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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

Attention: Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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C.P. 246, Tour de la Bourse
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Fax : 514-864-6381
Email : consultation-en-cours@lautorite.qc.ca

-And-

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
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Fax : 416-593-2318
Email: jstevenson@osc.gov.on.ca

Dear Sirs and Mesdames:

RE: CSA Consultation Paper 25-401: Potential Regulation of Proxy Advisory Firms

This letter is in response to the request for comments on CSA Consultation Paper 25-401: Potential Regulation of Proxy Advisory Firms (the "**Consultation Paper**"). CI Financial Corp. and its subsidiaries ("**CI**") are supportive of this initiative of the Canadian Securities Regulators. We share the concerns outlined in the Consultation Paper and for the reasons discussed in this letter believe that it would be appropriate for certain activities of Proxy Advisory Firms to be subject to securities regulatory oversight.

CI

CI is a diversified wealth management firm and one of Canada's largest independent investment fund companies. The principal business of CI is the management, marketing, distribution and administration of mutual funds, segregated funds, structured products and other fee-earning investment products for Canadian investors.

CI is in a position to offer comments on the Consultation Paper both as an issuer and as an institutional investor. CI Financial Corp. is a public company. Voting recommendations have been issued by Proxy Advisory Firms in respect of meetings of our Shareholders. In addition, CI is an institutional investor through its management of over 200 mutual funds. At August 31, 2012, CI had assets under management of over $72 billion. CI's portfolio managers have voted at more than 1,000 shareholders' meetings during the past twelve months.

Summary of Concerns

We understand the important role that Proxy Advisory Firms can play in corporate governance. Many shareholders do not have the time or the tools to make a reasoned decision regarding certain governance matters. Proxy Advisory Firms establish voting policies and provide recommendations based on a detailed review of proxy circulars. We strongly believe that in the fulfillment of this role the Proxy Advisory Firms should:

- ensure that their analysis is accurate, that recommendations are based on all relevant facts and that their conclusions are supportable;
- prepare voting guidelines and governance policies through a process that is inclusive and transparent, using people with the required expertise. These governance policies should be consistent with the standards set by Canadian securities regulators and not for profit governance groups;
- be sensitive to the fact that guidelines created in the United States may not necessarily be appropriate in the Canadian context;
- apply the guidelines and policies thoughtfully and with specific attention to the particular circumstances of an issuer;
- avoid a "one size fits all" rigid application of guidelines as this will not always be in the best interests of their constituent investors.

Our recent experiences with Proxy Advisory Firms have demonstrated to us that Proxy Advisory Firms are not currently meeting these objectives. We strongly believe that the Canadian Securities Administrators should regulate the activities of Proxy Advisory Firms in an attempt to make at least some of these objectives requirements.

CI's Experiences as an Issuer

You have asked issuers to describe their experiences with Proxy Advisory Firms. To our knowledge Proxy Advisory Firms have only issued recommendations in connection with three meetings of our Shareholders. The following describes our experience in respect of voting recommendations for two of these meetings and is illustrative of the concerns outlined in the Consultation Paper.

2010 Annual Shareholders' Meeting

On March 25, 2010, CI held an annual and special meeting of its Shareholders. At this meeting Shareholders were asked to approve amendments to the Employee Incentive Stock Option Plan (the "**Plan**"), in addition to the regular business of the meeting.

On March 8, 2010 at 10:31pm I received an e-mail from a representative of RiskMetrics Group, a division of Institutional Shareholder Services ("ISS"), attaching a copy of a preliminary draft of the ISS Governance Services proxy analysis for the CI Shareholders' meeting (the "**2010 ISS Report**"). We were invited to review the draft 2010 ISS Report in order to verify facts and asked to provide comments, if any, in writing by Wednesday March 10th at 1 pm. We were given, for all practical purposes, approximately a day and a half to conduct our review and respond. This is extremely short turn-around for any issuer, particularly during the busy period leading up to a shareholders' meeting.

The draft 2010 ISS Report recommended that Shareholders vote against the amendments to the Employee Incentive Stock Option Plan (the "**Plan**"), and further that they withhold their vote for one of our directors. Upon reviewing the report it was clear that both of these recommendations were based on the analyst's incorrect understanding of the facts, and in the case of the recommendation regarding the Plan, a fundamental misunderstanding of the proposed amendments.

I provided the analyst with my written comments on March 9th. The final report was issued on March 11th. Some of the factual inaccuracies were corrected, however the final report included some new errors. Most significantly, the final 2010 ISS Report incorrectly described the proposed amendments to the Plan and then based the recommendation on this mistake. This was a fundamental error. The report incorrectly stated that proposed amendments would award discretion to the Board of Directors to make changes to the Plan. In fact the proposed amendments were designed to have the exact opposite effect by constraining the Board's unilateral ability to amend the Plan. ISS misunderstood the implications of the proposed amendments and recommended against a change that would have provided our Shareholders with greater control over the operation of the Plan.

