, we are having
22 two panels; one to really address the issue of how vote
23 reconciliation works and what our policy options are
24 with respect to the issues associated with the way vote
25 reconciliation works today.

1 Because it's such a complicated system
2 and so many participants are involved, we thought that
3 it would be helpful to have a brief presentation so
4 that everyone has a common knowledge base about the way
5 the system is working. And so we're going to have a
6 presentation from CIBC, RBC Investor Services and the
7 Securities Transfer Association, their representatives
8 will explain how the system works today and that will
9 be the basis for our panel discussion that will follow.

10 In the second panel we're going to have
11 another presentation to kick us off, and that will be a
12 presentation from representatives from Broadridge who
13 will discuss how end-to-end vote confirmation is being
14 developed in the U.S. and we can then have a discussion
15 about whether that's an appropriate way for us to go
16 here in Canada.

17 So with respect to housekeeping, those
18 of you in the audience will have the opportunity
19 hopefully to address some questions to the panellists.
20 There are cards that you can use to write a question or
21 a comment and there's staff members from the OSC who
22 will be going around to pick those up. Rest assured
23 that if we don't get to put your question to a panel
24 member this morning, we will retain all of those
25 questions and comments and we'll use them in our

1 deliberations going forward.

2 We are taking photographs for our own
3 OSC communications purposes. This is, of course, a
4 public event. There are members of the media in
5 attendance. Speaking of media, please turn off your
6 cell phones if you haven't done that already. And just
7 to say also that we will be posting a transcript of
8 this roundtable this morning on our website shortly
9 after -- in the next short while and we have a court
10 reporter who is going to help us with keeping that
11 transcript accurate.

12 So with that, let's begin with our
13 presentation from Lara and Scott and Narry. Thank you
14 very much.

15 TOPIC 1: UNDERSTANDING AND IMPROVING VOTE
16 RECONCILIATION.

17 PRESENTATION BY MR. MacDONALD:

18 MR. MacDONALD: Thank you very much.
19 I'm going to kick it off on behalf of the three of us.
20 As you know, it's a multi-party process and so we
21 correct throughout the process.

22 I'm going to speak at the outset on
23 behalf of RBC Investor and Treasury Service. So we're
24 an institutional custodian, so we custody the assets on
25 behalf of large institutions, so it's not the entire

1 universe, although we're happy to custody the entire
2 universe if that makes life simpler.

3 By way of walking through handouts, I'll
4 just open on the beginning of the process and then hand
5 it off to Lara to talk about some more details
6 throughout the timeline. We're certainly not going to
7 talk through every sub bullet on this slide, but give
8 you a sense of how it starts and where it goes from
9 point A to point Z.

10 So sort of a 25 days to 35 days, in
11 there, before record date, Broadridge, the transfer
12 agents, will receive a notice from an issuer of a
13 meeting or of an event. We're going to get, as a
14 custodian we're going to get a notice from Broadridge
15 of the fact that there's an upcoming meeting and that
16 kind of kicks off the process.

17 From our perspective, the first thing we
18 do is we recall securities on loan. So securities
19 lending is an important part of the marketplace. We
20 facilitate that, but the first thing that we do is
21 recall securities on loan. It is very clear with
22 everybody in the lending program that that's going to
23 happen. Different lenders have different requirements
24 about always recalling securities because they want to
25 vote, never, only certain things, but we have a process

1 that's well entrenched to recall securities on loan.

2 On record date, Broadridge is then going
3 to give us a daily trigger file to say, again, here's
4 the security and needs the data back from us as to who
5 holds what positions, as well as some other information
6 about what materials are required, what language, that
7 sort of thing. So on record date we receive that file
8 from Broadridge and we prepare ourselves to deliver a
9 file back with the required information to Broadridge
10 on record date plus one.

11 So I think the second material point,
12 from our perspective, is reconciled information from us
13 to Broadridge. We reconcile to depositories and to
14 sub-custodians every single day, and that is not
15 particular to the proxy voting process, it's not
16 something that we do periodically when it seems
17 important, that is a fundamental piece of our business
18 and it's done continuously.

19 So when we transmit data on record date
20 plus one to Broadridge, we are providing a whole bunch
21 of information to them in terms of the requirements for
22 various parties, but that is audited, daily reconciled
23 information.

24 The next point that I would want to make
25 clear before handing it off to Lara is that we've

1 recalled securities from loan, as I indicated earlier,
2 and we block those securities from being reloaned until
3 record date plus two. So there are clear lockout
4 periods, it's automated, it's a well-entrenched
5 process, and so those positions cannot be reloaned
6 until record date plus two after we have already sent
7 the reconciled data to Broadridge.

8 So I'm going to hand it over to Lara and
9 just point out that, you know, because we are the
10 largest custodian in Canada, we have been involved in
11 this debate for a number of years and so we did host a
12 kickoff symposium in 2011 to address some of these
13 issues and see what could be made better in the system.
14 And I think some of the things that Lara and Narry will
15 talk to are continuous double check and reconciliation
16 points throughout the process, which are things that
17 the various market participants have engaged in since
18 we were kicking that off in 2011. But I'll leave it to
19 Lara --

20 VICE-CHAIR TURNER: Scott, can I just
21 ask one question. You say information reconciled is
22 sent to Broadridge. Tell me what that specific
23 information is. I think there's been some suggestion
24 in the material that there's not enough backup
25 information that's being submitted. So is that an

1 issue in terms of what you're doing in providing to
2 Broadridge?

3 MR. MacDONALD: Not an issue from our
4 perspective. As I say, the daily reconciliation
5 happens all the time, so it's a matter of who are the
6 account holders, how many shares do they hold of the
7 security in question, as well as other pieces of
8 information about they want materials or they don't
9 want materials; what language do they want the
10 materials. There's a bunch of little things.

11 But the big one in terms of how many
12 positions are there and is that going to be the same
13 data that Broadridge would receive from the depository
14 themselves? It will all be reconciled because we do
15 that continuously.

16 THE CHAIR: Lara, I think you're going
17 to speak next.

18 PRESENTATION BY MS. DONALDSON:

19 MS. DONALDSON: Thank you. The transfer
20 agent specific processes at this point are mapped out
21 on page 3 of the handout that you received.

22 So we have various administrative tasks
23 prior to record date and notice of meeting, but our
24 first few reconciliation steps occur one day after
25 record date, and at that point we ensure that the

1 shareholder register is balanced with issued and
2 outstanding shares, which is the total number of shares
3 that are entitled to vote at the meeting.

4 If there are pending transfers or
5 issuances from treasury on or prior to record date, we
6 ensure that all processing has been completed. It is
7 important to note that pending transfers does not
8 necessarily translate to any trades that may have taken
9 place just prior to or on record date. Intermediaries
10 would have their own processes to ensure these trades
11 settle prior to the record date file being produced.

12 So record date plus two, the omnibus
13 proxy is received from the Canadian Depository for
14 Securities. If there is a position with DTC, DTC will
15 also create an omnibus. We have a question mark there
16 because it doesn't necessarily always happen at the
17 same time as far as when the transfer agent receives
18 it. It's sent directly to the issuer, which is an SEC
19 requirement, so we get it when the issuer decides to
20 send it to us.

21 Upon receipt of the omnibus proxies, the
22 total shares represented are balanced with the record
23 date positions on the register for those depositories.
24 There are problems that can occur with the balancing
25 for various reasons, such as there is a position on the

1 opposite depository omnibus, the total positions can't
2 be balanced with the register, or there's multiple
3 depository positions on the register, such as
4 restricted securities held outside regular depository
5 positions.

6 If the DTC omnibus is not received,
7 votes received from U.S. financial intermediaries
8 cannot be tabulated, which is a really important point,
9 because it can result in problems down the road as far
10 as over reporting and over voting.

11 Once the omnibus proxies can be balanced
12 the voting rights associated with the depository shares
13 are allocated to the financial intermediaries shown on
14 the omnibus proxy position reports. Supplemental
15 omnibus proxies can also be received at any time after
16 record date to right before the meeting.

17 These are required if voting rights must
18 be allocated from one FI to another, who may or may
19 not already appear on one of the omnibus proxies. All
20 omnibus proxies received by transfer agents are
21 processed and the shares reallocated. This must be
22 done in order to ensure that accounts represent the
23 true number of shares available for voting. So even if
24 proxies are not received from one of those FIs who is
25 being credited with shares, the other FI must have

1 their position reduced to ensure that they're not
2 voting shares that they shouldn't be allowed to.

3 THE CHAIR: Can I just ask you to
4 clarify a little bit when you say that the positions
5 must be reduced. You're the one who is charged with
6 making that decision? Not you personally, but your --

7 MS. DONALDSON: It's not a decision we
8 make. We receive paperwork and documentation that
9 advises us that the right to vote must be moved from
10 one financial intermediary to another and we take that
11 paperwork and we change the position allocation on our
12 systems so that when the votes start coming in, the
13 number of votes that are allowed for that financial
14 intermediary have been allocated appropriately.

15 THE CHAIR: And the paperwork comes
16 from?

17 MS. DONALDSON: It typically comes from
18 Broadridge in the form of supplemental omnibus proxies.

19 VICE-CHAIR TURNER: And tell me what
20 happens if you don't get a DTC omnibus.

21 MS. DONALDSON: If we don't receive the
22 DTC omnibus proxy, the DTC position on the share
23 register cannot be reallocated to the financial
24 intermediaries.

25 VICE-CHAIR TURNER: So what does that

1 mean in terms of voting? Does that mean that those
2 intermediaries don't get to vote?

3 MS. DONALDSON: They get to vote, but
4 their vote cannot be allocated, so we cannot cast the
5 vote and put it in the proxy tabulation report.

6 VICE-CHAIR TURNER: Okay.

7 MS. DONALDSON: So the other facet to
8 the Canadian proxy system is the ability for the issuer
9 to mail directly to NOBO holders, and that requires
10 additional steps to be taken by the transfer agent.
11 What would happen is that on record date plus 3 we
12 would receive a NOBO list and it would include all NOBO
13 holders, including people who are coded for the
14 different meeting types, so A, S or D holders, material
15 selection.

16 So along with that list we also receive
17 an omnibus proxy and that omnibus proxy removes the
18 right to vote from those financial intermediaries to
19 the issuer. So upon receipt from the NOBO holders in
20 the form of the voting instruction form, those votes
21 are then cast directly.

22 The F4 omnibus proxy which we receive is
23 reviewed against the omnibus proxy for the CDS and the
24 total shares for each financial intermediary are drawn
25 down. So the CUID is provided on the NOBO list and on

1 the omnibus proxy, and we use that to identify the
2 positions that need to be reallocated.

3 Each NOBO holder, including those that
4 don't receive a VIF, because they are coded with a D or
5 an S type if the issuer is not mailing to those holders
6 still has a position created for them. So, in effect,
7 we turn them into a registered shareholder and those
8 shares cannot be voted by anybody else. So even if one
9 of those NOBO holders does not cast a vote, the shares
10 still remain in their account and they can't be
11 allocated elsewhere.

12 The remaining shares from those FI
13 positions are then left for any votes received through
14 Broadridge on behalf of the OBO holders.

15 There have been situations with the NOBO
16 list where we have had concerns or problems. There is
17 the possibility that insufficient shares are in the FI
18 position to account for all of the NOBOs on the list
19 that we receive. Often in this situation it is
20 determined that the NOBO file has contained OBO
21 information or shares that actually appear on the
22 register itself.

23 We also have problems with the CUID
24 reference which appears on the broker account in that
25 it's not available. It is sometimes replaced with a

1 Broadridge client number, which indicates to the
2 transfer agent that a secondary omnibus has already
3 been issued. If it has not yet been received by the
4 transfer agent we need to wait for that to come in so
5 that we can balance the NOBO file.

6 There's also the possibility that
7 participant holdings may be listed on the DTC omnibus,
8 and if we don't receive that, again, we have problems
9 with balancing for the NOBO file.

10 So once all the record date proxy files
11 have been balanced and the NOBO file, if applicable,
12 the mailing file is run and for the registered
13 shareholders we eliminate suppressed accounts, but they
14 still have the right to vote, that account still
15 remains on the register because not receiving material
16 does not remove their right to vote. And then the
17 elimination of the requirement -- sorry, if the
18 transfer agent is mailing to the NOBO holders, we also
19 run that mail file, again using the material consent
20 indicators, the A, S and D, and that distribution is
21 done only through mail. We are not allowed to use the
22 e-mail addresses on the accounts because the consent
23 for e-mail does not move from the intermediary or
24 Broadridge to the issuer, so they're not allowed to
25 take advantage of that efficiency in distribution.

1 The mail files are then bounced back to
2 the expected positions and the mailings are completed.

3 And that takes us to the mail date.

4 PRESENTATION BY MR. TEEMAL:

5 MR. TEEMAL: I'll start off from where
6 Scott left off, record date plus 3 on the second page
7 of this flow chart.

8 Described there is two things, one is
9 the Broadridge, Broadridge managing the event for us,
10 and the second is where they're not managing the event
11 they let us know.

12 Scott's already talked to the first part
13 that you put on the slide where Broadridge is managing
14 the event. Scott's already talked to the first three
15 blocks.

16 We get to record date 3 where Broadridge
17 has loaded on the files that they have received from us
18 into their system. Through Broadridge ICSOnline we can
19 see the vote control numbers that have been created for
20 clients. That's the OBO clients. And then we
21 sub-manage the process from there.

22 So we get an over vote from Broadridge
23 if there is any issues and we also get a position
24 missing report, so we rely on these reports from
25 Broadridge to address any discrepancies in our

1 positions, book of records versus the legends.

2 We investigate each one of these
3 occurrences and we resolve them. Some of the issues we
4 see could be CDS has not provided the report to
5 Broadridge for the omnibus position, omnibus proxy
6 position. There may be borrowed loans that we record.
7 We may have holdings in multiple depositories, example,
8 DTC and CDS. DTC's position may not have been
9 received, but, again, we use these reports to resolve
10 the issues and we correct it on the Broadridge
11 ICS system.

12 So Broadridge then will meet the file
13 holder and send it off to the agent or the issuer so
14 that the votes can be completed per Lara's description.

15 We have followed the next thing, if
16 there's any discrepancies, it will keep showing up on
17 that report until it's resolved. So unless it's not on
18 the report we're happy that we've completed the
19 reconciliation process and we've sent all the correct
20 votes off to the agent. That's about it.

21 THE CHAIR: Can I just ask you, our
22 understanding is that there are a number of
23 intermediaries who don't use Broadridge.

24 MR. TEEMAL: I believe that number is
25 fairly small, speaking to Broadridge.

1 MS. TROTTER: We have about 98 percent,
2 but there are definitely intermediaries and
3 participants that do not use our services.

4 THE CHAIR: And do you have any of sense
5 of the size in terms of the number of the clients that
6 would be implicated?

7 MS. TROTTER: I don't. They would have
8 their own internal processes with respect to how to
9 provide voting instructions. At some point some may
10 have done restricted proxies and sent them out to the
11 beneficial shareholders for them to send back directly
12 to the tabulator, but those are their own internal
13 processes and we're just not privy to them at this
14 point.

15 MR. TEEMAL: If you look at the second
16 work flow, the one that Broadridge hasn't acted on the
17 meeting, those are the ones where the issuers haven't
18 actually provided material, I guess.

19 Our initiative is to make sure that the
20 clients are made aware of the event, the vote event.
21 We go through our investment advisors, they advise
22 their client that the votes have been -- you know,
23 whether or not the client wants to vote. If they want
24 to vote then we do an omnibus proxy and present it to
25 the agent and fulfill the obligation that way.

1 I assume that's what they would --
2 somebody that does reporting would also do.

3 THE CHAIR: So from your point of view,
4 then, as intermediaries, you're satisfied that
5 reconciliation is done before the files are sent to
6 Broadridge? Scott, you referred to this earlier.

7 MR. TEEMAL: We all have the same
8 controls in place in terms of reconciling or book our
9 records against the legends. That's an IIROC
10 requirement and we do that daily. It's attested to
11 monthly. The position that we send to Broadridge
12 always should be accurate.

13 VICE-CHAIR TURNER: So from your
14 perspective there's no problem with the system?

15 MR. TEEMAL: As far as we know. We
16 haven't come across any occurrence of anybody coming
17 back to us saying otherwise.

