

June 17, 2014

**BY EMAIL**

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
The 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

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  
E-mail: consultation-en-cours@lautorite.qc.ca

and

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor  
Toronto, Ontario M5H 3S8  
E-mail: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

**Re: Proposed National Policy 25-201 Guidance for Proxy Advisory Firms  
(the “Proposed NP”)**

The Canadian Advocacy Council<sup>1</sup> for Canadian CFA Institute<sup>2</sup> Societies (the CAC) appreciates the opportunity to comment on the Proposed NP and wishes to provide some general comments on the Proposed NP.

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<sup>1</sup>The CAC represents the 13,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfasociety.org/cac>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

<sup>2</sup> CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of

We generally agree with the CSA's recommended practices for proxy advisory firms. Given their importance to the voting decisions of institutional investors, their methodologies, conflicts of interest and communication practices should be disclosed to clients and publicly as set out in the Proposed NP. As CFA charterholders, we must exercise diligence, independence, and thoroughness in analyzing investments, as well as have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment recommendation or action. While we are permitted to rely on third party research, we are required to make reasonable and diligent efforts to determine whether such research is sound, which includes testing the assumptions used and an evaluation of the objectivity and independence of the recommendations. Ideally, investors should not rely solely on the opinions provided by proxy advisory firms and should conduct their own research, but we realize that is not always practical for large portfolios or small positions held. Instead, it is important for the marketplace to have confidence that the voting recommendations set out by the proxy advisory firms are based on a sound foundation.

The notice indicates that the CSA expects proxy advisory firms to implement practices to promote the transparency and accuracy of vote recommendations, including by possibly disclosing policies and procedures describing the approach used in their analysis, provided such disclosure does not compromise the commercially sensitive nature of the information. Section 2.2(c) of the Proposed NP provides in part that the CSA expects firms to ensure that recommendations are prepared in accordance with an approach aimed at, among other things, reducing the risk of factual errors or inaccuracies. We believe that many factual errors or inaccuracies could be corrected at an early stage if the proxy advisory firms were encouraged to have additional communications with the issuers on which they are formulating a vote recommendation, and that such communication should include a description of the facts upon which the recommendation is made. We are aware of examples where issuers were not given the opportunity to correct errors in the methodology used by a proxy advisory firm (for example, with respect to the outstanding number of shares) which had an impact on the vote recommendation, without paying for that information from the proxy advisory firm. Firms should be required to be transparent with issuers (without cost) such that the risk of factual errors is decreased.

We agree with comments made by others to the effect that there is a large potential for conflicts of interest, particularly with respect to proxy advisory firms that provide consulting services to issuers on which they may later provide vote recommendations. While these particularly conflicts are specifically referenced in the Proposed NP, and there is a specific reference to information barriers, the two are not linked. We think there is sufficient concern about the inherent conflict in these scenarios that the Proposed NP should specifically provide that proxy advisory firms that consult to issuers should

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knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 119,000 members in 147 countries and territories, including 112,000 CFA charterholders, and 143 member societies. For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org).

consider information barriers to separate out those two separate functions. In addition, firms should be encouraged to specifically disclose when they are receiving a fee from issuers on which they are providing vote recommendations.

With respect to communications with their own clients, the notice provides that it should be up to proxy advisory firms to determine whether to engage with issuers when preparing vote recommendations, but that they should publicly disclose their approach to dialogue with issuers. We believe proxy advisory firms should be strongly encouraged to engage with issuers when preparing their vote recommendation policies, in part to help mitigate concerns about potential factual errors in their methodologies.

It will be useful to expand the duties of any person designated to assist with addressing conflicts of interest to also assist with addressing the determination of vote recommendations, development of proxy voting guidelines and communication matters. Tasking one or more persons with such responsibilities will help to provide accountability throughout the organization, as well as improve transparency of processes.

We do not believe it is necessary to obtain confirmation from clients that they have reviewed and agreed with the proxy advisory firm's guidelines. It is more important that those guidelines are disclosed, and then it is the investor's responsibility to perform their own diligence on a proxy firm's guidelines and recommendations.

### **Concluding Remarks**

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at [chair@cfaadvocacy.ca](mailto:chair@cfaadvocacy.ca) on this or any other issue in future.

(Signed) *Ada Litvinov*

**Ada Litvinov, CFA**  
**Chair, Canadian Advocacy Council**