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

c/o
John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

21st September 2012

By e-mail

Re: CSA Consultation Paper 25-401

Dear Mr. Stevenson,

I am writing on behalf of PGGM, a Dutch pension administrator and asset manager acting on behalf of - amongst others - *Pensioenfonds Zorg en Welzijn (PFZW)*, the Dutch pension fund for over two million employees and former employees in the healthcare and welfare sector and the third largest pension fund in Europe. PGGM currently has approximately EUR 121 billion of assets under management, some of which is invested in the Canadian public markets.

Acting on the belief that financial and social returns go largely hand in hand, PGGM sees it as its duty to incorporate responsible investment principles into its investment process, thereby helping to secure a high and stable return. PGGM attaches great importance to good corporate governance, environmental and social practices, and standards in these areas throughout all markets worldwide, and routinely engages issuers and regulators globally on these matters.

PGGM appreciates the opportunity to provide its views on the above referenced Consultation and encourages the Canadian Securities Association to continue its review of governance practices in Canada.

With kind regards,

Marcel Jeucken
Managing Director, Responsible Investment
PGGM Investments
Kroostweg Noord 149
P.O. Box 117, 3700 AC Zeist
The Netherlands

PGGM Comments on CSA Consultation Paper 25-401
POTENTIAL REGULATION OF PROXY ADVISORY FIRMS

General

1.
Do you agree, or disagree, with each of the concerns identified in the Consultation Paper, namely: (i) potential conflicts of interest, (ii) perceived lack of transparency, (iii) potential inaccuracies and limited engagement with issuers, (iv) potentially inappropriate influence on corporate governance practices, and (v) the extent of reliance by institutional investors on the advice of such firms? Please explain and, if you disagree, please provide specific reasons for your position.

It is widely recognized that some proxy advisors face conflicts of interests. This is very concerning since it is of utmost importance that the advice given by proxy voting agencies be independent. (i) Providing services to both institutional investors and issuers, which has happened in practice, may give rise to conflicts of interests. (ii and iii) Another conflict may arise, when issuers are not only allowed to check a draft advice for accuracy but could also comment on the content of the advice before submitting it to investor clients. We are aware that most proxy advisors have adopted codes of conduct to address conflicts of interest and that they have recently put a lot of effort into strengthening these arrangements. Although we generally believe that these mitigation measures are appropriate, there is a need for more specific disclosures about conflicts of interests. Currently, these disclosures are general and primarily focused on the procedures to mitigate conflicts. Clients of proxy advisors should be made aware of specific circumstances in which the proxy advisor is not only advising the institutional investor but also the company. (iv) There is no empirical evidence of a disproportionate influence of voting advisors and as such, we believe the CSA should be reluctant to overstate the influence of voting advisors. It should also be taken into account that investors also have influence on the general voting policies of some proxy advisors, for instance through the results of a periodic questionnaire. (v) We believe that institutional investors are responsible to cast votes after informed monitoring of the investee companies, regardless whether they use advisory services. It is the responsibility of the investor to hold agencies to account when the advice is not sufficiently aligned with their own voting policies which are drawn in the interest of the ultimate beneficiaries. In the end the investment managers and asset owners remain responsible towards their clients and beneficiaries as to how they exercise the voting rights. The use of proxy advisors does therefore not induce a risk of shifting the investor responsibility or weakening the owner's prerogatives, but should support the investor in understanding and discharging its/his/her stewardship vis- à - vis ownership in the company.

2.
Are there other material concerns with proxy advisory firms that have not been identified? Please explain.

We believe that this consultation identifies all concerns. The role of the proxy advisors however needs to be considered in the context of the functioning of the voting system as a whole. In particular in cross border situations investors are confronted with various legal and operational barriers to smoothly exercise their voting rights. Important barriers are: the timing and language

of meeting notifications, premature vote deadlines, obstacles in the custodian chain, lack of vote confirmations, requirements for new powers of attorney for every shareholders' meeting. These barriers contribute to investors' reliance on the services of proxy advisors.

Beyond proxy voting advisors, there are many types of advisors who also have a significant influence on the functioning of listed companies' governance structures, and the preparation and decision-making process at general meetings. These include remuneration advisors, lawyers and civil law notaries and investment bankers. The influence of some of these advisors' advice on meeting proposals and process, and the extent to whether their advice reflect the long term interests of the company and its stakeholders, are a black box for institutional investors and other stakeholders. This must be taken into consideration by the CSA when determining what measures to take for proxy advisors.

3.
Are there specific gaps in the current practices of proxy advisory firms which justify regulatory intervention? Is there a concern that future gaps could be created as a result of new entrants or changes in business or other practices?

As addressed before, we believe that the gaps incurrent practices centre around conflicts that arise from (i) offering services to both investors and issuers and/or from (ii) issuers trying influence the content of advice as opposed to proof-reading for accuracy. These are the most important in terms of negatively affecting the advisors' independency and reliability in terms of servicing their clients. We cannot foresee what future gaps may arise, though we do believe that by increasing transparency as detailed in our response to question 4 below, the system will be strengthened for all market participants.