18 THE CHAIR: Let me ask you about an
19 issue that was raised in the IIAC letter which is to do
20 with retail accounts on margin. The suggestion in the
21 letter was that there's no way of dealing with those
22 accounts in order to provide those retail investors
23 with the opportunity to vote because the tracking
24 systems involved would be very costly and onerous, and
25 the suggestion was that retail voting typically is not

1 at a level that it would affect the outcome of an issue
2 raised in a meeting. So can you comment on that?

3 MR. TEEMAL: It's really difficult to
4 track margin calls and the vote entitlement because the
5 price of shares fluctuates every day. I mean, we
6 certainly don't have the system to track that one.

7 When you look at the percentage of votes
8 on any issue the retail accounts are very small, maybe
9 40 percent on average. It's fairly low.

10 You know, to track margin accounts in
11 terms of vote entitlement, it's a challenge because our
12 portfolio, margin is based on the client's entire
13 portfolio, right. We wouldn't be able to tell which
14 shares are on margin and which ones are not.

15 VICE-CHAIR TURNER: How can that be?
16 For dividends you can distinguish between shares. Why
17 can't you distinguish based on votes?

18 MR. TEEMAL: When you say dividends
19 distinguished between shares, each client is still
20 entitled to their dividends, regardless of margin.

21 VICE-CHAIR TURNER: I'm sorry, say that
22 again.

23 MR. TEEMAL: Each client is entitled to
24 the dividend, regardless of margin. So they will get
25 the dividends as of record date, regardless.

1 VICE-CHAIR TURNER: Okay, why can't they
2 then get the number of relevant votes?

3 MR. TEEMAL: They do get the votes. The
4 control numbers are created for all of the shares,
5 margin or not.

6 VICE-CHAIR TURNER: But if the shares
7 have been lent out and have been sold into the market,
8 what does your record show?

9 MR. TEEMAL: The lending positions, the
10 positions that have been lent out are blocked, so
11 there's no vote made on behalf of those lent positions.

12 THE CHAIR: But the retail investors
13 involved are aware or not aware that they don't have
14 the opportunity to vote because their shares have been
15 lent out?

16 MR. TEEMAL: If there is an over vote
17 situation, yes, we would make them aware. Or like
18 institution, the larger ones that we can identify.

19 VICE-CHAIR TURNER: But if I'm a retail
20 holder holding securities, I'm the beneficial owner
21 holding securities for which you are the intermediary,
22 you have lent those securities out, they have been sold
23 in the market, but I'm still your client and I think I
24 still have the hundred shares, do I get a hundred
25 votes?

1 MR. TEEMAL: Yes.

2 VICE-CHAIR TURNER: How can that happen
3 if those shares have been disposed of?

4 MR. TEEMAL: Again, we can't segregate
5 margin.

6 VICE-CHAIR TURNER: No, but I'm talking
7 about just segregating based on whether the shares are
8 lent or not lent.

9 MR. MacDONALD: I can't comment from a
10 retail perspective. As I say, from an institutional
11 perspective it's cut and dried. We recall positions
12 from loan for those clients who want to vote. It's an
13 established process. We block those shares from being
14 re-lent until after we have transmitted the data to
15 Broadridge. Institutionally, I can say it's a
16 non-issue.

17 THE CHAIR: Just following up on that
18 then, Scott, is there a system in place to ensure that
19 the borrower who subsequently sold the shares, that the
20 person who has purchased them is not voting the same
21 shares?

22 MR. MacDONALD: Yes, that's been a
23 little bit longer dissertation into the whole lending
24 program, but what I can say is that, you know, it is
25 established for many years. There is clarity as to who

1 has the voting rights.

2 We discuss with clients who are in the
3 lending program what their desire is and we have
4 automated processes to make sure the recall happens in
5 a timely manner. As you can see from the flow chart,
6 this is well before record date and it's been blocked.
7 It's reconciled daily, as I say, as part of our normal
8 course business, not just for proxy events, and then
9 transmitted and then unblocked thereafter. So it's
10 very plain.

11 VICE-CHAIR TURNER: But when you say
12 this, these are shares held by institutions?

13 MR. MacDONALD: Yes.

14 VICE-CHAIR TURNER: Not retail.

15 MR. MacDONALD: Correct.

16 MR. TEEMAL: Retail is a challenge. We
17 don't have the facilities to track retail account by
18 margin.

19 VICE-CHAIR TURNER: Well, I'm not sure I
20 care about margin. I just want you to track it based
21 on the entitlement to vote, whether or not they have
22 been lent out or not lent out. I mean, I think what
23 we're hearing from Scott is they have to recall, but --

24 MR. TEEMAL: For institutional.

25 VICE-CHAIR TURNER: For institutional.

1 But if you're a retail holder and those shares have
2 been lent, somebody else now owns them. You must
3 know that position. I mean, you do have a mechanism
4 for ensuring that the dividends get back to that
5 holder.

6 So I'm just not sure I understand why
7 it's so difficult to track the votes.

8 MR. TEEMAL: It's -- each holder is
9 entitled to the dividends, regardless. So it's the
10 same concept. Everybody that's holders of record gets
11 issued a control number, same as you get the dividends.
12 It's determined what percentage of that vote you're
13 entitled to. It's difficult to track because somebody
14 that has a margin account may have ten different
15 securities in that account, the margin that's allocated
16 to the client, right, is based on all those securities.

17 We can't pick on one security and say
18 this is a percentage that's marginable or not.

19 COMMISSIONER LECKMAN: So, Narry, the
20 revenue that's generated from stock lending on retail
21 accounts, is it accrued to the retail investor or to
22 the firm, the dealer?

23 MR. TEEMAL: To the firm, because it
24 affords margin to the client.

25 COMMISSIONER LECKMAN: But you also

1 charge the client interest to have margin, right? So
2 you're making revenue off the client and off the stock
3 lending. So to make the system more accurate, if you
4 just stopped lending on margin retail accounts, because
5 the retail investor doesn't get the money anyways,
6 wouldn't that solve the problem?

7 MR. TEEMAL: That's the business we're
8 in, right? Everybody on the street does this.

9 COMMISSIONER LECKMAN: I just have
10 another question for Scott. When you said that you
11 reconcile daily, do you also reconcile the intermediary
12 files or do the intermediaries also reconcile, I mean
13 if there's custodians in the system?

14 MR. MacDONALD: Yes, we reconcile.
15 Primarily the parties we're talking about here are the
16 depositories of CDS and DTC and sub-custodians like BNY
17 Mellon in the U.S. So those are the principal checks
18 that we have on a daily basis for all our business, as
19 I said, and we audit those and so on. That's very much
20 the core of our business.

21 COMMISSIONER LECKMAN: Okay. So your
22 intermediary files balance when you send them to
23 Broadridge.

24 MR. MacDONALD: Absolutely.

25 THE CHAIR: We've kept you guys in the

1 hot seat, I think, for a few of minutes now. Perhaps
2 we should open up to other panellists.

3 I'm going to turn to you first,
4 Stephanie, on behalf of institutional investors. We
5 have heard some commentary in the comment letters that
6 we should be moving in Canada to a system of one for
7 one vote reconciliation.

8 Can you tell us what your view is on
9 that and if there are obstacles to doing that, what you
10 think those obstacles are?

11 GENERAL DISCUSSION OF TOPIC 1:

12 MS. LACHANCE: Thank you. The
13 illustration of the reconciliation that was just
14 described a few minutes ago is still raising a few
15 questions for us as institutional investors.

16 What is important for us, there is a lot
17 of attention that has been paid to whether institutions
18 were voting their shares or not and how they were
19 processing their votes. There is a lot of effort, time
20 and energy and resources allocated to casting votes at
21 most institutional investors in Canada.

22 We are getting to be worried about
23 whether the full weight of our votes are being cast and
24 carried through the process. When I'm hearing about
25 the description of the reconciliation, I do understand

1 that there's form of reconciliation being made on the
2 record date, making sure that the right files are being
3 sent, but I still have a question mark and probably a
4 question open, when I'm reading STAC's comment letter
5 that there is very troublesome statistical information
6 where in 2013, 51 percent of meetings had over voting
7 and over reporting issues.

8 Just as statistical information is
9 worrisome that maybe there is a bigger problem that
10 we're thinking of, whether it's fully addressed or
11 fully resolved before the meeting -- well, I hope, but,
12 still, it's very worrisome.

13 So for us, as institutional investor, we
14 want to make sure that the vote that we're casting in
15 our offices is reaching the shareholders' meeting floor
16 and carries the full weight and is not either diluted
17 if there is no proper voting reconciliation or
18 sometimes could be ignored if we're in an over voting
19 situation where we do understand that there are some
20 adjustments being made on the shareholders' meeting
21 date.

22 So that's very troublesome for us.

23 That's why we have been pushing for a greater
24 transparency, making sure that we do have a full
25 picture and a full understanding and I thank the

1 previous speakers about clarification about the
2 process, but I still have some question marks. Is our
3 full weight of our casting efforts, voting casting
4 efforts, being carried through?

5 Those are issues that are important for
6 us if we're spending time as investors and taking the
7 time to review the proxy voting materials, I want to
8 make sure that the ten million shares that I may own in
9 a large Canadian bank will reach the meeting floor and
10 will carry the full weight.

11 So that's why we have been pushing on
12 vote reconciliation, making sure that the entitlement
13 for voting is attached to a share and it follows
14 through the process.

15 And when I'm hearing about margin
16 accounts, I'm getting to be worried. We may find some
17 comfort that the retail investor does not necessarily
18 represent a large amount of shareholders in Canada in
19 terms of basis, but still, it's worrisome, what we're
20 hearing, that there is not a full reconciliation made
21 at the shareholder level.

22 The other thing is I'm not so sure that
23 I'm getting a full understanding why it's working for
24 dividend and why it's not working for votes. So that's
25 the type of clarification that we're looking for.

1 Because from our perspective, we just want to make sure
2 that we are getting the full voting entitlement and
3 that the meeting is carried through with shareholders
4 having their full weight and making sure that we, as
5 investors, have our voices heard.

6 And is it only at contentious meetings
7 that we will roll up our sleeves and start by looking
8 down at the vote chain? No, contentious meetings are
9 not the only ones that we should care about in Canada.
10 Other meetings are of importance and we need to make
11 sure that when we're talking about majority voting for
12 directors that there is a clear message being sent to
13 the issuer as to what shareholders are looking for in
14 terms of board composition, for example.

15 THE CHAIR: Let me ask you, Stéphanie,
16 have you personally, as a representative of an
17 institutional investor, encountered any specific
18 problems with respect to vote reconciliation where you
19 can say, okay, that's where the blockage or the
20 obstacle is that we should be looking into more
21 directly?

22 MS. LACHANCE: I would love to be able
23 to share some experience, but we don't have any
24 visibility as to whether there is an issue or where the
25 problem does happen.

1 I don't know where the bottleneck is,
2 but when I'm reading comment letters and the Davies
3 report that was issued in 2010, I get to be worried. I
4 don't know if my full proxy is being carried through
5 the process completely. I may have an idea if I've got
6 a large block that I can try to follow it up to the
7 meeting floor and looking at the voting results when
8 they are published in detail, but other than that, I
9 don't have visibility at all on the system as a
10 shareholder, despite the fact that we are an
11 institutional investor and that we have the internal
12 processes.

13 I do know that I'm voting the shares
14 that I am entitled to because my custodian is
15 confirming the exact number that we have. Securities
16 have been recalled when they are on loan, so I know
17 that when I'm casting my vote that I'm doing it on the
18 full position of PSP, but what I don't know is if that
19 vote is reaching the floor in its entirety.

20 THE CHAIR: So, David, I think, did
21 you -- I should have said at the beginning for
22 panellists who want to intervene or contribute to the
23 discussion, perhaps if you can put your name card up so
24 that -- all right.

25 So clearly Hooman is keen to get

1 started, and then we'll turn to Penny after that.

2 MR. TABESH: Thank you, Ms. Vice-Chair.

3 I think I could address that question.

4 We get involved in contested situations
5 and we have the luxury of straddling the transfer
6 agent, Broadridge, and the back office, kind of seeing
7 that dynamic and the flow.

8 We had a contested meeting where the
9 directors were essentially replaced with a differential
10 of 250,000 votes, yet I just came off another contested
11 meeting that my colleagues in the audience were
12 involved and there were three and a half million over
13 votes. So these mistakes does result in the
14 replacement of the directors, and if you saw this in a
15 political arena there would be an outcry.

16 From our perspective, and by no means --
17 you know, there are processes, and after going through
18 documents I realize there are processes in place,
19 however, apparently they are only available to
20 subscribing intermediaries, but from our perspective,
21 the real gap is communication between transfer agent
22 and Broadridge.

23 I think if the transfer agent provided a
24 CDS list, a full list to Broadridge and then Broadridge
25 was able to reconcile that list against the votes

1 coming in, that would address a lot of the over voting
2 and the over reporting, because what happens, it only
3 gets realized at the end, and if we're involved, that's
4 the benefit of having us involved, then we go back and
5 we try to reconcile by speaking to the back office, by
6 speaking to Broadridge and by speaking to the transfer
7 agent. However, when we're not involved, I could
8 imagine there would be tremendous amount of over
9 voting.

10 The one other thing I want to address is
11 the share lending. From our perspective, it doesn't
12 comprise a major amount of double voting. We have seen
13 it, however, it's not a significant portion of it.
14 From our perspective really, the overreporting is a big
15 chunk of that issue and I think depending on --

16 VICE-CHAIR TURNER: Can I just ask, I
17 think in your submission letter you said the biggest
18 problem is missing omnibus proxy documentation. So let
19 me ask you, what's the problem there?

20 MR. TABESH: I think the intermediaries
21 sometimes don't have the full documentation. So
22 whatever they report to Broadridge, Broadridge then
23 passes on. Whereas, if there were full reconciliation
24 and backup documentation that Broadridge should
25 require, then they would be able to reconcile the votes

1 instead of just kind of passing on whatever is reported
2 in.

3 VICE-CHAIR TURNER: So one of the other
4 questions through this is the use of identification
5 numbers. What do you say about that as a mechanism?

6 MR. TABESH: I don't know enough about
7 it to be able to make a comment on it.

8 MR. MASSE: But I think --

9 THE CHAIR: Sorry, David, I'm just
10 keeping order. Penny had wanted to come in to the
11 discussion.

12 MS. RICE: I was just going to say, when
13 it comes to over voting, a lot of times the problem is
14 security lending, and it's not a huge problem because
15 for institutions, they have clear guidelines, they
16 either call the shares back over record date or they
17 have left the shares out and they know they don't have
18 the right to vote.

19 What seems to be a problem is with the
20 margin accounts, and what happens is the margin person
21 thinks they have the right to vote and the person who
22 buys the shares thinks they have the right, and the
23 reason that doesn't work with retail shareholders is
24 it's a large block of shares with an institution and
25 they know what they're doing.

1 With retail, they are taking a portion
2 of a pooled share and lending those out. So they don't
3 take it from the margin account because it's no one
4 person shares. The reason it works with a dividend is
5 the person who buys the shares in the market thinks
6 they get the vote because they don't know they bought
7 borrowed shares, and the person in the margin account
8 thinks they get the vote.

9 The reason it works with a dividend
10 though is somewhere in that circle is a person who
11 short sold those shares and they made good on the
12 dividend and nobody cares where the money comes from,
13 they only care that they got their money. There is a
14 limited number of votes and that person who is sitting
15 in the short position doesn't have the votes to give to
16 the margin account or to the person who bought it.

17 Now, most of the time that doesn't make
18 a difference because if it's an annual meeting, only a
19 portion of the shareholder base is getting a proxy in
20 the first place. Everybody is coded and I opt to only
21 get it if it's an annual meeting, so there are people
22 who coded special and decline who never get a proxy, so
23 that broker never usually goes into a over vote
24 position.

25 When it becomes a problem is, as Hooman

1 said, when your vote is down to 250,000 shares and it
2 determines the outcome of the vote, then everybody
3 cares and then you have to fix it. Sometimes it's
4 fixable in that they're just holding it in a
5 sub-account and we can get an omnibus proxy and the
6 vote goes through, and sometimes it's not fixable
7 because two people are trying to vote the same share.

