



Phone: (403) 228-0873
Fax: (403) 228-0906

July 23, 2014

DELIVERED VIA EMAIL

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
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, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention:

Me Anne-Marie Beaudoin
Corporate Secretary Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
Consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
comments@osc.gov.on.ca

Attention:

Dear: Sirs/Mesdames

RE: CSA Notice and Request for Comment – Proposed National Policy 25-201 *Guidance for Proxy Advisory Firms*

This letter is submitted on behalf of Alaris Royalty Corp. (“**Alaris**”) in response to the Canadian Securities Administrators’ (the “**CSA**”) request for comment (the “**Request for Comment**”) dated April 24, 2014 with respect to the proposed *National Policy 25-201 Guidance for Proxy Advisory Firms* (the “**Proposed Policy**”) dated April 24, 2014.

In recognition of the increasingly influential role proxy advisory firms play in the capital markets, Alaris is generally supportive of the objectives the CSA has set out in the Request for Comment; however, as an issuer listed on the Toronto Stock Exchange (the “**TSX**”), Alaris feels that the Proposed Policy lacks the necessary scope to address the concerns raised in the Request for Comment as well as the additional concerns of Alaris and other issuers, namely: potential inaccuracies and limited dialogue between proxy advisory firms and

issuers; the impact of proxy advisory firms on corporate governance practices; and, generally, the manner in which voting recommendations are developed. We feel that the Proposed Policy should go further to: (a) prescribe a minimum level of training for analysts and specified credentials of proxy advisory firms who prepare proxy voting recommendations; and (b) prescribe a minimum level of engagement with issuers.

(i) Minimum Training Levels and Credentials / Publication of Analyst Training and Credentials

Given the generally compressed time frame for the proxy season in Canada and the number of portfolio companies for which institutional investors receive proxy materials for, institutional investors often rely heavily on the research and voting recommendations of proxy advisors. As such, proxy advisors play an important role in our capital markets and in that role they have a high degree of influence over governance practices, in particular compensation matters, through their influence over proxy voting. With this level of influence it is important to ensure that the analysis conducted and provided by proxy advisors is of sufficient quality and accuracy to make a fully informed recommendation to their clients and to ensure their clients are able to make fully informed decisions. Prescribing a minimum training level and specified credentials will help to ensure that proxy advisors are hiring personnel that are capable of handling the complex analysis involved in a proxy review. Most other capital market participants, including lawyers, investment bankers, investment advisors and accountants, are subject to some minimum level of applicable training/education and/or are required to hold specified credentials, and given the noted influence proxy advisory firms can have, it is appropriate to impose some minimum level of training and specified credentials on the analysts who generate the proxy advisory reports for such firms.

We note that some proxy advisory firms have commented that they have established internal training procedures to ensure the quality and accuracy of the reports prepared by them. However, there is no transparency with respect to the training provided by or the credentials required by such firms and, as such, issuers, including Alaris, have concerns with respect to the skills and experience of the analysts they deal with when reviewing proxy advisory reports and recommendations. In this regard, we would suggest that the CSA also require proxy advisory firms to include the qualifications and credentials of the analyst responsible for preparing a report in the report itself. This requirement will ensure compliance with the aforementioned minimum training standards and specified credentials and also provide issuers, clients and other market participants with additional comfort with respect to the training and qualifications of proxy advisory firm analysts and the quality and accuracy of the proxy advisory reports.

(ii) Engagement with Issuers

Proxy advisory firms generally develop a set of standard corporate governance guidelines that apply to all issuers, with no flexibility for deviations from the core principles. This is often referred to as the “one-size-fits-all” approach. This lack of flexibility is a source of frustration between issuers and proxy advisory firms, as it leads to a “check-the-box” style of review, rather than a results orientated review that is focused more on guiding principles. The approach taken by proxy advisors fails to consider actual historical results of compensation plans and the compensation and governance practices as a whole rather than individual parts. In particular, proxy advisors do not consider what issuers have historically done with respect to the issuance of stock based compensation as compared to what an issuer potentially could do under compensation plans that are fully compliant with the TSX’s requirements. Further, this approach fails to appreciate the unique circumstances of individual issuers and the philosophy and reasons for each issuer’s governance and compensation practices.