The 2010 Report also recommended that Shareholders withhold their vote from one of our incumbent directors. This recommendation was made on the basis that the director was not considered "independent" by ISS notwithstanding the fact that this director was independent for purposes of the definition adopted by the Canadian Securities Administrators in their rules. Because of a rigid application of the ISS guidelines on independence, the 2010 ISS Report recommended that Shareholders withhold their vote for this highly qualified, experienced director. It is interesting to note that in reports issued in connection with the 2011 and 2012 Shareholders' Meetings, ISS has recommended that our shareholders vote in favour of this

individual for election as director. Nothing has changed that would explain this difference of approach so we must conclude that the voting recommendation in the 2010 ISS Report was incorrect.

We believe that at least some of our institutional shareholders who followed the voting recommendations in the 2010 ISS Report would not have voted that way if they had received accurate information. Approximately 20% of the shares voted at the meeting were voted against the amendments to the Plan. This is a significantly higher negative vote than when the Plan was adopted. Similarly, at the 2010 Shareholders' Meeting, all of our directors received approval from over 99% of the shares voted, except the individual who ISS had recommended against electing. That other director had almost 16% of the shares withheld from his election. Prior to this, and again at the annual meeting in 2011, his election was supported by over 99% of the shares voted.

The resolutions were passed. So, the consequences of this were not dire. However, the potential for damage was significant, and the correct results were achieved not *because* of the ISS recommendations but *despite* them. I sent a letter to ISS outlining our concerns and asking for a meeting or telephone call to discuss this matter in the hopes of avoiding the possibility of a similar occurrence. Disappointingly, my offer of a meeting or telephone conversation was not accepted.

2011 Special Meeting of Shareholders

In June 2011, CI's Shareholders were asked to approve the continuation of a Shareholder Rights Plan (the "**CI Plan**"). The CI Plan had been implemented with shareholder approval in 2008. The terms of the CI Plan required the Board of Directors to submit the plan to the Shareholders at the 2011 annual meeting in order for the Plan to continue for its final three years. ISS and Glass Lewis both published reports and voting recommendations with respect to this matter.

ISS recommended that CI Shareholders vote against the continuation of the CI Plan on the basis that the CI Plan was not, in the opinion of ISS, a "new generation" plan. "New generation" plans are shareholder rights plans that conform to the ISS guidelines. Unfortunately, in our experience there appear to be unpublished guidelines as to what constitutes a "new generation" shareholder rights plan. There also appear to be inconsistencies in the application of the guidelines. CI had tried very hard to conform and believed that it did conform to the written guidelines published by ISS. In fact, in order to ensure that we met ISS standards, CI retained ISS itself to review our proposed amendments and the CI Plan prior to sending the documents out for shareholder approval. Notwithstanding this, ISS concluded in its report that the CI Plan did not adequately protect the CI Shareholders because three "key" definitions in the CI Plan did not meet new generation guidelines. Two of the three definitions noted were not referred to anywhere in the 2011 proxy guidelines published by ISS. More importantly, the differences identified by ISS were for the most part minor and in no way prejudiced the rights of our shareholders' or compromised the protection afforded by the CI Plan. We believe that the rigid application of the ISS guidelines led to a recommendation regarding CI's Plan which was not consistent with good governance or in the best interests of CI's shareholders. Again, the CI Plan had already been put in place with the overwhelming support of our shareholders, and this was simply a mid-term "check-in" vote to confirm that the CI Plan should not be removed. As

one of our shareholders commented at the time, ISS essentially concluded that "your brakes are not perfect so best have no brakes at all".

CI had expected to receive a draft of this ISS report prior to its publication. However, when we contacted ISS to ask them when we could expect their draft report we were told that ISS had changed their policy for this year and would only be providing draft reports to issuers who had, by a mid-February deadline, advised ISS that they wanted the opportunity to review them. We explained that we had not been aware of this change, we were surprised by the new procedure (wouldn't it be far more sensible to assume that issuers *would* want to review the draft, as opposed to requiring them to op-in to this right?), and asked if we could review the draft before publication. We were told that we could not. The report was issued on May 16, 2011 without any prior review by CI.

In the hours following the release of the ISS report, proxies voting against the continuation of the CI Plan were deposited by holders of almost 38 million shares, representing over 13% of our outstanding shares. Prior to the release of the report CI had not received any proxies voting against the CI Plan. In order to correct this situation, management spent a great deal of time contacting our institutional investors and explaining our concerns with the conclusions in the ISS report. As a result of those discussions, proxies representing over 23 million shares were revoked within days and new proxies were submitted by these institutions voting in favour of the continuation of the CI Plan. However, we were not able to reach all of our institutional investors as most of them hold their shares through intermediaries. We sent out letters and attempted to find a way to contact all of them as we suspected that our institutional shareholders would be concerned if they knew that their proxy departments had blindly followed the ISS recommendations, voted against the continuation of the CI Plan and as a result left their investment in CI exposed to a creeping or otherwise hostile takeover.