8 It doesn't affect an institution in the
9 sense that they can determine their vote, but it will
10 affect an institution if the broker they're holding
11 those shares in goes into an over vote, then
12 everybody's shares get prorated because there's no way
13 to tell which institution, okay, you're entitled to
14 vote and which brokers over voted because they've got
15 margin votes in the same custodian position.

16 As I said, it only becomes a problem or
17 at least gets the attention of a problem if you're at a
18 close vote in a proxy fight.

19 THE CHAIR: David, I'll turn to you.
20 You had wanted to come in.

21 MR. MASSE: First of all, in terms of
22 anecdotal evidence that I am personally aware of, we
23 had an institution with a very, very large position,
24 14 million shares, and you don't know you've got a
25 problem typically at an AGM until you file your voting

1 results. And then we got a call from that institution
2 saying we withheld our entire portfolio against
3 X director. We would have expected to see a hit in his
4 withholds and we didn't. What happened?

5 Of course, this is after the fact. And
6 a lot of effort went into tracking what happened to
7 that vote and it was impossible.

8 So we started with the transfer agent,
9 the transfer agent moved to Broadridge. It was clear,
10 clear, clear, because the institution was very
11 exercised over this, that they were looking down their
12 end of the pipe and they were positive that they had an
13 entitlement and had voted those shares, and it was
14 clear looking down the other end of the pipe that those
15 votes never came through. That's a very serious
16 problem.

17 If you heard this from a retail
18 shareholder, you would say, well, you know, what do you
19 expect? Retail shareholder, you know, it doesn't
20 account for all that much, but when you hear it from an
21 institution, a very large prominent institution with a
22 very large position, I agree, it's very troubling, very
23 worrisome.

24 THE CHAIR: So if there's some blockage
25 in the pipe, as you put it, do you have a view on --

1 MR. MASSE: The issue is that the sense
2 you get from reviewing all of the contributions and all
3 of the information that's come out is that, one, there
4 are a large number of different processes, there's a
5 lot of manual labour involved with accounting numbers,
6 there's large numbers of faxes that are information
7 being trade by fax, which in this day and age you might
8 as well send smoke signals, I don't know what's up with
9 that.

10 I think that when you look at the
11 evolution of the capital markets generally, all of the
12 improvements we have seen in terms of volume and timely
13 execution of trades and so on, have all been pushed by
14 IT. And then when you look at voting, if there is one
15 gap in the overall system where IT is not doing its job
16 or not given an opportunity to do its job, it's there.
17 And you've got a massive amount of data that needs to
18 be crunched in a very, very short period of time in
19 order for the vote to have some form of integrity.

20 THE CHAIR: Just on that point, David,
21 one of the questions that's come in from the audience
22 is on this issue of whether those timelines need to be
23 adjusted somewhat. I mean, the question is, is there
24 always enough time to allow shares on loan to be
25 recalled. You know, enough time to do the

1 reconciliation, either pre or post the record date.

2 MR. MASSE: I have heard, for instance,
3 if it's T plus 3 to recognize a trade, recall is a more
4 burdensome process and it's not happening in T plus 3.
5 I have heard anecdotal evidence that it's T plus 7, T
6 plus 8. It's all over the map.

7 That's one problem. The other problem
8 is that at the time the shares would have to be
9 recalled effectively, if, let's say, you take an
10 optimistic view that's it T plus five, you've got to
11 recall at least record date minus five. How do you
12 know that you're going to, if you're an institution
13 that you're going to want to vote those shares? You
14 are not going to see the agenda for the meeting until
15 substantially beyond the record date.

16 In my case my record date was
17 December 13 and I mailed on December 22. So there's a
18 gap there which means that all the institutions would
19 have to be recalling all of their portfolios well in
20 advance. Is that happening? I can tell you it's not
21 happening because another large institution that holds
22 a position in our stock routinely can't vote their
23 entire position.

24 And the frustration there is that when
25 you have an issue on your agenda and you reach out to

1 them and you lobby them hard, you know, to win their
2 hearts and souls and you find out afterwards that,
3 well, you know what, they're not going to be able to
4 vote their entire position, you kind of feel that there
5 is a little bit of a disconnect.

6 I'm not blaming the institutions. For
7 instance, I understand Ontario Teachers is here and
8 Paul Schneider can kill me if I'm wrong, but I
9 understand that Ontario Teachers no longer lends and
10 they no longer lend -- is that still correct, Paul?
11 They no longer lend because of issues with voting.

12 But what if lending dries up? What's
13 the impact on the capital markets and the efficiency of
14 capital markets of lending drying up? I would suggest
15 it's probably not a good thing.

16 I'm not sufficiently versed in the
17 capital markets to understand what the absolute impact
18 would be, but intuitively I don't think that's a good
19 thing.

20 VICE-CHAIR TURNER: So if you increase
21 the notice of the period, notice of the record date,
22 does that solve it?

23 MR. MASSE: No, it makes matters worse,
24 and I'll tell you why it makes matters worse. Because,
25 in my opinion, if you look at the gap between the

1 record date and the meeting date, okay, we have a
2 September 30 year-end for instance, so it means that
3 the Christmas holidays fall right in the middle of the
4 range of possible dates for me.

5 So if I don't want to take a chance,
6 which I don't, I kind of back-end load everything and I
7 get going as soon as possible, so I have a very, very
8 long record date. I typically go out to 55, 56 days,
9 something like that. That period of time between the
10 record date and the meeting date, think of that as the
11 potential volume of issues in terms of over voting and
12 reconciliation issues and all of that.

13 Think of the record date as a volume
14 control. If you expand that period, you're increasing
15 the volume of problems that you're going to have to
16 deal with. If you contract that period, you reduce.
17 If all you did was narrow the record date to, let's
18 say, five business days, you would solve a large
19 portion of the problem without touching any other gear
20 or nut in the system. You can't do that as long as
21 you're dedicated to paper.

22 And the perfect example of that is
23 notice and access, okay. You go to notice and access
24 as an opportunity to take paper out of the system, but
25 it's still anchored in paper. And it came as a shock

1 to me when I was doing my key dates because we used
2 notice and access this year and we do a NOBO mailing,
3 and I saw that, whereas I had a range of dates for
4 every other date in my planning calendar, when it came
5 down to delivering to intermediaries I was down to one
6 day. If I couldn't have made everything work on that
7 one day, I wouldn't have been able to use notice and
8 access. Why? Because the deadline went from four or
9 five business days before the -- I think it was the
10 20th day before the meeting or the 30th day before the
11 meeting, it went to 40 days before the meeting to
12 accommodate notice and access.

13 That just took my corset and, you know,
14 it clamped it right down. Why? I understand why.
15 Because you've got a mechanism that has to play where
16 you allow people to get paper and so you've got to
17 allow, being logical, additional time for those
18 shareholders who want paper to get paper.

19 So the paper, under notice and access,
20 ends up making the problem even more difficult, let's
21 say, for an issuer to comply with.

22 COMMISSIONER LECKMAN: David, just
23 picking up on your point on stock lending and recall,
24 Scott, can you address that? That there are issues
25 with recall and T plus 3, T plus 5, or failed recalls

1 and why institutions don't get their shares back in
2 time.

3 MR. MacDONALD: Well, again, from an
4 institutional perspective, we almost never see an
5 issue, and without getting, again, into a lengthy
6 dissertation on securities lending, there is a number
7 of fail safes, for lack of a better word, built into
8 the process to allow lending to happen and to allow
9 people to vote.

10 So, for example, and, again, I'm
11 speaking as one custodian, I can't speak on behalf of
12 others and their policies, but, again, if PSP and
13 Teachers want to give me their custody business I'm
14 happy to help.

15 Certainly from a lending policy
16 perspective, we're not lending out a hundred percent of
17 the shares of anything, right. There's processes
18 around making sure that you have buffer. Even a
19 percentage of the assets that you're lending out,
20 there's only a percentage of those that people want to
21 vote.

22 We do proactively understand which
23 institutions want to vote everything all the time,
24 certain things, certain securities, certain markets and
25 so forth, and all of that is built in. So there is

1 kind of margin upon margin upon margin that minimizes
2 the occasions of that happening. Again, there are more
3 technical explanations of how we can ensure it happens
4 even in complicated situations.

5 So, you know, again, 99 percent of the
6 time, from our perspective, the lending is not an
7 issue, the processes are sound, the information we
8 transmit to Broadridge on record date is a reconciled
9 number so that the positions are always correct and
10 everybody is happy.

11 THE CHAIR: So speaking of everybody
12 being happy, I'm going to turn over to Zach as someone
13 who has a number of different roles in the capital
14 markets, but one of which is obviously as an asset
15 manager. Do you have any comments on this discussion
16 from your perspective?

17 MR. OLEKSIUK: Sure. Thank you for
18 having me today. I would echo much of what my
19 colleague to my right here has said about supporting a
20 move broadly towards pre-reconciliation, to the extent
21 it's not already happening.

22 The remarks I've heard here today lead
23 me to believe that it is in many cases, but,
24 nonetheless, acknowledge the challenges of the
25 complexity of the system and the lack of transparency

1 from the downstream perspective, the recipient of the
2 voting entitlement.

3 In our own operations we seek to have a
4 high degree of control in making sure we're receiving
5 the balance for the accounts for which we're expecting
6 voting entitlements, but our focus is on just missing
7 entitlements, period. It's not on making sure that we
8 are receiving the exact number of shares that we may be
9 entitled to vote. And the reason for that is because
10 of the lack of transparency into these upstream
11 processes.

12 We have over 75 custodians on a global
13 basis that our clients use to custody their shares, and
14 so we don't know when there is lending, when there's
15 lending recall going on, et cetera, in every case, so
16 what we do is seek to look at our data internally, our
17 trade date data, and make sure that we are, broadly
18 speaking, receiving entitlements for accounts that
19 we're expecting to be receiving entitlements. And to
20 the extent that we observe patterns in missing
21 entitlements that may lead us to believe there is an
22 account set-up issue at the custodian, but we're not
23 even looking to make sure that we are receiving all the
24 voteable shares that we would expect just because of
25 these various issues that are discussed today.

1 So we would support this upstream
2 reconciliation, because we think to the extent that
3 that's happening on a more consistent basis, that could
4 help us even better improve our controls over our proxy
5 voting.

6 VICE-CHAIR TURNER: Zach, you know,
7 because you're from outside the jurisdiction, do you
8 have a comment on the DTC issue?

9 MR. OLEKSIUK: Primarily, I guess our
10 experience has been, and this is, I think, very
11 BlackRock specific, but we actually are our own
12 custodian in the U.S. market and there are certain
13 Canadian securities that may clear through either CDS
14 or DTC, and so we have internal controls to make sure
15 that we suppress any positions that may be on the
16 DTC side so that we only vote the position through the
17 CDS, and that prevents an over voting situation. So we
18 do have control for that, but, again, I think that's a
19 BlackRock specific situation.

20 VICE-CHAIR TURNER: So will one
21 institution, will the shares be reflected in CDS and
22 potentially DTC?

23 MR. OLEKSIUK: That's right.

24 VICE-CHAIR TURNER: So it's going to
25 overlap, and how you deal with that is suppressing, in

1 your case, the DTC shares.

2 MR. OLEKSIUK: In our own processes,
3 that's correct.

4 THE CHAIR: Lara, do you have any
5 comment on this? You raise it in your opening remarks.
6 Is there something more systemic that needs to happen
7 with respect to that lack of continuity between DTC and
8 CDS on the Canadian issuer?

9 MS. DONALDSON: The DTC problem is
10 something that is inherent in the system as it is now.
11 We're dealing with paper omnibus proxies, and that is
12 from CDS as well. Everything is still received through
13 a paper format so that we have the proper authorization
14 to reallocate the vote.

15 The DTC adds complexity because of the
16 rule that they're not allowed to send the omnibus
17 directly to the transfer agent until the issuer
18 provides an annual certification and direction to DTC
19 allowing them to do that. Very few issuers are
20 prepared to go that route or have the time to take that
21 step.

22 VICE-CHAIR TURNER: Why are they not
23 prepared to do that?

24 MS. DONALDSON: It's just one more thing
25 that they need to do to make the process work and,

1 frankly, it's not a high priority for some of them.

2 VICE-CHAIR TURNER: Presumably you could
3 do a standing consent.

4 MS. DONALDSON: No, that's not allowed
5 through DTC.

6 VICE-CHAIR TURNER: You have to do it
7 for each specific meeting.

8 MS. DONALDSON: Correct.

9 VICE-CHAIR TURNER: Or each year.

10 MS. TROTTER: Could I just add to a
11 couple of things? Lara is right, with DTC the issuer
12 can allocate or assign the transfer agent to receive
13 the information, but that has to come from the issuer
14 and, again, has to be done on an annual basis.

15 A couple of other things with respect to
16 Hooman, with respect to Broadridge being the reconciler
17 for CDS. Intermediaries hold CDS, they hold in DTC,
18 they hold in omnis. So we get a position. It makes
19 sense for the final tabulator to actually have that
20 vote entitlement and the intermediary and the tabulator
21 actually agree on what that voting entitlement should
22 be.

23 So there is a gap, and I think you said
24 it as well, between the communication between the
25 intermediary and the tabulator as to what that actual

1 vote entitlement is. I think that's very important in
2 terms of this process.

3 THE CHAIR: And so is the solution,
4 then, in terms of more effective technology to allow
5 that communication to happen?

6 MS. TROTTER: I think it's to ensure
7 that the tabulator understands where the vote, or how
8 much of the vote or what the vote entitlement is for
9 the intermediary. That if the intermediary is seeing
10 that their depository position and their shares that
11 they have sent to Broadridge, there's a discrepancy,
12 the tabulator is only going to see what the
13 depositories have seen, unless an omni is created.

14 The nominees need to be able to
15 communicate to the tabulator to say, hey, I hold in a
16 registered position as well; you have to take that into
17 consideration with respect to my entitlement.

18 So, you know, as we go onto the second
19 topic this afternoon, but that communication and that
20 confirmation of what the actual vote entitlement is and
21 there is agreement between the two, eliminates some of
22 the concerns that we have with respect to the
23 51 percent where there is over reporting because an
24 omni was missing.

25 If we start that early in the process

1 and we agree that there is X amount of shares to be
2 voted by this intermediary, net of any omnibuses, other
3 positions being held, registered positions, then you're
4 starting from a whole place as opposed to from behind
5 trying to catch up.

6 VICE-CHAIR TURNER: Is that a
7 communication from Broadridge to the tabulator?

8 MS. TROTTER: It is a communication
9 between nominee and the tabulator. The tabulator is
10 the ultimate --

11 VICE-CHAIR TURNER: They're calculating
12 the votes.

13 MS. TROTTER: Yes, the ultimate entity
14 that says, yes, I understand where all your entitlement
15 is and I understand how many votes you have submitted
16 and, you know, at this point we're not in an over vote
17 position because we have all of the pieces in place and
18 we have -- we know exactly where we are. The nominee
19 knows that they can't vote beyond their vote
20 entitlement because that agreement has come through the
21 tabulator.

22 THE CHAIR: Just on that issue, if I can
23 turn to Lara, one of the audience questions is where
24 there is a reconciliation issue can you describe in a
25 little more detail the steps that you require to take

1 to resolve that issue. And the question is asking both
2 where they're managing the event because of a NOBO
3 situation or where Broadridge is managing the event.

4 MS. DONALDSON: I assume the question is
5 referring to a reconciliation issue in the -- if we
6 receive more votes than we are able to allocate to a
7 particular position.

8 THE CHAIR: Right.

9 MS. DONALDSON: Just to comment on
10 Jeri's comment; the process is in place now for us to
11 receive our omnibus proxies from DTC and CDS. We also
12 receive the supplemental omnibus proxy moving the
13 voting entitlement around, which we take as the votes
14 that each of these brokers has the ability to vote.

15 I'm not sure how adding another layer of
16 responsibility on top of the tabulator would help at
17 all. If we need to communicate back to the
18 intermediaries what their voting entitlement is, they
19 should already know that. That should already have
20 been identified on record date.

