



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

September 21, 2012

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

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Dear Sir/Madam:

**RE: Canadian Securities Administrators Consultation Paper 25-401: Potential Regulation of Proxy Advisory Firms**

This submission is made by the Pension Investment Association of Canada (“PIAC”) in reply to the consultation paper published on June 21, 2012 on the potential regulation of proxy advisory firms (the “Consultation Paper”).

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$1 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

We are pleased to have the opportunity to comment on the issues raised in the Consultation Paper. PIAC member funds are long-term institutional investors in the global equity markets. Through proxy voting we promote better corporate governance and corporate responsibility with the objective of enhancing issuer performance and shareholder value.

Every two years, PIAC conducts a survey on proxy voting practices among its member funds. The survey results over the years have shown that, given the high volume of votes cast during the condensed period when annual general meetings are held, it is essential for a significant portion of our member funds to use the research services provided by proxy advisory firms. PIAC is not concerned about the role or current structure of proxy advisory firms. We do not see the need for regulation of these firms. We feel that they provide a number of valuable services and generally promote good corporate governance practices.

The following are our comments on the specific concerns set out in the request for comments.

### ***Potential Conflicts of Interest***

There is a perception from issuers that conflicts of interest exist with proxy advisory firms and that these conflicts of interest are not properly managed. We believe that the ethical walls in place within proxy advisory firms or their internal processes are effective in properly managing conflicts of interest. However, if corporate services continue to be offered by proxy advisors, the proposal to separate proxy voting services from the advisory or consulting services, as contemplated in section 5.2.1 seems reasonable.

### ***Transparency***

We do not think that transparency is a significant problem; proxy advisor reports disclose adequately the reasons for their vote recommendations.

### ***Issuer Engagement***

Allowing an issuer to review a proxy advisor report is the best way to ensure that factual errors are caught and to ensure the issuer is made aware of any recommendations against management. Proxy advisory firms base their vote recommendations on analysing publicly available information; if there is a factual error in the report attributable to the proxy advisory firms' analysis, issuers should have the opportunity to dialogue with the proxy advisory firms. The dialogue opportunity should not be used by issuers to persuade the proxy advisory firms to change their vote recommendations; differences in interpretation will continue to exist between proxy advisory firms and issuers; the dialogue opportunity should be limited to correcting factual errors.

We are cognizant of the fact that the short timelines between availability of proxy materials and voting deadlines provides only a short window of time to allow for a review by issuers. Since the timelines are tight, the review process by issuers needs to be very short in order to allow clients of proxy advisory firms (investors) adequate time to review the issues at stake and speak to the issuers when necessary prior to casting their vote. Alternatively, regulators should consider reviewing the mailing deadlines of proxy-related materials in order to give more time in the proxy voting process.

### ***Influence on Corporate Governance Practices***

Proxy advisory firms develop their voting policies in conjunction with their clients and in some instances the issuers. The voting policies generally incorporate what is predominantly seen as best governance practices as adapted to the standards of the relevant local market. We feel that the influence of these

voting policies has generally had a positive impact on corporate governance practices in Canada as issuers are paying attention to them. It is important to note that many PIAC member funds have their own proxy voting guidelines which may differ from those of the proxy advisory firm on many fronts.

***Proposed Regulatory Responses***

The requirements and disclosure framework set out in section 5.2.1 have already substantially been implemented on a voluntary basis. If the Canadian Securities Administrators does determine that a response is warranted, PIAC would prefer the development of best practices guidance given that we have not seen evidence that there are significant negative impacts on market integrity.

We would also caution that the Canadian Securities Administrators should carefully monitor the various international regulatory initiatives identified in the Consultation Paper. Given that most proxy voting advisory firms operate in several jurisdictions providing research in all markets, it would be onerous to pursue regulation that was out of line with global expectations. This would also create additional barriers for any smaller firms trying to compete with dominant players in the industry.

We do not see the need for regulation of proxy advisory firms. We encourage instead the regulators to look into proxy voting reform to ensure the accountability, transparency and efficiency of the proxy voting system.

We appreciate this opportunity to comment on the consultation. Please do not hesitate to contact Stéphanie Lachance, Chair of the Corporate Governance Committee (514-925-5441; slachance@investpsp.ca), if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,



Julie Cays  
Chair