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**ENGLISH TRANSLATION**

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

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**Subject: CSA public notice – Draft Notice 25-201 relating to  
Guidance for Proxy Advisory Firms**

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Dear Sir or Madam:

We have reviewed the *CSA public notice – Draft Notice 25-201 relating to Guidance for Proxy Advisory Firms* (the "Draft Notice"). La Caisse thanks the Canadian Securities Administrators (the "CSA") for the opportunity to comment on this document.

La Caisse would like to point out that it submitted comments on *Public Consultation Paper 25-401 – Potential Regulation of Proxy Advisory Firms* and will reiterate some of those comments here to support its reasoning.

## **La Caisse**

Under its incorporating act, La Caisse manages the funds of its depositors, which are primarily public and parapublic pension and insurance plans. It is one of Canada's leading institutional fund managers and takes a long-term management approach.

Every year, La Caisse analyzes all the questions put to the shareholders' meetings of the public companies in which it invests.

In 2013, La Caisse voted on 40,601 proposals put to 3,972 shareholders' meetings of companies around the world. All Caisse voting positions concerning Canadian and U.S. companies are disclosed on its website ([www.lacaisse.com](http://www.lacaisse.com)).

La Caisse has sufficient resources to ensure it fully understands all the issues associated with a resolution when it exercises its voting rights.

For shareholders' meetings of Canadian and U.S. companies,<sup>1</sup> La Caisse exercises its voting rights through an in-house team. Some positions undergo a more in-depth consultation involving persons at La Caisse, if the complexity of the subject so warrants.

La Caisse uses the services of proxy advisory firms to inform its deliberations when it takes a stand on any resolution. In so doing, it retains the services of more than one proxy advisory firm.

The recommendations made by these firms, along with the information documents of public companies and the analysis of its managers and experts, are valuable tools that enable La Caisse to exercise its voting rights in an informed manner.

La Caisse conducts its own analyses and decides how to vote without necessarily following the recommendations of the proxy advisory firms.

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<sup>1</sup> For international companies, the vote is exercised by an external provider, in accordance with Caisse policies and guidelines. La Caisse has therefore hired a proxy advisory firm that is responsible for voting on resolutions for companies pursuant to La Caisse's policy on the exercise of voting rights (the "Policy"), which is available on its website).

## General comments

Considering its use of services provided by proxy advisory firms, La Caisse did not see the need for regulation concerning them except for the matter of conflicts of interest, particularly services rendered to companies for which they also provide vote recommendations. That being said, the Draft Notice proposes guidance that is normative rather than prescriptive. In addition, it generally reflects practices implemented by the main proxy advisory firms operating in Canada.

Furthermore, La Caisse has consulted the documents that informed the deliberations of the CSA and enabled them to develop the Draft Notice, including that of the Best Practice Principles for Governance Research Providers Group, titled *Best Practice Principles for Providers of Shareholder Voting Research & Analysis* and published in March 2014 (the "Principles"). A group of proxy advisory firms developed this document concerning best practices. The members of this group undertake to respect the principles set out therein. The two main firms operating in Canada – Institutional Shareholder Services and Glass, Lewis – contributed to the document. With very few exceptions, the Draft Notice is based largely on the Principles, which have already been accepted by the firms that would be subject to the Draft Notice.

Thus, in this context, La Caisse supports the Draft Notice and its guidance, subject to the comments below.

Proxy advisory firms could nevertheless be asked to explain the reasons they would not comply with this guidance. The Principles include this aspect.

## Specific questions

### **1. Do you agree with the recommended practices for proxy advisory firms?**

La Caisse generally agrees with the recommended practices for proxy advisory firms. They substantially reflect the practices already in place. Our comments regarding certain sections of the Draft Notice are as follows.

**Subject.** The scope of the Draft Notice covers communications with the media and the public. La Caisse questions the relevance of this broad scope. It will discuss this matter more extensively in the section on communications.

**Conflicts of interest.** La Caisse is of the view that this is one of the most important sections of the Draft. Actual and potential conflicts of interest must be managed and disclosed clearly to ensure the integrity and credibility of the services offered by proxy advisory firms.

La Caisse is mainly concerned with the services offered by some firms both to investors for vote recommendations and to issuers for governance advice. The best way to avoid such conflicts would be to prohibit firms from providing services directly to issuers. La Caisse understands that some proxy advisory firms refrain from providing such services and focus

on providing vote recommendations to shareholders. That being said, if such an option is not contemplated, we believe that the measures to avoid, manage and disclose actual and potential conflicts of interest must be very stringent.

The Draft Notice provides a clear picture of the situation and provides measures to ensure proper oversight of conflicts of interests. We are of the view that any proxy advisory firm should adopt these measures and ensure that they are effective. La Caisse would, however, like to see a more explicit statement to the effect that institutional clients may require at any time, on a confidential basis, the list of issuers that receive governance advisory services from the same firm or from a person related to it.

**Transparency and accuracy of vote recommendations.** La Caisse is of the view that the transparency of processes for research and determination of vote recommendations is relevant and necessary for investor clients and issuers. They need to know the policies, procedures and protective and control measures to be sure of the accuracy and reliability of the data used. Disclosure of all these elements on the websites of proxy advisory firms is desirable solely to inform issuers that are not clients and to provide a description of the process to potential clients.