21 MS. TROTTER: Maybe I misspoke. I
22 wasn't saying that the tabulator communicates to say
23 what their entitlement is. The intermediary, if they
24 are shown on -- and, again, this is a Broadridge
25 intermediary on the over reporting prevention service

1 that says that their voting entitlement has a
2 discrepancy in terms of the number of shares that are
3 in their file.

4 It is then up to the nominee to reach
5 out to the tabulator to say I have shares in the
6 register and, you know, that needs to be taken into
7 consideration with respect to my vote entitlement.

8 I agree totally, it is the nominee's
9 responsibility to ensure that the tabulator is made
10 aware and knows where all of the shares are being held
11 in terms of after their vote entitlement. It's not
12 another layer, but it is a communication back and forth
13 to ensure that everyone knows exactly where all of the
14 shares are being held and that the nominee can vote up
15 until is that position and be confident that they can
16 vote up to that position so as we get through a vote
17 confirmation process, that that confirmation can
18 actually flow back down the chain.

19 MS. DONALDSON: But if the nominee has
20 beneficial shareholders voting through that position,
21 are they even going to know when they hit that point?
22 Are they monitoring it through other systems available
23 through Broadridge?

24 MS. TROTTER: That's right, yes,
25 absolutely. So that as soon as the nominee hits the

1 maximum vote entitlement, there are mechanisms in place
2 to do that alert which Narry talked about in terms of,
3 you know, that votes are pended and we go through that
4 in our comment letter, and not released until the
5 intermediary or nominee rectifies that situation, and
6 rectifies it with the tabulator.

7 MR. MASSE: It sounds to me like all of
8 those calculations are happening at kind of macro level
9 where you're talking about the overall voting
10 entitlement for a nominee. What I'm not hearing is the
11 distance between, let's say, the beneficial holder and
12 the tabulator.

13 I get the sense, because I have been
14 doing a NOBO mailing for a long time now, I don't know
15 how many issuers do NOBO mailings, but I get the sense
16 that when you do a NOBO mailing, intuitively the
17 controls are better, whereas where there appears to be
18 a lot of fudging the system.

19 MS. TROTTER: I wouldn't say that the
20 controls are better. I would say that the information
21 is more granular. We have heard from these two
22 gentlemen to say that they're required to balance
23 daily, that their records are balanced every day,
24 whether it's, you know, in their CDS file, whether it's
25 in DTC, whether it's held in a custodial account. So

1 according these gentlemen, the records are balanced.

2 So then you have to go to --

3 MR. MASSE: Right, their records are
4 balancing, but you don't know, there's no way to trace
5 those, I mean, I may be wrong, but there's no way to
6 trace those votes back to a beneficial shareholder.

7 MS. TROTTER: Of course there is. Each
8 beneficial shareholder has their own control number and
9 their own control number for which they vote on, and
10 that vote, which, granted, is aggregated and submitted
11 to the tabulator, but at all times the intermediary
12 knows exactly which of their clients have voted.

13 VICE-CHAIR TURNER: But do you know when
14 you get an omnibus proxy, can you track back through
15 those numbers to see back to the beneficial owner?

16 MS. TROTTER: You can. So I think that
17 in the consultation paper, you know, the CSA did a good
18 job in terms of distributing where the first layer of
19 intermediary may have what's called an omnibus account
20 representing the second intermediary. That omnibus
21 account creates that omnibus proxy and that voting
22 authority flow down to the second intermediary.

23 That omnibus account is prevented
24 obviously from voting because an omnibus was issued.
25 But you can flow down to the next intermediary, and, as

1 I say, we can see it as long as Broadridge is the
2 service provider for that second intermediary, but
3 absolutely you can see beyond that second intermediary
4 who those beneficial shareholders are and who voted.

5 THE CHAIR: Lara, to get back to the
6 question about steps to resolve reconciliation
7 problems, according to Jeri this should not really be
8 happening, but if it does happen can you explain what
9 you do?

10 MS. DONALDSON: Sure. So on the last
11 page of the handout we have actually mapped out what
12 happened with votes that come in through Broadridge.
13 They're registered and if the NOBOs have been mailed by
14 the transfer agent it's very straightforward. The
15 votes come directly back to us and they're allocated
16 against that holder specific account. So there's no
17 question about who has and has not voted.

18 What happens with the votes from
19 Broadridge, so as the beneficial holders vote, those
20 voting instruction forms are received back by
21 Broadridge or the financial intermediary. The votes
22 are provided to the transfer agent as a single proxy,
23 so there's multiple beneficial shareholders compiled
24 and communicated to the TA on that single proxy
25 representing a block of shares.

1 The transfer agents will continue to
2 receive these supplemental omnibus proxies, in some
3 cases both in electronic and paper format. We continue
4 to audit those and make adjustments as required.

5 The total votes represented on the
6 proxies received from the FI are compared back to the
7 FI's positions on the omnibus proxies and adjustments
8 that have been made after the fact.

9 If there are sufficient shares, the
10 total is drawn down on and the balance remains for the
11 next proxy vote submitted. If there are insufficient
12 shares, there is various steps that the transfer agent
13 can take and they may do some or all of the following
14 depending on the scenario.

15 We review the records to determine if
16 another account can be located. There can be multiple
17 accounts held by FIs in different names throughout
18 different positions, different depositories. We review
19 for any incoming supplemental omnibus proxies not yet
20 processed. We can follow up with Broadridge for any
21 missing supplemental omnibus proxies. We can follow up
22 with the affected FI for missing supplemental omnibus
23 proxies.

24 I would note that that step can only
25 occur if we actually have the appropriate contact

1 information with the FI. We have had some responses
2 where they would say, well, Broadridge deals with that
3 on our behalf. And then we provide details of the over
4 vote to the issuer and their proxy solicitor for
5 potential other steps to be taken.

6 Once all steps are exhausted, if the
7 over vote cannot be cured, the tabulator will process
8 the over votes in accordance with the instructions
9 received from the issuer or the meeting chairperson.
10 Some TAs will have a proxy protocol option that is
11 their default as well which may be followed in the
12 absence of specific instructions.

13 THE CHAIR: So what, in your experience,
14 is the most likely instruction that is received from
15 the issuer?

16 MS. DONALDSON: The most common one is
17 the over vote option where the votes are allocated to
18 the total available based on the percentage of for,
19 against, withheld on the proxy received.

20 COMMISSIONER LECKMAN: So pro rata.

21 MS. DONALDSON: Yes. So as the proxies
22 continue to be received, and they can continue to be
23 received after an over vote is identified, they are
24 tabulated and adjustments are made to the FI positions
25 to reflect the increase or decrease on the votes.

1 Once the proxy cutoff has been reached
2 no more proxies are tabulated and the final proxy
3 tabulation reports are provided to the issuer.
4 Revocations can be typically accepted up to meeting
5 date, so if they are received they must be tabulated,
6 the reports adjusted, and then it could potentially
7 affect positions that have been previously over voted.
8 And then revocations can also be received at the
9 meeting which then require additional adjustments to
10 take place at the meeting prior to the actual final
11 tabulation of votes.

12 MR. TABESH: I just have one comment
13 regarding over votes and I can only speak to contested
14 situations, and this is where we come in. In a
15 contested situation where vote is closed the chair
16 often disallows those votes --

17 THE CHAIR: I'm sorry, the chair often
18 disallows...

19 MR. TABESH: Disallows any over votes,
20 if it affects the meeting, obviously with advice from
21 counsel. Then it becomes our job after the meeting
22 dates to go back and see whether we could cure, along
23 with a tabulation agent, those that haven't been able
24 to be cured, and that is a whole other process and
25 there is disagreements back and forth.

1 So if the over votes can be cured
2 beforehand, obviously it would take away a lot of
3 difficulties post meeting.

4 THE CHAIR: Eric, can I turn to you.
5 You haven't had a chance to get into the conversation
6 yet, but from an issuer perspective do you have any
7 experiences that you wanted to contribute to this
8 discussion about the difficulties with respect to vote
9 reconciliation?

10 MR. MILLER: You know, this has been a
11 great learning for me through all of this. First of
12 all, thank you for allowing me to be here.

13 What I find interesting is a lot of what
14 we're talking about is trying to get it close. For me
15 it's -- when we were faced with the situation we had
16 last year, last proxy season, the difficulty was
17 exactly what we've talked around the table here, and my
18 first reaction was where have we lost our trail? What
19 are the principles that we should be following and what
20 are the sacred cows that we have let slip under the rug
21 in order to facilitate the market?

22 I'm not saying -- I'm not bashing that
23 side of it, because everybody wants to see an efficient
24 market and everybody wants to see their stock traded
25 properly and investors protected, but when it comes

1 down to the vote, you know, it really came to my mind
2 that the vote is as important today as buying and
3 selling a security.

4 So we really have to go back, I think,
5 to first principles and think about what it is that
6 we're managing and managing it in a way that has
7 actually let the vote become this, you know, as David
8 talks about, you know, it's this pipeline that we can't
9 see in or out of.

10 I appreciate that all the participants
11 have sophisticated systems and are trying to manage it,
12 but the market moves very fast. I kind of come back to
13 first principles and would ask the question, you know,
14 what are the needs that we need to have in place to
15 make sure the vote is accurate, and I think some of
16 that is actually really tracking shares, because as an
17 issuer you have lost control. It's like a country
18 losing control of its voters.

19 We have, to some extent, lost control of
20 that process and I think if we want it to work we are
21 going to maybe have to compromise on some of the things
22 we need for principles where we lock down potentially,
23 we lock down who gets the vote and when and if shares
24 trade after or you're trying to manage all these
25 different things we will, from an issuer's perspective,

1 say this system needs to be open, it needs to be
2 transparent, we need to have the right numbers and
3 we're going to find a way to make sure the vote is
4 correct.

5 I think from an issuer's perspective,
6 being close enough and dealing with over vote and
7 pro-rationing and all that is frustrating, it's
8 frustrating, and I'm not sure that from an issuer's
9 perspective we can really manage that. It's gotten so
10 far out of our hands that we are relying on the market
11 participants to make it work.

12 So that's sort of a general comment and
13 I do agree with David that I think that if we could get
14 to a more electronic system we would be able to have
15 better timelines. I do think that investors today
16 don't need paper. I think we're trying to satisfy the
17 investor at the margin and it's impacting the entire
18 system, so if we could get to a more electronic-based
19 system and appreciate that most people do have access
20 to a computer and do have access to their own printer
21 and they don't need all of these time frames.

22 If we could do some of those things, I
23 think that would be important from an issuer's
24 perspective.

25 THE CHAIR: Thanks, Eric. Just

1 following up on that, maybe I could ask some of the
2 professionals in the room. One of the comment letters
3 or perhaps several of them suggested this idea of a
4 centralized system, similar to CDS for settlement
5 processes that should be put in place for voting.

6 Is there an appetite to consider that?
7 Is that something we as regulators should be
8 considering in terms of, you know, trying to reduce the
9 complexity of the latest system?

10 MS. TROTTER: Maybe I can take that
11 first. CDS is one component of the overall voting
12 process. DTC, omnibuses, custodial account. So having
13 a system in CDS, or whatever, may only move an existing
14 problem somewhere else.

15 We need to look at it in terms of the
16 infrastructure that we have today, intermediaries,
17 shareholders, they do cross border trades, they hold
18 shares in Canada and the U.S. Forty percent of the
19 accounts for intermediaries are U.S. issuers. So we
20 have to look sort of beyond just the Canadian
21 component, but look beyond that because the investors
22 are impacted on both sides of the border.

23 VICE-CHAIR TURNER: But what conclusion
24 do you take from that?

25 MS. TROTTER: Well, the conclusion that

1 I take, again, what I said before is that the tabulator
2 needs to understand what the total vote entitlement and
3 where those votes are being held or shares are being
4 held, and that the nominee's responsible for their book
5 of record to ensure they don't vote beyond that vote
6 entitlement.

7 VICE-CHAIR TURNER: But I think Mary's
8 question was should you have an aggregator who is
9 covering the whole system.

10 MS. TROTTER: But the thing is somebody
11 in CDS isn't the whole system. So how do you bring in
12 the U.S. intermediaries?

13 THE CHAIR: I was thinking about CDS in
14 its settlement capacity. It's the centralized
15 mechanism for doing that, so is there some parallel,
16 not necessarily run by CDS, but by some other provider
17 that would be a voting aggregate?

18 MS. TROTTER: I think that we just need
19 to recognize that the voting and the shareholders of
20 Canadian issuers aren't solely Canadian. That it does
21 go beyond the borders. That there are investors that
22 hold through U.S. intermediaries because we have
23 cross-border trading, et cetera. We have come to a
24 point where it can almost be borderless.

25 Granted that the Canadian marketplace is

1 different and the rights of the Canadian shareholders
2 through Canadian intermediaries is slightly different,
3 but I think that we need to ensure that we take a very
4 broad approach from a voting perspective. I don't
5 think that we should be abandoning the existing proxy
6 voting infrastructure because it does support so many
7 other pieces of the capital markets.

8 THE CHAIR: Fran, what about your
9 perspective? We haven't introduced the --

10 MR. DALY: We have been left to the
11 last. That's okay.

12 I want to reiterate, I agreed with a lot
13 of what Scott has talked about with respect to
14 pre-reconciliation as it occurs at CDS between CDS and
15 its participants, between CDS and DTC, et cetera.

16 We need to recognize that DTC is a
17 unique situation in that DTC itself holds a registered
18 position on their code with the transfer agent or with
19 the issuer, but DTC also holds a position at CDS as a
20 participant. So you've got two positions that DTC has
21 to be responsible and accountable for.

22 Not being able to get that information
23 flowing through and having it go directly to an issuer
24 versus going to a tabulator or going directly to
25 Broadridge or whatever does cause a problem.

1 If we were to take your point as to
2 whether or not there needs to be a central tabulator or
3 central entity that would be responsible for getting
4 all of that information and if all of that information
5 is, either from a regulatory perspective or from a
6 market perspective, required to go there, then whether
7 or not it's something that you tag onto the existing
8 proxy process that we have in Canada or not or whether
9 it's something new that we work with, if we don't have
10 a reconciled position, if we don't know where
11 everybody's shares are and if we can't account for each
12 and every one of those shares we're never going to get
13 proxy right.

14 MR. MASSE: And it seems to me that it's
15 a settlement and clearing issue at the end of the day.
16 That's why CDS was set up to begin with, because the
17 registered format for shares just completely broke
18 down, wasn't working, couldn't keep pace with the
19 transactions in the capital markets and, you know, the
20 system works for transactions and the system works for
21 dividends, as we have heard, but no one thought voting
22 was important.

23 So what happened is that if you've got
24 all the logic gates aligned for the other pieces of the
25 settlement puzzle, the information flows dramatically

1 well, I mean, really, really well. We're talking about
2 hours, we're not talking about days and weeks.

3 When you look at the voting side, the
4 problem is that as a result of neglect all those gates
5 are in disarray, and so the information goes in, pops
6 out, and it's a little bit of a conundrum as to how the
7 information gets through.

8 It does get through for the most part,
9 but it doesn't get through, to Eric's point, in a
10 principled and verifiable way. It's almost like you're
11 throwing money around and people collect their money
12 and mostly people get the money that they thought was
13 coming to them. It's not an appropriate settlement and
14 reconciliation method. And the only way you're going
15 to get there is if you dematerialize, and it's not that
16 complicated.

17 It's a question of normalizing data
18 flows. It's not a question of having one grandfather
19 system that looks after everything. That's not the way
20 systems work anymore. You've got to decentralize and
21 the only way to decentralize is to dematerialize the
22 data flows and normalize them. At that point everybody
23 can have separate back office systems, but when you
24 get a voting report, a voting record is a voting record
25 is a voting record, and you map it into your back

1 office system and all of a sudden everybody can talk.
2 It's an exchange meeting. I think that's what has to
3 happen.

4 MS. RICE: I think it's important to
5 reconcile and that will eventually solve some of the
6 problems, but if you have a system where a broker is
7 allowed to send out more proxies than they actually
8 have, I'm not sure what reconciling really does for
9 you.