The one-size-fits-all approach of proxy advisory firms was demonstrated to Alaris in connection with its last annual meeting of shareholders where it sought shareholder approval, as required by the policies of the TSX, of the unallocated entitlements under its equity compensation plans. The initial advisory report issued by the proxy advisory firm recommended that shareholders vote against these resolutions to be considered at the Alaris shareholder meeting. When Alaris attempted to engage with the proxy advisory firm, it found the response deadlines imposed by the proxy advisory firm (which Alaris was required to meet or the proxy advisory report would be issued without any input or response from Alaris) to be unworkable and not conducive to a meaningful dialogue between Alaris and the proxy advisory firm. Nevertheless, Alaris attempted to explain why it had deviated from the proxy advisory firm's published standards and the basis for the Alaris compensation program as

well as our internal guidelines with respect to the issuance of stock based compensation (which were publicly disclosed in our information circular). We were informed that there was no flexibility with respect to the guidelines of the proxy advisory firm, regardless of Alaris' actual historical stock based compensation grants, and that a negative voting recommendation could not be changed without compliance with the guidelines. Following the issuance of the advisor's report, and after noticing extensive voting against our compensation plans, we determined to amend our compensation plans to comply with the requirements of the advisor. Following such amendments, the advisor issued an updated report and there was an immediate and substantial change in the voting results such that our equity compensation resolutions were approved at our shareholder meeting. However, in our view, the recommended changes did not add value to our shareholders and resulted in a significant amount of management and director time being directed to addressing the amendments in a compressed time frame, rather than being directed towards our operations.

Through this process, we noticed the significant influence that the proxy advisor's report had on our voting results and the extent of reliance on such report by our institutional shareholder base. It also highlighted the concern of the "one-size-fits-all" approach. At Alaris, our board and management have spent a considerable amount of time developing our compensation program and principles in a manner that best aligns the interests of management, the board and shareholders and that is suitable for our particular business model. However, after our recent experience, in addition to focusing on the core principles behind our compensation program, we now also have to consider what is necessary in order to obtain a favourable voting recommendation from various proxy advisors, which may not always be in line with our compensation principles, our business model and the best interests of the Corporation and its stakeholders. This experience has demonstrated that the influence and inflexibility of proxy advisory firms has the effect of proxy advisors essentially regulating governance standards.

While we understand that it is the mandate of proxy advisory firms to supervise and advocate for stronger governance practices, given the significant influence proxy advisory firms wield, and the impact their recommendations can have on an issuer and the capital markets in general, it is important to ensure that they are providing sufficient and accurate information so as to permit a fully informed voting decision. Furthermore, with the utilization of a one-size-fits-all approach, we feel it is increasingly important for institutional shareholders to understand why an issuer may deviate from an advisor's standard guidelines; such issuers may very well have a *bona fide* reason for such deviation without compromising the overall level of its governance practices. We believe and propose that this can be done by requiring proxy advisory firms to engage with an issuer on some level prior to issuing an advisory report.

We do appreciate that, given the generally compressed nature of the proxy season in Canada and the number of issuers proxy advisors generally cover, full and continuing dialogue with an issuer is not a realistic approach. As such, we believe the Proposed Policy should require a proxy advisory firm to: (a) provide a draft copy of the a report to an issuer and provide a reasonable period of time for the issuer to respond prior to finalizing and distributing a report to its clients (we believe that 24 to 48 hours, which, in our experience, seems to be the current practice among proxy advisors, is not a sufficient response period); (b) include the substantive comments of an issuer relating to adverse recommendations in the final reports provided to their clients; and (c) disclose in the report what level of dialogue the proxy advisor has undertaken with an issuer during the course of its research.

Implementing the foregoing requirements will help to alleviate concerns arising from the "one-size fits-all" standards by allowing an issuer to express why their governance practices deviate from an advisor's guidelines while also ensuring that institutional shareholders have sufficient information to make a fully informed decision. In addition, such recommendations will help to reduce factual inaccuracies in proxy reports by permitting issuers a sufficient time to review and comment. We note the CSA's comments in the Request for Comment with respect to an issuer being able to engage with its shareholders directly to discuss such matters and that an issuer can include disclosure in its information circular regarding its approach to corporate governance and executive compensation. However, we do note that it may be difficult to identify all of an issuer's institutional shareholders given the regulatory requirements imposed on reporting issuers in Canada, which can limit the effectiveness of shareholder discussions. In addition, although Alaris (and other issuers) include detailed disclosure relating to its governance and compensation practices in its annual information circular, with the increasing reliance by institutional shareholders on proxy advisors' voting recommendations, including the utilization of automatic

voting procedures and the use of a proxy advisor's address for delivery of meeting materials, the use of the information circular alone may not be sufficient in order to provide the relevant information to allow institutional investors to make fully informed voting decisions.

We believe our recommendations strike a reasonable balance between concerns raised by proxy advisors, issuers, institutional shareholders and other market participants.

We would like to thank the CSA for providing us with the opportunity to comment on the Proposed Policy and appreciate its continuing efforts to ensure the fair and efficient operation of our capital markets.

Yours truly,

ALARIS ROYALTY CORP.

(signed) "*Michael D. Ervin*"

Michael D. Ervin
Vice-President, Legal