In our view, this aspect of the Draft Notice seems to relate more to the client-service provider relationship. We do, however, agree fully with the recommendations on transparency with respect to issuers.

**Development of proxy voting guidelines.** The comments made in the previous section also apply to this section. La Caisse agrees with the proposed consultative approach, which already exists in the market. In our view, consultation involving investors and issuers is essential for the development of representative guidelines. However, we do not agree with consultation involving the public in general. It seems that such a recommendation goes beyond the interests of parties in a private relationship between institutional clients and service providers. We do not see that such consultation would provide any value added.

**Communications with clients, market participants, the media and the public.** La Caisse is of the view that it is appropriate to provide guidance regarding communications with clients and market participants. However, it does not see the need to recommend that policies and procedures for communications with the public be developed. Firms are free to do so if they consider it useful but it does not necessarily have to be part of the guidance included in the Draft Notice.

As for the media, it may be useful to include them to ensure that a framework is in place and known to clients and market participants when vote recommendations are disclosed to the public. It is useful for them to know in advance firms' disclosure practices involving the media.

**2. Are there any material concerns with proxy advisory firms that are not covered in the Draft Notice?**

No, except perhaps for the comments made in question no. 1 on conflicts of interest.

**3. Will the Draft Notice promote meaningful disclosure to the proxy advisory firm's clients, market participants and the public? If not, what additional information should be disclosed?**

The Draft Notice promotes disclosure to the various stakeholders in that it proposes a more formal framework than the current one. Most of the proposed communication procedures are already in place, and the Draft Notice encourages them and proposes them as a model for any proxy advisory firm.

Nevertheless, we reiterate our earlier comments on the relevance of developing procedures for communication with the media and the public on a general basis.

**4. We encourage proxy advisory firms to consider designating a person to assist with addressing conflicts of interest. Should we also encourage proxy advisory firms to have the person assist with addressing determination of vote recommendations, development of proxy voting guidelines and communication matters?**

Designating a person to manage conflicts of interest is desirable and ensures that policies and procedures developed for this matter and appropriate control measures are applied. It should be noted that this is an aspect that is not included in the Principles but that we consider justified.

However, we do not see the relevance of having the person take part in determination of vote recommendations or development of guidelines because the person's neutrality must be preserved, and such participation could impair it. That being said, the person should help establish policies and procedures related to these subjects, which are discussed in section 2.2 para. (3) (a) and Section 2.3 para. (2) (a) of the Draft Notice, to minimize the risks of conflicts of interest.

This person could also take part in communication matters, given the disclosure required by the Draft Notice.

**5. We expect proxy advisory firms to disclose their approach regarding dialogue or contact with issuers when they prepare vote recommendations. Should we also encourage proxy advisory firms to engage with issuers during this process? If so, what should be the objectives and format of such engagement?**

In our view, independent research is crucial for this type of service. Institutional investors want to be able to rely on independent research reports to carry out their voting analyses.

Proxy advisory firms do not all have the same model. Some decide knowingly not to communicate with issuers (except to correct errors) so as to preserve the independent nature of their research. On the basis of this observation, it is not desirable, even as part of normative guidance, to systematically require a discussion with issuers during the determination of vote recommendations. Each firm should be able to decide on its model, which must be clearly disclosed, however.

Issuers have the circular in which they may include any information that investors require to exercise their voting rights. Moreover, investors may communicate with issuers at any time to discuss further certain issues or even vote recommendations made by proxy advisory firms if they disagree with such recommendations.

However, it is imperative that a transparent procedure for communication with issuers be in place to allow factual inaccuracies to be corrected.

For investors, what is important is to:

- be sure that research is independent;
- be familiar with the procedures used by firms to communicate with issuers and the underlying reasons;
- be sure that factual inaccuracies can be pointed out and corrected, and that such matters are disclosed; and
- be certain that discussions do not lead to conflicts of interest and, if they do, be informed of them.

***6. A proxy advisory firm may provide automatic vote services to a client based on the proxy advisory firm's proxy voting guidelines. Should we encourage proxy advisory firms to consider obtaining confirmation that the client has reviewed and agreed with the proxy advisory firm's voting guidelines leading to vote recommendations? If so, should we encourage proxy advisory firms to consider obtaining such confirmation annually and following any amendments to the proxy advisory firm's proxy voting guidelines?***

We are of the view that this subject is part of the private relationship between the client and the service provider. There are many different situations involving total or partial use of automatic voting, and it is the responsibility of the two parties to agree on the communication procedure and how it will work between them.

## **Conclusion**

La Caisse supports the Draft Notice insofar as it generally reflects the existing practices of proxy advisory firms and the Principles that a group of them have developed. In this context, proxy advisory firms could be asked to explain why they have not adopted this guidance, if applicable.

La Caisse nevertheless encourages the CSA to review the situation of conflicts of interest with respect to the governance advisory services offered to issuers, and to require more specific disclosure to institutional clients that receive vote recommendations concerning such issuers.

Furthermore, La Caisse is of the view that the concerns that the Draft Notice aims to address are part of a broader problematic context related to the proxy voting system. La Caisse therefore encourages the administrators to also include them in the more general review of inefficiencies and shortcomings regarding the integrity of the system as a whole.

Yours truly,

Ginette Depelteau,  
Senior Vice-President  
Compliance and Responsible Investment