10 If you've got somebody who is sitting
11 with a margin account who thinks he's entitled to vote
12 and somebody has been lent those shares who thinks
13 they're entitled to vote, reconciling is just going to
14 tell you that you've put more proxies out there than
15 you've got and, as I said, in most cases it doesn't
16 matter because most brokers don't get enough floats in
17 that it takes them over their threshold, but unless you
18 put regulation also in place to stop people from
19 issuing more shares or more votes than they actually
20 have, reconciling isn't really going to help you.

21 Reconciling itself seems to me pretty
22 easy. As Jeri said, the nominee is just responsible to
23 make sure they've got enough shares, whether it's
24 registered with DTC or CDS, and before they mail out
25 and make sure it matches, but if their system doesn't

1 allow them to match I'm not sure how reconciling really
2 helps you.

3 THE CHAIR: Well, I understood from what
4 Scott said that that reconciliation was happening, so
5 maybe I can ask him to respond, but Lara had also
6 wanted to jump into this.

7 MS. DONALDSON: The concept of the
8 buffer or if the proxies don't all get mailed there's
9 never doing to be a over vote is a real concern for us.
10 If there's not enough proxies out there to vote all the
11 shares that are there, there should be an over vote.
12 An over vote is indicative of a very serious and
13 extreme out of balance situation.

14 With the way the capital market is set
15 up in Canada, with the different options beneficial
16 shareholders have for receiving material, there's no
17 way an over vote should ever technically be reached if
18 proper reconciliation is actually occurring at the
19 broker level.

20 I would just like to say that STAC has
21 promoted the idea of a central data hub, which would go
22 along with dematerialization and the concept of full
23 transparency in the marketplace. It would allow data
24 to go to a centralized hub and have mailing agents with
25 full competition in the marketplace, use the date to

1 complete mailings on behalf of the issuer and their
2 clients. We do think that is something that should be
3 considered.

4 THE CHAIR: Thanks, Lara. Scott, can I
5 ask you if you have any comment on what Penny just said
6 about the role of brokers in sending out proxies and
7 the difficulty?

8 MR. MacDONALD: I think that's more for
9 Narry from a retail perspective.

10 MR. TEEMAL: We use the purpose of a
11 vote report to do our reconciliation, our post
12 reconciliations. We rely on that system. We validate
13 our positions before we adjust -- if we have an over
14 vote situation, we validate where our positions are.
15 To Jeri's point, it may be that DTC hasn't reported the
16 position or maybe CDS has picked up the wrong record
17 data or something has gone awry, but we make sure we
18 validate what we put into the system and we, from a
19 reputational perspective, we're not going to put
20 something out there that's not right.

21 So we go back and do our investigations,
22 we update the Broadridge system because our vote will
23 not go out unless we rectify the situation and we
24 validate what we're sending out. Normally we validate
25 the positions that we put on the report and reconcile.

1 MS. TROTTER: If I can just -- the over
2 reporting positions that we have, you know, are they
3 primarily resulting from missing omnibus proxies? Is
4 that one of the main concerns is that the entitlement
5 or the vote authority has been passed to a position
6 where you're getting a vote in?

7 MS. DONALDSON: We certainly know that
8 missing DTC omnibus proxies is a concern and will cause
9 over reporting and over voting situations. We don't
10 have problems with receipt of CDS omnibus proxies.
11 Those come directly to the transfer agent.

12 As far as supplemental omnibuses, we
13 don't know what we don't know. If we haven't received
14 something, we have no idea because we don't have that
15 line of sight into what is pending.

16 MS. TROTTER: But if you have a vote
17 that comes in without a DTC position or a CDS position
18 from an entity in Europe, for example, obviously there
19 is a missing omnibus proxy somewhere to delegate that
20 vote authority to that entity at that point.

21 MS. DONALDSON: Yes.

22 MS. TROTTER: So we have to look at what
23 is the major issues with the system. I mean, can we
24 resolve some of these issues by looking at where the
25 omnibuses are and should there be an obligation to

1 ensure that is. And that's when I go back to vote
2 entitlement, but also, you know, that the
3 intermediaries are saying that they're reconciling
4 accounts and we have heard that perhaps some are
5 adjusting margin accounts and some are not, but I think
6 to Penny's point, maybe there's some regulation or best
7 practice perhaps around that particular type of account
8 that needs to be instilled, as opposed to looking at it
9 from a perspective of the whole infrastructure needs to
10 be revamped, redone, when we're trying to fix some of
11 the problems that may be fixed in isolation or looking
12 at that problem, what is the solution for that.

13 I think that's important is what is the
14 systemic issue that is the problem with the system,
15 without sort of saying let's blow it up and start
16 again.

17 VICE-CHAIR TURNER: Except just to pick
18 up a little bit on what Lara said, it's not good enough
19 just to say, well, there are a hundred shares
20 outstanding and a hundred are voted, and only looking
21 at the over vote on that because the real question is
22 are the right shareholders voting the right number of
23 shares out of that hundred.

24 MS. TROTTER: Absolutely. And I think
25 everyone agrees that the shareholder expects the vote

1 that they have cast is being counted and accepted at
2 the meeting. And we look to the nominees to ensure
3 that their records are in such a manner that that
4 situation is correct in that the right person did, in
5 fact, receive the vote.

I think that we have the nominees and
they have said that they reconcile their files. So if
the nominees are reconciling the files, the tabulators
are saying that there are over reporting situations,
there is something, you know, when you say there's a
blockage in that system, what is that? It could just
purely be that the positions are held where the
tabulator doesn't know where they're being held and,
again, we need to make sure that those two entities are
in agreement so that the nominee never votes over that
vote entitlement that the tabulator --

17 VICE-CHAIR TURNER: But to make the
18 point, it's not just a question of the over vote, it's
19 a question of the underlying vote.

20 MS. TROTTER: Absolutely. And, again,
21 when I go back to the nominee, the nominee has said
22 that their underlying accounts are reconciled. That
23 they reconciled their positions, they reconciled their
24 records.

I can't look into the records to say yes

1 or no because I don't know where all of their positions
2 are held, so you have to rely on the nominee to
3 indicate that this is my vote entitlement and these
4 were all of the shares are being held.

5 THE CHAIR: Zach, can I go to you. You
6 have been patiently waiting.

7 MR. OLEKSIUK: Thank you. I wanted to
8 pick up on this point of standardization and
9 dematerialization, if you will, and raise the OBO NOBO
10 issue. From our perspective, that is an obstacle to
11 achieving a more standardized system in this market.

12 We believe that most investors at the
13 institutional level, at least, have their controls
14 built around the electronic receipt and transmittal of
15 proxy voting entitlements and the disparate treatment
16 of NOBO holders and the way that we can receive a
17 voting entitlement via fax or some other intermediary
18 that's outside of our tested controls, is it a problem
19 for us, and that has been treated as an exceptional
20 case.

21 So to the extent that there may be other
22 upstream implications for NOBO, OBO, we would suggest
23 there being some thought to whether standardization of
24 treatment of those various types of owners might
25 improve the system.

1 THE CHAIR: Yes, and that issue
2 certainly has come up in some of the questions that we
3 have received from the audience, so I think we do have
4 to reflect on that a little bit more carefully as well.

5 Stéphanie.

6 MS. LACHANCE: As an institutional
7 investor, we do appreciate, of course, the OBO NOBO
8 system and we don't necessarily believe that by
9 changing the OBO NOBO would necessarily bring greater
10 clarity on the system.

11 What I'm really worried about, we have
12 been talking about this issue for more than one hour
13 now, and I really feel that we're looking at an
14 iceberg where the tip of the iceberg is over voting and
15 what's undersea is the potential for over reporting.
16 And I'm not leaving this panel discussion with great
17 assurance that we are doing it right.

18 I have more questions than probably when
19 I started the discussion this morning. It's really
20 troublesome because everyone is saying that they are
21 doing a great job, but at the end we have some
22 statistical information saying, well, more than half of
23 the meetings we're in the over voting or over reporting
24 system and we cannot attribute it only to retail
25 because we know that the retail representation in the

1 capital market is quite low.

2 Then it's the omnibus, then it's maybe
3 DTC. At the end I just want to make sure that my vote
4 is counted and I'm not sure that I'm carrying the full
5 weight that I'm entitled to. And I'm really hoping
6 that there will be efforts, and I thank the OSC for
7 taking the leadership on this one, to take a look at
8 the system and saying where it's not working, where in
9 the plumbing system we've got either a bottleneck or
10 we've got someone that is counting votes twice or
11 entitlement to vote that are being sent out to multiple
12 shareholders, but not all have the entitlement for
13 voting.

14 But to get back to the point of the OBO
15 NOBO system, I don't believe that by changing our
16 mailing and communication with shareholder will
17 necessarily resolve this, and I'm going back to the
18 point where of course we're dividends. Gee, we need to
19 find a way to make sure that it works as well for
20 votes, and to take on David's point, it's a system that
21 is going very well for when we're talking about
22 dividend issuance. I'm not so sure why it's not
23 working as well for voting, which is as important as
24 any other aspects of share entitlement.

25 THE CHAIR: I'm just conscious of our

1 time. We have several other people who want to jump in
2 and a comment from the audience which I won't ask
3 anyone to respond to, except just to say that the
4 comment is the issue seems to be a lack of visibility,
5 and I think various commentators have already said this
6 on the panel, that there is something about the lack of
7 transparency associated with the communication between
8 beneficial owners and nominees and then the various
9 participants who are involved with post record date
10 reconciliation that maybe we need to look at.

11 I think the question is going to be what
12 about the system needs to be rendered more visible so
13 people can have more confidence in it.

14 Hooman, can I turn to you. You wanted
15 to make a comment.

16 MR. TABESH: Absolutely. I was going to
17 offer some practical suggestions. And to that point,
18 in the long term I think we need to go to a
19 technology-based system, however, my fear is that
20 that's an initiative we're not going to see for another
21 ten years.

22 In the short term, my suggestion would
23 be, and it's really echoing Penny and Lara's
24 suggestion, and as well Jeri. Maybe some regulation
25 around the back office nominees, intermediaries having

1 to report accurate numbers and having the backup
2 documentation to back that up. I know that doesn't
3 make me a popular person to suggest that, but maybe in
4 the short term that's the right thing to do as we look
5 towards what's a long term solution.

6 THE CHAIR: Thank you for that. David.

7 MR. MASSE: Just a couple of points on
8 OBO NOBO. You know, when you try to get to the bottom
9 of the value or the distractions of OBO NOBO, often
10 that's a proxy for, pardon the pun, for the ability to
11 vote. There was anecdotal evidence that some
12 institutions prefer being OBOs, not because they're
13 trying to protect their privacy or any proprietary
14 information, but because they find that when they're
15 NOBOs they have difficulty voting. Because when they
16 are OBOs they're able to use the proxy edge system and
17 voting is a well oiled machine, but when they are
18 NOBOs, all of a sudden the vote comes in in kind of a
19 fractured way and they find that they're
20 disenfranchised.

21 It seems to me that when I look at
22 privacy, because privacy issues and proprietary
23 information issues are the prominent reasons why OBO
24 NOBO is a requirement, it just doesn't withstand any
25 logical testing.

1 When I get, let's say, like the Glass,
2 Lewis Report, which I got a couple of days ago on our
3 annual meeting, which is today, they proudly list out
4 my top twenty holders with the positions and the whole
5 thing.

6 I can go to SEDAR and I can see my top
7 ten percent holders. I can go to EDGAR and I can see
8 those who have filed down to five percent in the U.S.
9 And then I get a monthly investor relations report that
10 takes me down to the hundred thousand share threshold.
11 No one appears to be squawking that their privacy is
12 being violated, but you also know that when you see
13 these results, they are the process of maybe a Ouija
14 board and some voodoo in a back closet, because if a
15 proxy solicitor takes that report and says, hey, you
16 haven't voted your position, sometimes you'll get the
17 answer I don't have a position in that stock.

18 So I don't see where the privacy issue
19 is, but I do see the impact of OBO NOBO in terms of how
20 the system can operate. I'll make my final point here
21 that there are only two parties that have an interest
22 in voting. There's the issuer on the one hand, and
23 there's the investor, the beneficial shareholder, if
24 you wish, on the other.

25 Everybody else is an agent, okay, and

1 when you see the dislocation and the problems that you
2 have here, what it amounts to is a massive agency cost
3 and there's no reason for that.

4 I understand, Hooman, when you say that,
5 you know, ten years, but I worry that you look at this
6 and you think, wow, ten years, man, what's the point?
7 Why tackle the problem?

8 I think if people thought that way when
9 they were looking at the St. Lawrence Seaway, we would
10 still have donkeys carting stuff to Toronto over a
11 rutted road. So I think at one point or another there
12 is an opportunity to be seized, really, by Canadian
13 capital markets participants.

14 I don't see any downside for anybody, I
15 really, really don't. From the point of view of
16 brokers, right, if you've got normalized data flows and
17 you can plumb the whole thing into your back office,
18 it's just going to be blinking lights in a closet, you
19 know.

20 You're not going to have people
21 answering queries, I don't understand, I can't
22 reconcile the position, where the heck did this go?
23 Wait a minute, I'll send you a fax, okay? It just
24 doesn't make a lot of sense.

25 I see from the brokerage side, if you

1 suspend your fear for a second, okay, I see huge
2 benefits. From the issuer's side, we'll stop talking
3 about this because at least we'll know, and from the
4 investor's side as well, you'll have a sense, okay, I
5 know that vote has integrity. Are there going to be
6 glitches? Yes, but they will be auditable and it will
7 be statistical thing, you know, like occasionally a
8 pedestrian gets hit by a car, right, as opposed to
9 massive numbers of pedestrians that don't show up at
10 work because they can't figure out how to get there,
11 right?

12 VICE-CHAIR TURNER: I'm not sure about
13 the analogy.

14 THE CHAIR: That does sound like a good
15 note on which to have a break. Hopefully no one will
16 have an accident during the break, but we'll take
17 twenty minutes and then we'll resume at eleven o'clock.
18 Thank you very much for that discussion.

19 --- Recess taken at 10:40 a.m.

20 --- On resuming at 11:00 a.m.

21 THE CHAIR: I think we should probably
22 get started, please, again. Perhaps we could all take
23 our seats and, in particular, our panellists perhaps
24 could join us again so that we can get started.

25 So as I mentioned earlier, our second

1 topic for the roundtable this morning is a look at
2 end-to-end vote confirmation, and we're going to begin
3 that discussion by having a fifteen minute presentation
4 from Broadridge to describe the system that they are
5 working on in the U.S., and then we can have a
6 discussion about whether this is something that would
7 help solve some of the issues that we've identified
8 earlier today. Over to you, Chip and Jeri.

9 TOPIC 2: DESIGNING AND IMPLEMENTING END-TO-END VOTE
10 CONFIRMATION

11 PRESENTATION BY MS. TROTTER:

12 MS. TROTTER: Good morning. We would
13 like to thank the OSC for providing us with the
14 opportunity to discuss the progress being made on
15 end-to-end vote confirmation in the United States.

16 We have the privilege of having my
17 colleague, Chip Pasfield, from our U.S. office, who is
18 working with the U.S. tabulators, intermediaries and
19 DTC on the vote confirmation solution.

20 Before turning over to Chip, it's
21 important to understand the foundation on which the
22 vote confirmation solution is being built. As a result
23 of the Securities and Exchange Commission concept
24 release on the U.S. proxy system in June 2010, a
25 roundtable through the University of Delaware, Weinberg

1 Centre for Corporate Governance was created to identify
2 and develop realistic steps for an end-to-end vote
3 confirmation solution.

4 The roundtable participants composed of
5 issuers such as American Express, United Health Group,
6 The Society of Corporate Secretaries, transfer agents
7 such as ComputerShare and Wells Fargo; proxy solicitors
8 such as Georgeson, brokers such as Goldman Sachs and
9 Merrill Lynch, shareholders such California Teachers
10 and BlackRock, Broadridge, DTC and FINRA, which is a
11 financial industry regulatory authority in the U.S.

12 The roundtable agreed that unless
13 elections are fair and transparent in both reality and
14 perception, the critical governance control mechanism
15 is endangered. It is also fundamental that, once cast,
16 shareholder votes are properly transmitted and tallied.
17 Corporations expect the elections of their directors
18 and the outcome of other shareholder votes to be
19 legitimate, above reproach and final.