4.
Do you believe that the activities of proxy advisory firms should be regulated in some respects and, if so, why and how?

It is difficult for us answer this question at this stage, as it is not clear yet what kind of potential regulation could be established. In general, we believe that any kind of regulation would have significant impact of the proxy advisory market. Depending on the degree of intervention, policy measures could lead to higher entry barriers and may limit competition. Prescriptive and binding regulation of proxy advisors through the introduction of a profound authorization and supervision regime will, we believe, lead to a reduction in the number of proxy advisory firms, thereby further increasing the market concentration resulting in higher costs for clients and reduction in market competitiveness ultimately lowering the quality of service. Therefore, we advise the CSA to carefully weigh those consequences when considering the need and scope of any regulatory intervention.

Potential conflicts of interest

5.
To what extent do you consider proxy advisory firms to: (i) be subject to conflicts of interest in practice, (ii) already have in place appropriate conflict mitigation measures, and (iii) be sufficiently transparent regarding the potential conflicts of interests they may face? If you are of the view that current disclosure by proxy advisory firms regarding potential conflicts of

interest is not sufficient, please provide specific examples of such insufficient conflicts of interest disclosure and suggestions as to how such disclosure could be improved.

As mentioned, we believe that the most significant conflicts arise from (i) offering both services to investors and issuers and/or from (ii) issuers trying influence the content of advice instead of proof-reading for accuracy. Enhanced transparency could contribute to proxy advisors' quality of work and accountability to investors. The clients of the proxy advisors and the wider public should be able to have more insight into the 'checks and balances' of proxy advisors. PGGM would generally support policy initiatives that promote the transparency of proxy voting practices, including:

- Transparency on analytical methods used in developing advice,
- Transparency on policies to prevent conflicts of interest,
- Any conflict of interest that could compromise the integrity of the proxy advisor and/or their advice must be disclosed to the investor,
- Transparency on procedures to submit draft analyses to the relevant listed company and on the circumstances under which a company's views would result in an amendment to an analysis,
- Disclosure of policies to ensure the availability of properly skilled and experienced staff, and
- On specific advisory reports, we believe that if there has been an exchange of information between the advisor and company, the nature of the exchange as well as the date on which it occurred ought to be disclosed.

6.
If you are of the view that there are conflicts of interest within proxy advisory firms that have not been appropriately mitigated, which of these are the most serious in terms of the potential (negative) impact on development of their voting recommendations and why?

In cases where conflicts of interest exist, we believe that amending a draft report for anything other than an error of fact is the most serious because this is an indication of either inferior work on the part of the proxy advisor, or undue influence by the company, neither which is good for the client.

7.
Should we propose an amendment to NI 51-102 to require reporting issuers to disclose consulting services from proxy advisors in their proxy circular? Or would such disclosure undermine the existing controls and procedures (i.e., "ethical wall") in place which currently may prevent proxy advisory firm research staff who review an issuer's disclosure from being made aware of the identity of their firm's consulting clients?

We do not believe it is necessary for a company to disclose that a proxy advisor was a consultant as other company advisors would then have disclosed as well. Instead, we that the proxy advisor itself should disclose when it has provided services to a company or taken company input beyond the publically available filings into consideration when drafting advisory reports for clients.

Perceived lack of transparency

8.
Could disclosure of underlying methodologies and analysis provide beneficial information to the market or would the commercial costs of doing so be too significant?

As discussed under item 5 we believe that full transparency should be maintained within reasonable limits. By reasonable we mean that the methodology should be disclosed but that disclosing only the methodology would suffice in most cases.

Issuer engagement

9.
To what extent could there be an improvement in the dialogue with issuers during the vote recommendation process?

Although we generally believe that issuers should be able to check draft advice for factual errors or omissions, we have occasionally experienced in the Netherlands that proxy advisors changed their draft advice after consulting issuers in such a way that their clients' interests were served in a lesser fashion. As a general principle, we would not oppose the premise that both issuers and investors are offered the opportunity to give feedback on proxy advisors' own voting policies and guidelines, as long as the ultimate voting policies remain primarily based the agency's own expertise, and properly reflect client interests.

10.
During proxy season, is it appropriate for a proxy advisory firm to engage with issuers in all circumstances or are there legitimate business and policy reasons why it should not be required to do so? Are there certain special types of situations where it is more important that issuers are able to engage with proxy advisory firms?

PGGM believes that public filings ought to stand alone and not require contact between proxy advisors and issuers. We also believe that the appropriate place for an exchange to occur when it concerns specific company business and governance practices is between the company and its shareholders. Introducing an agent into this relationship creates the situation for views other than those of the company's shareholders to be introduced into company practices, and vice versa. In short, we believe that it is the responsibility of shareholders to know their investments and engage with their companies where they deem it is necessary to do so. The only situation in which proxy advisors should engage with companies during the proxy season is where there is a lack of clarity in the public filings, in which case they should contact the company for the purpose of notifying them, and the company should seek to file an amendment.