The continuation of the CI Plan received the approval of over 90% of the shares voted. When the CI Plan was first implemented in 2008 it received the approval of almost 98% of the shares voted. We believe that the difference was a direct result of the ISS voting recommendation and the fact that we could not reach all of our institutional shareholders. In fact, had we not devoted such significant time and effort into reaching out to our institutional shareholders following the imprudent ISS recommendation the difference would have been even greater.

Glass Lewis also published a report in connection with this meeting and also recommended against the extension of the CI Plan; however, following discussions with CI management they issued an amended report, recommending that Shareholders vote in favour of the two resolutions regarding the CI Plan.

CI as an Institutional Investor

As noted above, CI portfolio managers have voted at over 1,000 shareholders' meeting in the past twelve months. The managers have sophisticated knowledge of the companies in which they have invested, which is helpful to them in their consideration of any issues to be voted on at a meeting. This knowledge provides them with the ability to make judgments appropriate to the circumstances, rather than applying rigid rules. They may consider the recommendations of Proxy Advisory Firms but these serve as additional information only. They pay more attention to

recommendations in respect of investments outside of Canada where there could be regulatory or other jurisdictional differences.

CI's portfolio managers do not rely on the recommendations provided by Proxy Advisory Firms; however, our experience has led us to conclude that many other institutional investors do place substantial reliance on the recommendations of Proxy Advisory Firms in determining how to vote. This is not surprising given the realities of resource allocation decisions within institutional investors of varying sizes, the sheer volume of proxies and the fact that many meetings are held in the same three month band from March to June. In our view, the level of reliance on Proxy Advisory Firms is significant, in some cases to the extent of absolute deference.

Recommendations

CI shares the concerns raised in the Consultation Paper about Proxy Advisory Firms and recommends that regulations be put in place to make these firms adhere to certain standards and to create greater accountability with respect to their recommendations.

1. **Conflicts of Interest:** We agree that the potential exists for a conflict of interest, particularly at firms that provide advice to issuers on governance matters. However, we believe that any conflicts are being managed or can be managed and as a result it should not be necessary for the regulators to prohibit the activity or mandate the adoption of policies. We would be supportive of a requirement for Proxy Advisory Firms to disclose any conflict in the report to their clients.

2. **Transparency:** We recommend that the Proxy Advisory Firms be required to clearly explain the basis for their recommendations in order to permit issuers and investors to evaluate the quality of the recommendation. This may help to limit, or at a minimum reveal, instances where a Proxy Advisory Firm is less than fully informed or has failed to consider whether the long term implications of the recommendation are truly in the best interests of shareholders. This additional disclosure will not only improve the credibility of the recommendation but will be useful to all issuers as a guide to help them understand any concerns expressed and address them, if necessary. In our experience there are too many unwritten rules and it is difficult for issuers to anticipate recommendations or fully comprehend the basis for them.

3. **Inaccuracies and Limited Issuer Engagement:** We have provided examples of what can happen if the data underlying the recommendation is inaccurate or the issuer is not invited to review the report before it is finalized. We recommend that Proxy Advisory Firms be required to provide a draft report to issuers at least 5 business days before the scheduled publication of the report. We also recommend that Proxy Advisory Firms be required to disclose, perhaps as an addendum to their final report, any comments or response they receive from an issuer. This would provide the investors with better and more complete information on which to make their voting decision.

4. **Governance Standard Setters:** We do not believe that Proxy Advisory Firms should set corporate governance standards. We believe that any voting guidelines adopted by Proxy Advisory Firms should be well articulated, transparent and consistent with the standards set by securities regulators and not for profit industry groups such as the Canadian Coalition for Good Governance. We have a concern that the guidelines that are being adopted are US based and not properly tailored to the unique Canadian legal, securities regulatory and capital market environment. Any standards that are adopted by the Proxy Advisory Firms and applied as a basis for a recommendation must be clearly articulated and publicly disclosed.

We would be supportive of the adoption by the Canadian Securities Regulators of a separate stand-alone rule governing Proxy Advisory Firms. The Ontario Securities Commission may have the authority to enact such a rule under the head of authority in paragraph 26 of Subsection 143(1) of the Securities Act (Ontario).

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Thank you for providing the opportunity to discuss the concerns raised in the Consultation Paper about the services provided by Proxy Advisory Firms. If you have any questions or wish for us to clarify any comments, please to not hesitate to contact me.

Yours very truly,

Sheila. A. Murray
Executive Vice President, General Counsel and Secretary
CI FINANCIAL CORP.