20 Shareholders expect that their votes are
21 received and tabulated as they have instructed and in a
22 timely fashion. It is a belief of the roundtable
23 participants that upon the implementation of the
24 recommendations, that voting integrity desired by all
25 parties can be enhanced.

1 To prevent over voting, the nominee must
2 take steps to report only votes that fall within the
3 nominees voting entitlement. Nominees will perform
4 adjustments to beneficial vote entitlements before,
5 pre-reconciliation, or after, post-reconciliation,
6 distribution of voting instruction forms.

7 Since end-to-end confirmation is
8 possible under either pre or post-reconciliation, the
9 roundtable did not express an opinion on whether either
10 reconciliation method is preferable.

11 The recommendations of the roundtable
12 include that early stage disclosure by participants of
13 share positions that are not clearly identified in the
14 depository position and that the simultaneous granting
15 of sub-omnibus proxy or mini omnibus proxy, and lastly,
16 that the decrease of the participant entitlement
17 positions by the amount of shares for which voting
18 authority has been delegated to others will
19 significantly aid tabulators in establishing overall
20 voting entitlement.

21 Most importantly, by taking these steps
22 early in the process, the stress of late stage high
23 volume vote tabulation and reconciliation processes can
24 be materially reduced and that all shareholders,
25 whether large or small, institution or retail, are

1 encouraged to cast their votes early in the
2 solicitation period.

3 That there should be enhancements to
4 exception processing. Tabulators should promptly
5 communicate to vote recording entities the reason why
6 votes are being rejected, and vote confirmation, which
7 should be available to investors to obtain via the
8 internet or other electronic means on a demand or as
9 needed basis. If the tabulator confirms back to the
10 nominee that the nominee's aggregate position was voted
11 in accordance with the nominee's instruction, the
12 nominee will then be able to confirm back to its client
13 that the client's vote was received on a timely basis,
14 accurately recorded, and included in the final
15 tabulation of votes, thus completing the confirmation
16 chain from tabulator to nominee to shareholder.
17 Furthermore, the proxy voting system as a whole should
18 be regularly audited and confirmed to be accurate,
19 reliable and efficient.

20 So at this time I'll turn it over to
21 Chip to describe the U.S. development with these
22 fundamentals in mind.

23 PRESENTATION BY MR. PASFIELD:

24 MR. PASFIELD: Thank you, Jeri, and
25 thank you for allowing me to come up and speak to you

1 today.

2 What I would like to try to do is just
3 give you a sense of the steps that we have taken down
4 in the U.S. over the last couple of years, where we are
5 today and where we hope to go tomorrow.

6 As Jeri said, a roundtable was convened
7 down in Delaware, we had a good cross-section of the
8 industry there. Came out with the white paper and
9 identified some points to be looked at.

10 I think probably the most unique part of
11 this whole effort is that the SEC included the concept
12 of end-to-end vote confirmation in their concept
13 released in 2010, but what was unique was that they
14 didn't regulate, they didn't want to regulate. They,
15 in essence, said to the industry in the U.S. this is
16 something that we think is inherent, a need that's
17 inherent, and we don't want to take the time or the
18 focus because we have a lot to deal with, we want you
19 to solve it, we want the industry to solve it.

20 So that's what we started with, the
21 premise that we started with, and immediately after
22 that roundtable in the proxy season of 2011, one of the
23 participants, United Health Group, was actually the
24 first issuer to step forward and say, look, I want my
25 shareholders to have the ability to confirm their vote

1 and we want you to build something coming into
2 Broadridge, we want you to build something to allow
3 them to do that.

4 So that was really the first shot, first
5 test pilot premise to allow shareholders on the
6 beneficial side and the registered side to be able to
7 confirm outside the Proxy Edge platform that we have
8 been doing for a number of years.

9 That was relatively successful. We have
10 learned some things coming out of it. The next step
11 was to come back and convene the industry to say now
12 what we need is some cooperation across the
13 constituents.

14 So a steering group was formed, and that
15 was formed in 2012, in June 2012, and it was comprised
16 of members of the STA, certain regulators, Broadridge,
17 banks, brokerage, and that group said we understand the
18 concepts, but what we need is a group to tactically
19 identify what's needed on a systemic basis to get this
20 done. So a working group was formed out of that
21 steering committee.

22 That working group identified two major
23 points. One was the ability for a tabulator to
24 accumulate, I'm going to use the term omnibus proxy,
25 and I have learned a lot today and one thing I've

1 learned is that we use different terms to mean
2 different things.

3 A U.S. tabulator and a Canadian
4 tabulator as well will receive omnibus proxies, I think
5 sometimes referred to as supplemental proxies or mini
6 omnibus proxies. These are documents that are
7 transferring voting entitlement, not DTC or CDS, but at
8 larger institutions into names of smaller institutions
9 that are maintaining an account on their books. In the
10 U.S. it's a record holder bank and a respondent bank,
11 those are the terms that we're using.

12 So that was identified as an issue to
13 cover low hanging fruit, to say this is a problem
14 because there's many of these, it's currently produced
15 in paper form or provided via a PDF file. So we had to
16 solve that issue as step one.

17 That was done by creating an electronic
18 file transfer mechanism that took that information, put
19 it into electronic form, and we allowed transfer agents
20 to come in and pick that information up. They could
21 pick it up, ingest it into their tabulation systems
22 without having to enter it manually. We circumvented
23 that manual process.

24 To give you a sense, there were files
25 made available in February of 2012. We have two

1 tabulators today that are receiving the file,
2 ComputerShare is one, and American Stock Transfer,
3 working out of Brooklyn is the other. I believe
4 ComputerShare is, in fact, using it with their system.
5 I'm not sure of the status of AST.

6 So the other thing that became very
7 apparent was that there had to be a mechanism for the
8 tabulator and the intermediary to talk to one another.
9 So a process had to be developed that would allow an
10 issuer that was not being tabulated by Broadridge,
11 outside the Broadridge tabulation process, to offer
12 confirmation to their shareholders.

13 In order to do that, the tabulator and
14 the intermediary had to come to agreement on the voting
15 entitlement. So we endeavoured to create a
16 communication platform, which is like a work flow type
17 application, that would allow the intermediary to go
18 in, view their position on a given issuer, all right,
19 and agree or disagree with that position.

20 So let me see if I can make an example
21 out of that statement. If Merrill Lynch goes into the
22 work flow application for IBM, identifies the position
23 for Merrill Lynch has one million shares, that, by the
24 way, is coming from DTC, so DTC is communicating that
25 entitlement as a baseline. But Merrill Lynch looks at

1 that position and says, well, I have a million shares
2 in DTC, but in addition to, that I have a hundred
3 thousand shares in registered form on the books of IBM.
4 They have the ability then to go to the tabulator and
5 say I have a hundred thousand shares in registered form
6 in my name, firm name, on the books of the IBM. So we
7 establish that communication link. That, by the way,
8 is still in process.

As I mentioned before, we have automated
the omnibus proxy files, that's out there, it's
working, transfer agents can pick them up and take
advantage of that. We also recognized that nominees
that need to address their beneficial holder positions
in some cases have a significant number of accounts.
We talked a little bit about margin accounts before.
Some firms, as you know, will go in and they will
identify their margin accounts, they will identify the
number of shares that were loaned as an aggregate
number, and they need to adjust those accounts
accordingly.

24 There's two ways to do that. You go in
25 and try to individually identify each account, which is

1 almost impossible. The second way, at least to my
2 knowledge, is to take that position and drive the
3 shares down for that account. So we create a facility
4 that allows the intermediary to come into the system
5 and to adjust positions based upon a percentage or an
6 aggregate number.

7 The third item which I just touched on
8 was this communication tool. This has become quite
9 large, okay, fairly detailed, but it's grown that way
10 only because of the input and the cooperation of the
11 group that was working on it.

12 I think it's safe to say that this is a
13 significant industry effort, but the real point and
14 common ground that was reached was quite gratifying
15 actually. So we're still in process with the
16 communication tool. We hope to have that in place by
17 mid-February and hope to put it into use, at least to a
18 certain extent, for practices in 2012.

19 The other focus that we have is to reach
20 out to all our clients on the Broadridge U.S. side and
21 ensure that they can participate in the over vote
22 service, hopefully down to even the respondent bank
23 level, so kind of peel that onion back a bit, and to
24 focus on the integrity of the relationship between the
25 respondent banks and the larger banks to make sure

there is a valid connect there.

So that brings us to the 2012 season.

At this point we have two things going on. We have the agreement of four U.S. transfer agents that they will select five issuers that they are tabulating for, and we will use that group as a pilot for the 2012 -- or the 2014 season, going backward in time there.

Thus far we have commitment from ComputerShare, Wells Fargo, and we're waiting for AST and RNT.

In addition to that, the group has identified that we needed a document so that when this tool is rolled out there is a best practices parameter around the use of the tool. And, specifically, they were looking at trying to avoid a back and forth free form text type question and answer going back and forth, trying to debate whether they have a position or not, so we spent a lot of time on looking at the number or the specific circumstances or instances where a nominee would need to request additional shares above and beyond the depository position. Registered shares being one example.

So there was a dialogue back and forth between the transfer agent and the nominee to determine what information the tabulator would need to

1 authenticate that position. That's a work in progress.
2 It's coming to the end of the job hopefully fairly
3 soon, but registered positions was number one, multiple
4 positions was another. I'm not sure what the
5 environment is in Canada, but in the U.S. there's many
6 instances where a nominee will have multiple
7 DTC numbers or accounts, so the tabulator needs to take
8 into account not just a primary, but, in fact, multiple
9 numbers in certain cases.

10 So we have agreed to come up with a
11 list, which actually is available today, but a more
12 expansive and updated list that will identify Merrill
13 Lynch has a DTC position in 161 in DTC, but they also
14 have 5198. That's the best example that we've used
15 over and over, but that's the reality and tabulators
16 know that, but this is really to confirm it and to give
17 the tabulators some comfort in viewing that document.

18 So at this point those two issues, how
19 to identify and reconcile fails, those type of
20 instances, is still a work in progress, but I think
21 we've come a long way. I'm very hopeful that the pilot
22 for this season will be as successful as the progress
23 that we've seen to come to this point has been.

24 VICE-CHAIR TURNER: Chip, let me ask you
25 a couple of questions.

1 MR. PASFIELD: Sure.

2 VICE-CHAIR TURNER: If you're the
3 intermediary, the intermediary is talking to the
4 tabulator, so they both agree as to what the number of
5 shares being voted is and so they're going to agree or
6 adjust. But the tabulator doesn't know the breakdown
7 from the intermediary in terms of their beneficial
8 holders.

9 MR. PASFIELD: No.

10 VICE-CHAIR TURNER: And the system
11 doesn't track it down to individual beneficial holders?

12 MR. PASFIELD: No, sir.

13 VICE-CHAIR TURNER: Okay.

14 THE CHAIR: Anything else from you,
15 James?

16 VICE-CHAIR TURNER: No.

17 GENERAL DISCUSSION OF TOPIC 2:

18 THE CHAIR: David, can I turn to you and
19 ask for a comment perhaps on to what extent you think
20 that this type of innovation would help us in Canada?

21 MR. MASSE: I have been hearing about
22 that initiative for a while. I heard about it for the
23 first time a couple of years back at the U.S. Corporate
24 Secretary's Conference and there was a fair amount of
25 skepticism expressed at that time and the issue being

1 that it's referred to as end-to-end vote confirmation,
2 but it's really kind of like middle to end, it's not
3 end-to-end. Maybe middle to end is an unfair
4 characterization, but I think that what happens is that
5 it gets reconciled to that macro level at the
6 intermediary, but it doesn't make its way down to the
7 beneficial account.

8 So that you know that there's no
9 overvoting in kind of a macro sense, but you're not
10 getting down to the micro level to know whether the
11 right share is voted.

12 My understanding, I may be wrong, Chip,
13 but my understanding is that what's happening is that
14 when there is an overage it's getting pro-rated at the
15 intermediary level, correct?

16 MR. PASFIELD: It can. It depends. I
17 think we can go back to the point that says it's the
18 intermediary's responsibility to identify shares in
19 their position and control on the record date. That's
20 inherent. That's incumbent upon them to do that. If
21 that's done, then the flow downstream will be
22 consistent and accurate.

What this tool will allow is, I think, a couple of things. Number one, it will provide an easy mechanism for the nominee to go in and look to see what

1 their entitlement is at that point. If they disagree
2 with it, it provides a good communication, an easy
3 communication tool to say I've got shares someplace
4 else, they're legitimate shares in my possession and
5 control, but they're not in DTC, and provides a
6 mechanism for that communication.

7 MR. MASSE: But if those shares were in
8 the register, though, I would have thought that's the
9 easiest thing, the lowest hanging fruit to be able to
10 check. The TA has the register so all you need to do
11 is provide a little bit of identifying information,
12 they should be able to track down the registered side
13 of that equation really easily, I would have thought.

14 No?

15 MR. PASFIELD: I think from a tabulating
16 point of view you're right in that it could be somewhat
17 apparent, but you've got to take that step to look. So
18 if the nominee simply reports the position included in
19 their beneficial position they're going to over vote
20 because if the tabulator hasn't found it --

21 MR. MASSE: They will be seeming to over
22 vote.

23 MR. PASFIELD: Correct.

24 MR. MASSE: When they might not be
25 because they've got a registered position as well.

1 MR. PASFIELD: Absolutely.

2 MR. MASSE: There's always challenges in
3 the register, right, because I could be in there as D.
4 Masse, D.G. Masse, David Masse, Masse, David, right.
5 You know, I could have my cottage address, my home
6 address, my office address, so I might show up as five
7 different holders, right?

8 MR. PASFIELD: Right. So there is a lot
9 of dialogue around what type of information the
10 tabulator would need to absolutely identify that. We
11 went back and forth. It was not really the brokerage
12 going back and forth, it was more the nominees talking
13 with the tabulators.

14 Tabulators were saying, you know, I have
15 an account number on my registered file. The
16 tabulators say I have no idea what that number is.
17 Well, what about a certificate number? They're trying
18 to come to common ground and I'm not sure exactly what
19 we're going to settle on, but I think the fact that the
20 issue has been fleshed out and there is a dialogue
21 around it is very, very positive.

22 MR. MASSE: Mr. Turner mentioned earlier
23 in the discussion about identifying or identification
24 numbers or whatever the heck, right. If accounts, if
25 ultimate beneficial accounts were identified, uniquely

1 identified at the KYC level when a broker opens an
2 account for whoever it might be, that would go a long
3 way, potentially could be a tool to allow some of this
4 reconciliation to happen in an accurate way, without
5 necessarily fessing up private information. There's
6 ways now that you can have authentication and unique
7 identifiers without in any way compromising anybody's
8 privacy. That would allow you to go the extra mile and
9 get down to the account level.

10 MR. PASFIELD: I'll respond. I'm not
11 exactly sure of all the thoughts around that. I'm not
12 familiar with that process.

13 MS. TROTTER: One of the pieces that
14 Chip didn't get to is the shareholder themselves. So
15 if the nominee has not exceeded their vote entitlement,
16 then the chain of confirmation can continue down to
17 those shareholders, whether they're Proxy Edge, whether
18 they use another proxy agent or they're retail.

19 So it does flow down as long as, when
20 you talk about the top level, as long as the vote
21 entitlement has been accepted and the nominee has not
22 exceeded that vote entitlement, then vote confirmation
23 from the tabulator to the nominee down to the
24 shareholder can occur, which is end-to-end.

25 MR. MASSE: Yes, that would be

1 end-to-end. Is that occurring? My understanding --

2 MS. TROTTER: That's part of it.

3 MR. PASFIELD: The ultimate goal or the
4 ultimate result is that the shareholder can come into
5 our site, to proxyvote.com. As long as their custodian
6 has been already identified to be in line with their
7 entitlement they can receive a vote confirmation, so
8 they can see what they voted, they can see when, and
9 they have the ability to confirm that the vote was
10 included in the tabulation.

11 MR. MASSE: But, I mean, there's
12 incidents, when we're talking about over voting, over
13 reporting, we're talking about the nominee position
14 being exceeded. Presumably if you eliminate that
15 problem, you could still have a kind of layer of over
16 reporting, it just wouldn't be visible, right.