11.
If a proxy advisory firm, as a matter of policy, believes that there are certain circumstances where it is not appropriate for it to give issuers an opportunity to review its reports, would it be sufficient to only require in these circumstances that the underlying rationale for such policy be disclosed? Please explain. Or, alternatively should proxy advisory firms be required to provide issuers with an opportunity to review their reports in all circumstances?

We believe that providing all issuers with a final version of the report is commendable. Not all issuers need to be involved when drafting the report so it would be sufficient to disclose only the underlying rationale for such a policy.

12.
Should we prescribe the details of the processes that proxy advisory firms implement to engage with issuers? If so, what do you suggest the requirements should be?

No.

Potentially inappropriate influence on corporate governance practices

13.
To what extent should there be a more fair and transparent dialogue between proxy advisors and market participants on the development of voting policies and guidelines? Is it sufficient for proxy advisors to address governance matters by soliciting comments from their clients?

We are in favour of policy initiatives/consultations that are open to both investors and issuers, and where codes of best practice exist for markets, these ought to form the cornerstone of proxy advisors' policies.

Proposed regulatory responses and framework(s)

14.
Do you think a securities regulatory response is warranted in connection with each of the concerns identified above? Please explain why or why not.

No, at this stage we believe that it is not necessary to introduce such regulation as we believe that the negatives would outweigh any gains to be made.

15.
Do you agree with the suggested securities regulatory responses to each of the concerns raised? If not, what alternatives would you suggest?

PGGM does not believe that any regulatory actions are necessary.

16.
Do you agree or disagree with the requirements and disclosure framework set out in section 5.2.1 to address the concerns identified? If not, please indicate why. Would you prefer instead one of the other suggested securities regulatory frameworks identified above? If so, please indicate why. Do you agree or disagree with our analysis of these frameworks? Do you have suggestions for an alternative regulatory framework?

We disagree with the extent of the requirements and disclosure framework. Apart from the before-mentioned disclosure in case a reviewed issuer is also client of the proxy advisory firm, we see no need for any other intervention from the CSA.

17.

Are you of the view that we should prescribe requirements in addition to or instead of those identified above for proxy advisory firms?

See answer to question 16.

Additional questions for institutional investors:

18.
To what extent and in what ways do you rely on the services provided by proxy advisory firms? Please be as specific as possible.

PGGM is a global investor that is currently invested in over 2,800 companies around the world. We believe that exercising shareholder rights, such as voting, is of the utmost importance and therefore vote on all shareholder meetings apart from those in markets where voting leads to the blocking of shares for trade. Investing in companies in 57 different countries brings along challenges that vary from the language of the meeting materials to the lack of knowledge on country specific company law. To help tackle these challenges we use the research of several proxy advisory firms as they often have the local expertise in-house. As we are of the opinion that investors themselves have the responsibility to vote in an informed manner, and the vote recommendations that we receive are based on our in-house developed PGGM Global Voting Guidelines which are updated annually. For the largest part of our listed equity portfolio we vote ourselves and we also verify whether the custom recommendations are indeed in line with our own guidelines.

19.
How do you view your duty to vote and how do the vote recommendations of proxy advisory firms play a part in your decision-making process?

We refer to our answer on question 18.

20.
Do institutional investors have the ability to require changes to proxy advisory firms' practices without the need for regulatory intervention?

PGGM is generally of the opinion that investors should at all times remain very critical of the role of proxy advisors and their performance. We believe that investors have some influence and that regulatory intervention is unnecessary save for, as mentioned previously, for increased transparency as set out in the response to Question 5 .

21.
Assuming you share the concerns identified above, do lack of choice/competition or other market factors in the proxy advisory industry limit your ability to address these concerns directly such that regulatory intervention is warranted? Please explain.

We do believe that the proxy voting advisory market is unfortunately dominated by only a few firms which limits our options to some extent. PGGM considers its proxy advisors to be willing to listen to any concerns that we have. Increasing regulations and/or supervision will in our view more likely strengthen the current market domination than do anything else.

22.
Given the above-noted concerns regarding the overall quality and lack of transparency underlying the vote recommendations of proxy advisory firms, what measures do you take and, overall, how do you gain assurance that such recommendations are reliable for your voting purposes?

It is the duty of investors to verify the quality of research and to push the advisory firms to increase transparency where needed. We do this by having more than one research provider, incorporating our own guidelines through a customized policy, engaging with the companies prior to shareholder meetings and therefore voting on an informed basis, discussing certain topics with the advisory firms, and performing randomized verifications of the recommendations that have been provided.

23.
Do you view the policy development process and resulting proxy voting guidelines of proxy advisory firms as appropriate and reflective of your governance preferences and views? Would input from issuers further benefit or potentially hinder such process?

PGGM's Global Voting Guidelines are very different from the proxy voting guidelines of our proxy advisors which is a consequence of our choice to customize our voting (which we consider to be the right option in order for investors to incorporate their views in their voting). On average the proxy voting guidelines from the proxy advisers themselves seem logical and reasonable in the context of each individual market. The input of issuers to an advisor's policy would not have any impact on the fact that we use our own Global Voting Guidelines in making voting decisions.