17 MR. PASFIELD: Layer of over reporting?
18 So if the nominee's position is in line with DTC or
19 their entitlement, number one, and number two, they
20 have done their due diligence to validate their
21 individual positions, if those two components are met I
22 think we're okay.

23 COMMISSIONER LECKMAN: I'm sorry, but
24 aren't you really talking about one for one
25 reconciliation and then end-to-end vote confirmation?

1 MR. MASSE: Right. I mean, that would
2 be the objective, right? I'm not sure that's
3 happening.

4 MR. TABESH: It doesn't necessarily get
5 rid of over voting, it just highlights it. To the
6 extent that your votes weren't count or pro-rated, then
7 that gets fed back to the nominee, who realizes that
8 not all of their shares were necessarily voted because
9 they may have, they or somebody else may have over
10 reported. Is that right?

11 MR. PASFIELD: Well, it provides the
12 opportunity for the nominee to see what their
13 entitlement is, adjust their accounts if need be, or to
14 reach out to the tabulator to identify additional
15 shares outside the --

16 COMMISSIONER LECKMAN: Sorry, Chip,
17 that point where you say adjust the shares as need be,
18 that's, I guess, the point that we're trying to dig
19 deeper into, which is, I guess, the pre-mail
20 reconciliation, which is that's the part we talked
21 about the nominee adjusts. I think that's kind of
22 where we're kind of digging into here.

23 MR. PASFIELD: Okay, so
24 pre-reconciliation, we'll use that term, or
25 post-reconciliation, either process is, at least my

1 understanding, where a nominee and brokerage is going
2 to look at their stock record. They see that their
3 position for margin or fail, whatever the case may be,
4 is out of sync with their depository position, so they
5 need to adjust something.

6 If that is to reduce their margin
7 accounts or to adjust for a fail, whatever they need to
8 do to bring that position, that total aggregate
9 position in line with their entitlement. That process
10 is going to require adjustment at the account level.

11 Does that help?

12 VICE-CHAIR TURNER: But then did you say
13 that if I'm the ultimate beneficial holder I can go
14 into the system and get confirmation that my shares
15 were voted?

16 MR. PASFIELD: Yes. That's absolutely
17 the goal. Just to give a little bit more of a view
18 into it, we have actually done end-to-end confirmation
19 for five companies in 2012 and six in 2013 and the
20 results were, I think, as expected.

21 We had a large number of institutional
22 shareholders come in and confirm their votes. We had
23 relatively small number of retail holders come in to
24 confirm their vote, both on the beneficial side and
25 the record side, but that was, I think, expected. But

1 I think it was successful in that it showed that that
2 process can work.

3 Now, given all those issuers were
4 tabulated by Broadridge, so we were doing the
5 communication, if you will, from Broadridge back to the
6 broker or intermediary, so what we're doing now is the
7 next step. To have the issuer tabulating outside of
8 Broadridge, be able to do the same thing, but
9 facilitate the communication between the broker and the
10 tabulator. That's the process that we're building.

11 THE CHAIR: Lara, you had wanted to make
12 a comment?

13 MS. DONALDSON: Just one comment on the
14 fact that David mentioned it's not true end-to-end. I
15 appreciate that the shareholder can go into the
16 Broadridge system to confirm that the vote has been
17 received by the tabulator, but it doesn't fix the issue
18 of what we often experience at shareholder meetings as
19 the scrutineer and as the issuer themselves with
20 shareholders showing up at the meeting and saying do
21 you have my vote. They're a beneficial holder, we
22 can't identify them, we still don't have the
23 methodology by which we can say, yes, we have your
24 vote, it's part of the vote that the chairman is
25 casting on your behalf. You're being represented at

1 the meeting and your voice is being heard.

2 That part is still missing, so you don't
3 really have true end-to-end for the holders who don't
4 have access to the Broadridge system when they show up
5 at the meeting because the issuer doesn't have that
6 level of transparency.

7 MR. MASSE: I guess it's not really
8 relevant to that discussion, but that's the thing that
9 really, really gets my goat. The way the system works
10 now, at virtually every single annual meeting in
11 Canada, it may not be the case in the U.S. and it may
12 not be the case where Broadridge is tabulating, but
13 you've got shareholders coming in and I can tell you --
14 actually, I used to say it was more than 80 percent,
15 but, in fact, it's more than about 98 percent of our
16 beneficial shareholders, and we don't kick anybody out
17 at the meeting.

18 So when they come in and they show up at
19 the registration desk they get equal treatment. But in
20 the case of a registered shareholder, you know, our
21 transfer agent says, oh, yes, Mr. Smith. Yes, there he
22 is. Yes, Mr. Smith, welcome to the meeting, go have a
23 seat, glad you're here.

24 When Jones shows up and he's got a far
25 larger beneficial position, they go Mr. Jones, Mr.

1 Jones, Mr. Jones, they come up dry. They don't give
2 him the bum's rush. They say go have a seat and they
3 give him the same speech.

4 If there's a ballot, you know, they both
5 raise their hands, they both fill out ballots very
6 diligently. It goes into the back room and Smith's
7 ballot is diligently counted and then Jones is not so
8 much. Round file, right? But nobody comes out
9 afterwards and says, oh, by the way, Mr. Jones, we
10 trashed your ballot.

11 So they both go home feeling pretty good
12 about themselves, right, but the fact of the matter is
13 there is a kind of a charade going on and it's an
14 uncomfortable place to be, to be quite frank.

15 VICE-CHAIR TURNER: But if the system
16 worked, that beneficial holder should have the
17 confidence that, in fact, the vote was recorded.

18 MR. MASSE: Exactly, and I don't
19 see why, like, for instance at its source it's a
20 corporate law problem. It's not a securities law
21 problem. It's because the corporation statutes are
22 still in the Victorian age and we still have to
23 register and all that stuff and that stopped working
24 probably twenty years ago, but the corporate law people
25 haven't kept up or they've kept up very, very

1 marginally.

2 There's no reason why, with adequate
3 systems, you know, let's say a distributed voter
4 authentication system or whatever you want call it,
5 there's no reason why you couldn't treat the beneficial
6 and registered shareholder on exactly the same footing,
7 give them exactly the same right. They can attend the
8 meeting, they can do shareholder proposals if they want
9 to, they can vote at the meeting, they can vote by
10 proxy.

11 This whole distinction between voting
12 instruction forms and proxies, for instance, is
13 nebulous to most people. If you ask the average
14 shareholder did you get a voting instruction form, did
15 you get a proxy form, they don't understand. Why
16 should a beneficial shareholder who wants to attend a
17 meeting legitimately, why should they have to appoint
18 themselves as a proxy holder? That's completely
19 counter-intuitive. And even though we explain it in
20 our proxy circulars and stuff like that, this is not
21 the security regulator's problem, this is not the
22 industry's problem, this is the corporate regulator's
23 problem.

24 They ought to be here. They ought to be
25 here, they ought to be listening. You know, Industry

1 Canada has put out a consultation paper at last on some
2 of these issues, maybe not all of them, but they've got
3 to be held accountable for the fact that they haven't
4 kept pace with what's going on in the markets.

5 I think if on the beneficial side you
6 had a good voter identification system that was at
7 least as good as the register, right, you could
8 eliminate the distinction and solve some of this
9 problem.

10 MR. TABESH: Just the corollary to that,
11 if a shareholder wants to come to the meeting and vote
12 at the meeting they would first have to register the
13 shares. They would have to go through a bunch of
14 hurdles, register, and then be able to do that,
15 otherwise there would be no chance. But I really
16 haven't made up my mind, I want to come to the meeting
17 and ask the question and vote my shares then. You
18 can't, right? So you're right, it is a problem.

19 MS. TROTTER: There is a different
20 mechanism.

21 MS. DONALDSON: They need to follow the
22 appointment process set out on the voting instruction
23 form and then go through all the steps required so that
24 their name is with the tabulator at registration.
25 There is a process, it's long and convoluted.

1 MR. MASSE: In fairness, I think it
2 improved under the latest -- but I have no visibility
3 as to whether it's improved to the point where it can
4 work.

5 In 2011 I think somebody at
6 ComputerShare had done the analysis that in order for
7 the system, the way it used to work, in order for it to
8 work, paper would have to cross Canada Post seven times
9 or something between receipt of the materials and the
10 meeting, which I don't think it could cross two times.

11 MS. TROTTER: It's more electronic now.

12 MR. MASSE: I think it works a little
13 bit better.

14 MR. TEEMAL: We appoint people from time
15 to time to go to meetings.

16 THE CHAIR: Sorry, Narry, can you say
17 that again?

18 MR. TEEMAL: We have shareholders who
19 come up to us, even beyond the Broadridge platform, to
20 attend the meeting. It's just giving them a piece of
21 paper that says you can attend.

22 MR. MASSE: And, Lara, is that showing
23 up on the ComputerShare side? They would show up as,
24 I can't remember the term for them, appointees.

25 MS. DONALDSON: Right. So the process

1 that was removed is the legal form of proxy where the
2 paper did have to go back and forth numerous times,
3 and that has been removed from 54-101, but now what we
4 see coming in through the Broadridge vote is a separate
5 vote that's an appointee other than management, which
6 is how it's typically referred to.

7 So that individual is set aside, we draw
8 down the number of shares from that broker account and
9 set them aside for that individual and then when they
10 show up at the meeting we have their name, we have
11 their shares, we have their voting pattern, whether
12 they have been instructed how to vote or it's
13 discretionary, and then they are able to vote once they
14 appear at the meeting, but the vote does not get cast
15 until they are present.

16 MR. MASSE: That would be whether
17 they're OBOs or NOBOs, right?

18 MS. DONALDSON: Yes.

19 MR. MASSE: That's a huge improvement.

20 THE CHAIR: Narry, can I turn to you as
21 an intermediary, and you've already explained earlier
22 what your back office systems are. Do you have any
23 comment on this development in the U.S., this
24 end-to-end vote confirmation? Is this something that
25 you could see being implemented?

1 Would it change any of the processes
2 that you need to engage in in your back office?

3 MR. TEEMAL: Well, it would be an
4 improvement to the process currently. We have
5 investors who ask whether or not their vote was
6 accepted. This way they would be able to see on the
7 system, electronically they would be able to see
8 whether or not their votes were accepted.

9 You know, the large institutions that we
10 deal with, some of them ask for this, can you confirm
11 if my vote was accepted. We don't get that right now,
12 but if we had the system it would be a good improvement
13 and we would be able to validate, which we do now to
14 some extent, the positions that are missing. We could
15 do that directly with the tabulator.

16 THE CHAIR: So would it require more
17 communication with the tabulator than you currently do?

18 MR. TEEMAL: It would, which would be a
19 good thing. Understanding from Lara, the DTC sometimes
20 doesn't give the omnibus proxy. We're not aware of
21 that right now. So that's why I think most of these
22 over votes occur, because DTC hasn't given up the
23 omnibus proxy because they don't have the share --

24 MS. DONALDSON: Just to clarify, DTC
25 does always issue the omnibus proxy. It's where it

1 ends up that's the issue.

2 It goes to the issuer's address. If the
3 address is incorrect, then they have no way of
4 correcting it and the issuer then needs to take the
5 extra step once they've received it of forwarding it to
6 the transfer agent. But DTC does always issue the
7 omnibus.

8 MR. MASSE: Yes, except I don't think
9 they're mailing it anymore. We had to go through a
10 whole rigmarole last week to get it. We had to go in
11 to DTC to get it and it was an afternoon of back and
12 forth and head scratching.

13 MS. DONALDSON: There is an on-line
14 system they have set up, which is optional still, to my
15 knowledge. They are still issuing paper.

16 MR. MASSE: They told us they wouldn't.
17 I guess we're not big enough.

18 MR. TEEMAL: There would be more
19 transparency for us to be able to reconcile and to make
20 sure there is no over vote situation.

21 VICE-CHAIR TURNER: Can I just confirm,
22 because I think I heard it. You said that where you
23 give the authority to the beneficial holder to show up
24 and vote at the meeting, you then adjust the holding
25 and it has to come off of ---

1 MR. TEEMAL: We reduce that on the
2 Broadridge system simultaneously.

3 MS. TROTTER: Just to be clear, the vote
4 entitlement is still there and it's the tabulator that
5 reduces the total entitlement for that intermediary to
6 account for the individual that will be showing up at
7 the meeting. But the entitlement has to be there at
8 the beginning in order for the acceptance of that
9 appointee.

10 COMMISSIONER LECKMAN: A question for
11 Chip or Jeri. On this end-to-end system you have,
12 would that system enable an audit across all the
13 intermediaries if the system was instituted or when
14 it's instituted in the U.S. fully?

15 MR. PASFIELD: We really didn't address
16 an audit question. When you say audit, you're saying
17 to determine whether the position of each intermediary
18 matched DTC?

19 COMMISSIONER LECKMAN: Yes, and to
20 verify.

21 MR. PASFIELD: In reality, that's what
22 the tabulator is doing because the position that the
23 intermediary has seen on the work flow application is
24 coming in from DTC, but separately DTC is providing
25 numbers to the tabulator. So they have the authority

1 or the authentic entitlement, and the nominee is
2 looking at the same number presumably, but ultimately
3 the tabulator's job is to ensure that the nominee's
4 votes not exceed that entitlement.

5 That kind of a check and balance,
6 perhaps, gives you a bit more comfort on the audit
7 question.

8 COMMISSIONER LECKMAN: Just to follow
9 up, when we were talking about the nominees adjusting
10 their positions or trades or share lending, whatever,
11 why would there have to be any adjustments anyways,
12 because they all state that they reconcile every day
13 anyways.

14 MR. PASFIELD: If they've reconciled
15 then there is no adjustment, you're absolutely right.

16 COMMISSIONER LECKMAN: Okay. Thank you.

17 THE CHAIR: Anybody else want to make a
18 comment on this issue from their perspective about the
19 end-to-end confirmation? Penny, do you...

20 MS. RICE: I was just going to ask one
21 question. Because the proxy voting system is always
22 fluid in that your vote may be accepted today, but
23 tomorrow it's not because they've got more shares than
24 I have or a mini omnibus has come in and taken my
25 shares away from the broker, do they continually update

1 it so that right now it shows accepted, but tomorrow
2 when it gets pro-rated does it go back and overwrite
3 the initial confirmation? How does that work?

4 MR. PASFIELD: This is at the
5 shareholder level?

6 MS. RICE: Yes.

7 MR. PASFIELD: The concept is if there's
8 any adjustment needed, it's done up front and the
9 agreement between the intermediary and the tabulator is
10 affected at that point. This is now well in advance of
11 having anything being issued at all.

12 Once that agreement is made, unless
13 there's a change to it, which, you know, we'll learn as
14 we go here, but we don't anticipate a need for that,
15 there should be no issue.

16 MS. RICE: Does that happen on a timely
17 basis? I'm just thinking, by the time you get the
18 beneficial shareholder information and you reconcile it
19 back to what the transfer agent thinks you're supposed
20 to have, I assume all that happens before you mail it?
21 Is there enough time to do that and get a timely
22 mailing out?

23 MR. PASFIELD: We believe so. We
24 believe there is. Again, this is a work in progress,
25 it's a pilot. In anticipation of not being in a

1 perfect world, we have a mechanism that we've also
2 discussed that will trigger communication between the
3 tabulator and Broadridge should a vote go out that, for
4 whatever reason, still exceeds entitlement, not that we
5 can perceive the coming of everything on the front end,
6 but if that happens there is a mechanism.

7 VICE-CHAIR TURNER: One of the
8 questions, I think, from the comment letters was
9 whether or not someone at the intermediary should
10 certify the appropriate allocation of the voting rights
11 across the beneficial holders. Anybody have a view on
12 that? Sounds like a good idea.

13 THE CHAIR: Maybe we should ask Narry to
14 comment, since he might be someone who has to certify.

15 MR. TEEMAL: Our position, the
16 reconciliation that takes place is audited, right? We
17 wouldn't make a change unless it's valid. I mean, if
18 somebody was to challenge us, we would have to be able
19 to back up, you know --

20 THE CHAIR: When you say it's audited,
21 what do you mean by that?

22 MR. TEEMAL: The books and records of
23 the broker is audited from time to time -- not time to
24 time, it's audited every year. There's spot checks,
25 there's a lot of different things that happen.

1 VICE-CHAIR TURNER: But that's not to
2 determine allocation of voting rights.

3 MR. TEEMAL: No, it's not. It's to
4 determine the position is accurate and that's the
5 basis, we make sure that our positions reconcile.

6 VICE-CHAIR TURNER: The positions being
7 your beneficial clients?

8 MR. TEEMAL: Correct, yes.

9 THE CHAIR: So where does that lead you
10 to in terms of this discussion about certification?

11 MR. TEEMAL: If I had to certify a
12 position it wouldn't be an issue. If I had to certify
13 that what I'm reporting is correct, that wouldn't be an
14 issue.

15 MR. MILLER: Wouldn't that also leave
16 you with the same issue on the retail side? You were
17 saying with the margin and being able to understand
18 that, so you would have to accept that because you're
19 certifying for voting purposes.

20 MR. TEEMAL: Well, margin accounts make
21 up two percent of my overall positions, right, and it's
22 integrated with the other positions as well. I mean,
23 as Chip said, we could probably look into pro-rating
24 percentage. There's a lot of options available to us
25 with this new system. It's something that we need to

1 look at and proceduralize.

2 MR. MILLER: My only comment from an
3 issuer perspective is that we are still struggling to
4 get to all the shareholders when you need to get to all
5 the shareholders. So this is a system that works, I
6 think, for institutions, and you're going to get the
7 majority of those confirmed and I think that's
8 important, but I think, from an issuer's perspective,
9 we're still missing what I would consider the nuts and
10 bolts of it, which is how do we get information and get
11 information to all of our shareholders so that they can
12 vote in every circumstance, and I'm not sure that
13 addresses that at all.

14 MR. MASSE: During the break I had a
15 comment from someone here about small cap issuers who
16 feel that they are very, very substantially at a loss
17 with the current system and that it has dramatic
18 impacts on them in terms of their ability to not only
19 reach out to their shareholders on votes, but also to
20 deal with financing issues and reach out to their
21 shareholders to see if they want to participate in
22 additional rounds of financing, particularly for
23 issuers that don't have income that are in, say, the
24 mining industry. I think it's a huge issue.

25 I gather that there's a huge sense of

1 frustration from that quarter that they're completely
2 left in the margins by this system.

3 THE CHAIR: Can you elaborate on how
4 this occurs? Is that because their shares are more
5 likely to be held as registered shares, as opposed to
6 in intermediary accounts?

7 MR. MASSE: No, they're being held in
8 intermediary accounts and they just don't have any
9 visibility into their shareholder base. They're small
10 enough that they're off the radar of the large
11 institutions, so they're kind of marginalized. My
12 understanding is that they're marginalized right now
13 and it's a source of --

14 THE CHAIR: But if the system works for
15 issuers, as Narry has described it, that reconciliation
16 should be happening in the same way, even if it's a
17 small issuer, no?

18 MR. MASSE: Except that they're not
19 getting to the information. It may be reconciled,
20 let's say, at the intermediary level, but the issuer
21 themselves is not able to get at the information, so
22 they can't identify their shareholder base.

23 MR. TEEMAL: Are you talking about
24 issuers that don't go through the Broadridge process or
25 are you talking about issuers that just try to get

1 information out to the end beneficiary?

2 MR. MASSE: That's my understanding.

3 MR. TEEMAL: So people that are outside
4 the Broadridge system. So internally we have a
5 process. If you have NOBO clients and they want
6 information, we can release that information and they
7 can perform their mailing as they see fit.

8 The OBO clients, we go through a
9 different process. We can let those clients know via
10 the investment advisors or whatever, we do have a
11 process if those issuers approach us as a broker and
12 they want to pass that information on to the end
13 investor, we do have an internal process to address
14 those.

15 MR. MASSE: So I think, you know, that's
16 kind of early stages, but I gather that as a society
17 we're going to be hearing more from that quarter. We
18 have been engaging with them increasingly over the past
19 year or so and I think there may be a voice coming out
20 of that sector.

21 THE CHAIR: Do you have a sense of what
22 proportion of issuers are not using the Broadridge
23 platform?

24 MR. MASSE: No.

25 MR. TABESH: I have a question. I

1 understand at CIBC you have daily audits. Is it your
2 understanding that every intermediary and every broker
3 has the same process, substantially the same as yours?

4 MR. TEEMAL: We all have to play by the
5 IIROC rules, right? We have strict, rigid processes in
6 place to make sure books and records are reconciled.
7 So I assume every broker would play by those rules.

8 THE CHAIR: Stéphanie, you wanted to
9 come in on this conversation.

10 MS. LACHANCE: Yes. Just going back to
11 the system that Broadridge is working on. First of
12 all, thank you very much for the effort that you're
13 putting, probably bringing a bit more transparency or
14 at least confirmation for shareholders. That's really
15 greatly appreciated, but we have to all be on the same
16 page that we are working on the assumption that the
17 records are straight at the beginning, because
18 otherwise there's no hope.

19 Where I would like to encourage
20 additional efforts is that as institutional investors
21 to be logging on multiple platforms, to be having
22 visibility as to whether our vote has went through and
23 has been confirmed and counted becomes to be like a
24 burden as well.

25 Just, for example, PSP owns position in

1 more than 350 Canadian issuers. If I need to log on a
2 platform to trace my vote each and every time I
3 wouldn't get through the processes with all my hair,
4 that's for sure. So thank you very much for the
5 effort, I think that is going to be very helpful, but
6 we need to find a way of making sure that the various
7 participants in the system of proxy voting, the system
8 of those participants are speaking to each other,
9 making sure that our life is made easy as well for big
10 institutional investors.

11 MR. PASFIELD: Just out of curiosity,
12 how do you vote today?

13 MS. LACHANCE: We vote using the
14 platforms or either ISS or Glass Lewis, depending on
15 the accounts. We don't use Proxy Edge.

16 So that's a problem. If I have to log
17 on Proxy Edge each and every time, and you will
18 appreciate that if one of their requirements is a
19 control number per account, and the same securities can
20 be held in multiple accounts, so that means multiple
21 verifications and that gets to be a nightmare for us.

22 MR. PASFIELD: Okay, I think understand
23 your concern. We're working on that.

24 MS. LACHANCE: Okay.

25 THE CHAIR: Stéphanie, from your point

1 of view, pushing the information out to you, as opposed
2 to you having to log on to retrieve it would be --

3 MS. LACHANCE: Fantastic, just because
4 of the volume. Otherwise, it's a very nice project,
5 but it's not as user friendly for institution of our
6 size and volume. I don't believe that PSP's position
7 is different than any other institutional investor in
8 Canada.

9 MR. MASSE: If you had a dematerialized
10 system and you had normalized data flows, there's no
11 reason why all types of participants couldn't build
12 dashboards. Let's say if I'm a client of CIBC, for
13 instance, there's no reason why you couldn't provide me
14 with a loading dashboard where I could look at my
15 portfolio and very, very easily vote my shares without
16 any complexity. I could see what I voted, I could
17 change my mind, I can vote and so on.

18 But today people who use Proxy Edge have
19 that advantage or if you're an institution and you have
20 most of your portfolio sitting with ISS, for instance,
21 you have that kind of advantage. Perhaps not with the
22 intended confirmation behind it, but at least the
23 voting process is good.

24 But if you had a really, really high
25 performing system with good data it would be two ways.

You would vote and you'd get your confirmation at relatively at the same time.

COMMISSIONER LECKMAN: One of the comments that came through I think in the funds letter particularly was that anyone who participates in the system should be a market participant, and therefore they get under the umbrella of the regulators.

What are your thoughts on that? I guess I would ask the people most impacted by that.

MS. DONALDSON: STAC is of the opinion that we are open to the suggestions that are being made and we'll certainly review whatever it is deemed necessary, if that's a step that regulators think is necessary for the transfer agent, it is certainly something that we will review as an option.

MR. MacDONALD: I think I'm kind of following on Stéphanie's comments as much as anything here. I think we're certainly open to that idea. As a part of the process, we think we interact in a lot of ways to make sure that the system works as well as it can.

I think, going forward as an industry, we need to be really careful about clearly and narrowly identifying the problems that we're trying to fix. So if we're talking about accuracy is one thing, Stephanie

1 veered off on to sort of ease of use as well, and
2 because there's the PSPs of the world and then there's
3 everybody else.

4 The volumes for PSP I can totally
5 appreciate would be a separate issue. Maybe there is a
6 system that's built that's accurate as anything, but
7 when you have to go through all those accurate steps
8 350 times there's, let's say, eight to ten players in
9 the marketplace who would also lose all their hair.
10 Because I know we're wrapping up now, but I would say
11 on a next steps, go forward basis, that we be really
12 careful as to narrowly defining the problem that we're
13 trying to solve and take them in an order of priority.
14 If we lump in too many things you'll be talking about
15 it forever.

16 THE CHAIR: Since you invited me to ask
17 this question, if you had to prioritize the things that
18 we should take on as a first order of priority what
19 would it be?

20 MR. MacDONALD: As I said from the
21 outset, it's more of a retail issue than an
22 institutional issue. Certainly from our perspective
23 and partly why we kicked off a symposium at the request
24 of some clients almost three years ago now was really
25 to get greater clarity as to how securities lending

1 interfered or did not, and we have great clarity on
2 that. We're very transparent in terms of what our
3 regular responsibilities are in terms of accurate
4 reconciliation to custodians and depositories. So
5 that's fairly sound.

6 But it does seem like when the retail
7 element gets involved it's less clear and I'm less able
8 to comment on it. It seems like that's area number
9 one, but easy for me to say.

10 THE CHAIR: Narry, do you want to add to
11 that?

12 MR. TEEMAL: For me it would be working
13 to build a better reconciliation process.

14 THE CHAIR: Stéphanie?

15 MS. LACHANCE: Well, the most important
16 area for us is let's get the record straight at the
17 mailing date, making sure that whatever proxy material
18 is sent is sent to the right individual to the right
19 institution for the right account of shares. That's my
20 main priority.

21 End-to-end vote information will be then
22 reliable and we'll be confident that when we get
23 access, when the pilot is tested, then when we get that
24 confirmation that it's true and it's complete and my
25 vote is carrying the full weight, that it's not being

1 diluted because we are either over voting or vote
2 reporting position and we've got individuals or
3 institutions that may be voting, but are not
4 necessarily entitled to. So's let get the record
5 straight at the get go.

6 That's the main priority, at least for
7 us, as institutional investors, and end-to-end vote
8 confirmation will be a nice addition, that's for sure.

9 THE CHAIR: Anybody else want to give us
10 some advice? Lara?

11 MS. DONALDSON: We agree that the
12 initial records being a hundred percent accurate should
13 be the first priority. There has been a lot of
14 comments that the transfer agent should somehow be the
15 gatekeeper to identify and correct problems that we
16 believe really shouldn't have occurred in the first
17 place.

18 When we're dealing with issues, problems
19 with votes that can't be validated or accepted
20 typically occur shortly will have proxy cutoff, which
21 is 48 hours before the meeting, so the expectation that
22 the transfer agent should be able to identify the
23 problem, determine who to contact, provide details of
24 the problem, receive back corrected documentation,
25 re-tabulate the vote, all in time to have new proxy

1 tabulation results to the issuer before their meeting
2 so they can review them and not get them at the start
3 of the meeting, it's not realistic.

4 Ultimately issuers need to be able to
5 depend on their final tabulation results being accurate
6 and I think most issuers would probably say they're not
7 a hundred percent there and shareholders need to have
8 the confidence that their voice is being heard and
9 their vote has been cast as they have intended. We
10 don't believe this can happen unless the initial
11 records are one hundred percent accurate.

12 THE CHAIR: Hooman.

13 MR. TABESH: That's interesting, because
14 I was just mentioning at the break to both Mr. Turner
15 and Ms. Condon, one of our advice to our clients is
16 always to have their cutoff on Friday so that you have
17 the weekend to work through all the votes, because
18 inevitably there's always inaccuracies.

19 I one hundred percent agree with you,
20 you know, when it get into the pipeline it's inaccurate
21 and by the time it gets to you it's inaccurate and you
22 have to do everything backhand.

23 So we are very supportive of making sure
24 that what is reported at initial stage is accurate,
25 versus when it gets to you.

1 THE CHAIR: Thank you. Jeri?

2 MS. TROTTER: If I could just add on to
3 that, it's important that entitlement is determined
4 early in the process. That the vote entitlement is
5 agreed upon and that the tabulator understands where
6 the shares are being voted, whether it's part of
7 registered or whatever, and as long as that's done
8 early in the process, to Lara's point, it is difficult
9 48 hours before, 3600 meetings, across whatever number
10 of tabulators. It is very difficult, but if that's
11 started early in the process and the vote entitlement
12 is established, then you don't have those late stage
13 reconciliation issues or the over vote at that
14 particular time.

15 THE CHAIR: Thank you. Last opportunity
16 for anyone who wants to comment before we finish up?

17 VICE-CHAIR TURNER: Nobody has mentioned
18 restricted proxies. I take it from the comment letters
19 that that's a minor problem, if there is one?

20 MS. DONALDSON: We don't see restricted
21 proxies as often as we used to. They do still come in,
22 typically in contentious meeting situations where
23 people are very anxious to ensure that their vote is
24 being cast.

25 The problem with restricted proxies

1 isn't the proxy itself, the problem is is that the
2 tabulator has no assurance that the shares being held
3 behind that broker haven't already been voted in
4 another way. We don't have the transparency to say,
5 yes, this vote has been removed from this person behind
6 the intermediary and is now being cast as a restricted
7 proxy.

8 So unless the entire position is voted
9 and you're in an over vote position, there is a real
10 risk that you're double counting the vote, and we can't
11 provide any assurance to the issuer that that has not
12 happened.

13 MR. TEEMAL: To answer your question, in
14 the three years I have been directly involved with
15 shareholder communications and proxies, I've only seen
16 one request for a restricted proxy because part of
17 process is to make sure that you know that the vote
18 below that hasn't occurred, and we couldn't validate
19 that. So in order to issue it you also need management
20 approval, so we declined that. So that's a very small
21 issue.

22 THE CHAIR: David.

23 MR. MASSE: I was going to say the whole
24 issue of restricted proxies kind of makes me a little
25 bit queasy and it doesn't help to find out that it's

1 mostly in the contentious ones, which is where the risk
2 is highest. To me, I mean, that's a little bit of
3 monkey business and I think it lends itself to loose
4 practice. Because of the situation that you've got a
5 system which is not reconciling sufficiently, it means
6 there is a lot of rubber and there is a lot of room for
7 restricted proxies and that really honestly needs very,
8 very tight controls around it. And I don't think that
9 the infrastructure is there to permit it.

10 MS. TROTTER: In the IIAC letter they
11 were very clear with respect to the controls that are
12 in place from their own firms and that they are
13 controlled in such a way to ensure that votes were
14 submitted on the Broadridge system that were then being
15 represented on a restricted proxy.

16 I think the IIAC certainly addressed
17 that from their member firms.

18 THE CHAIR: Thank you very much. I
19 think the time has come to call this to a close. Just
20 by way of conclusion, I guess what is clear, I think to
21 us as moderators, is that certainly the debate has
22 moved beyond the question of is there an issue to one
23 of identifying what those issues are and to focusing on
24 more what are the appropriate answers to the concerns
25 that have been raised.

1 I think I would say that given that
2 there are multiple participants in the system, it's
3 also very clear, I hope, that it's a collective
4 responsibility, including ourselves as regulators, to
5 try to solve these problems. And so we would hope for
6 continued involvement, continued engagement and
7 continued dialogue in order to really come to an
8 understanding of what would be the appropriate role
9 that we can play in the system.

10 But given the very informative and very
11 candid discussions that we have had this morning, I want
12 to thank all of the panellists for the effort that they
13 have put into coming and to considering their remarks
14 and their responses, and I think on behalf of the
15 audience as a whole, I'd like to just thank them again
16 for their participation today and thank you all for
17 coming. We're adjourned.

18 --- Whereupon the proceedings adjourned at 12:00 p.m.

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1 I HEREBY CERTIFY THE FOREGOING
2 to be a true and accurate
3 transcription of my shorthand notes
4 to the best of my skill and ability

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