	November 1, 2000

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Department of Government Services and Lands,
Newfoundland Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario M5H 3S8

- and-

Claude St. Pierre
Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square
Stock Exchange Tower
P.O. Box 246, 17th Floor
Montréal, Québec H4X 1G3

Dear Sirs:

We welcome the opportunity to submit this letter outlining our comments on the most recent draft of NI 54-101 and Related Instruments – Communication with Beneficial Owners of Securities of Reporting Issuers ("the Proposal")

The Notice accompanying the Proposal states that the CSA seeks to continue with "some changes" the current regulatory regime embodied in NP41. The Notice falls short of what we think parties in the shareholder communications industry would reasonably expect to see pursuant to the requirements of the Securities Act (Ontario) s. 143.2(2). In particular, the Notice has an insufficient discussion of (i) alternatives that were considered (ii) the reasons for not proposing the adoption of alternatives considered and (iii) the anticipated costs and benefits. As a result, we believe that the Notice understates the significance of the changes contemplated in the Proposal. In fact, we believe that the Proposal is, on balance, disruptive and unworkable, and should be reconsidered and replaced by the more incremental reform measures described in Part IV of this letter.

A NEED FOR EVOLUTION, NOT REVOLUTION

In principle, we support the primary objective stated in the Proposal - generally, to permit issuers to better identify and directly communicate with their shareholders. However, for the reasons outlined in this letter, we strongly believe that the reforms should take a different approach than that taken by the Proposal. We urge the CSA and its staff to pursue, within a different framework – a framework based on evolution not revolution - the worthwhile effort of reforming the regulation of shareholder communications.

The Proposal puts forward an elaborate set of new rules, amendments and forms that would radically restructure Canadian securities law applicable to shareholder communications. We believe that this departure from the current system would not significantly achieve the CSA's own stated objectives. In addition, the Proposal will lead to delay and uncertainty, and higher costs in the proxy process primarily because it will permit issuers the option of making direct distribution of proxy-related materials to those shareholders who have declared themselves to be "non-objecting" when it comes to revealing their information to issuers (referred to as NOBO shareholders – Non Objecting Beneficial Owners).

By permitting direct distributions of proxy-related materials by issuers the Proposal overreaches, unnecessarily, in its efforts to reform the current regulatory system of shareholder communications. In doing so, the Proposal adversely impacts an otherwise efficient and effective method of proxy distribution and voting that has evolved under the current regulatory regime.

AN OUTLINE OF OUR COMMENT LETTER

Part I of this letter provides, in summary form, our principal comments on the Proposal and supports, with economic analysis, why we believe the Proposal's restructuring of the shareholder communication process, as it applies to proxy-related materials, should be abandoned.

Part II identifies why the expected benefits in the Proposal are unlikely to be significantly achieved, and also identifies a number of negative side-effects that the Proposal has on the effectiveness and cost of proxy solicitation and integrity of shareholder voting. In the end, we think that the CSA should see the Proposal as the industry does – as a high risk, low return reform measure.

In **Part III**, we outline the approach being taken in the United States to address these issues. We believe that the SEC's relevant experience and regulatory response, particularly their decision to carefully assess the cost/benefit of any change, should be given serious consideration by the CSA, and should give the CSA pause for concern.

In **Part IV**, we outline the principal elements of an incremental approach to reform as an alternative to the wholesale restructuring of today's securities regulatory system of distributing proxy-related material and shareholder voting embodied in the Proposal. We support this proposal because we believe it would address many of the CSA's stated objectives for the Proposal but, unlike the Proposal, it would not adversely affect issuers, investors or the efficacy of the distribution of proxy-related materials and voting mechanics for public companies. We respectfully urge the CSA to undertake reform efforts cautiously and conservatively by looking to a well-considered incremental solution.

PART 1 - PRINCIPAL COMMENTS AND ECONOMIC ANALYSIS

The Proposal would result in a radical restructuring of the current process for distributing proxy-related materials and shareholder voting. It would bring about serious economic inefficiencies. This degree of disruption/inefficiency is neither appropriate nor necessary - incremental reform would be superior to the Proposal.

When the CSA last published for comment the draft National Instrument on July 17, 1998, we submitted that it would be helpful to retain outside experts to review what, if any, efficiencies and economies of scale could be exploited in the shareholder communications process. We still believe, as we did then, that it is important to consider cost/benefit analysis of proposed changes to the regulatory regime governing shareholder communications. We consider it vitally important that the CSA step back and consider the broader economic and other implications of the Proposal.

As a key participant in the debate, we recently retained economic and regulatory experts at the consulting firm of Deloitte and Touche ("DT") to address these issues. The two key objectives of DT's study were: (i) to provide analysis of the likely effects of the Proposal, with an emphasis on overall process efficiency and the cost of the proxy communication process and (ii) to quantify (where possible) and describe the impact of the Proposal on efficiency and costs. DT's study focused on the aspects of the shareholder communication process relating to the ordering, production, fulfillment, tabulation and invoicing of shareholder proxy statements. The entire shareholder communication process was analyzed, and the key stakeholders (including issuers, transfer agents, service providers, and intermediaries) were examined.

To enable the CSA and its staff to study DT's analyses in detail, we have attached their report, in its entirety as Appendix 1. For ease of reference, we have highlighted DT's findings in an Executive Summary cover letter, which we also include as Appendix 2.

Every indication is that the Proposal will lead to additional cost for stakeholders as well as serious proxy processing and tabulation integrity issues (see Part II below for a discussion of the latter issues). DT's report points out the significant economic/cost consequences of the Proposal. We agree with DT's overall conclusion that the Proposal would have a "significant negative impact" on the various stakeholders.

There are several points that are essential to any discussion of how to assess the impact of the Proposal on the proxy communication and voting process. In particular, the CSA should be concerned with the following cost findings that DT sets out in its report:

Processing costs will increase both at the intermediary and issuer levels.

1 The total cost of processing proxy mailing and vote tabulation will increase for issuers.

1 The impact will be greater on small and medium issuers than on large issuers.

Why do costs increase as a result of the Proposal? As set out in the DT report, the Proposal gives rise to approximately 45 times as many interactions between market participants in the proxy communication process as compared to the current model. In addition, the consolidator model, in place today, is abandoned under the Proposal.

The role of consolidator is especially important in Canada where volumes are significantly less than in the US. Economies of scale underpin the investment in technology required for progress, including electronic communication with shareholders. These and other benefits are typically achieved with fewer distribution channels with outsourcing to service providers that focus on this business as their core competency. In Canada, the consolidator role reflects the response of a relatively small market where fragmentation is especially harmful to new investment in technology and to the accuracy and integrity of the proxy system and vote tabulation.

There are also significant costs that are not quantified by DT that arise from the Proposal where a proxy processing “consolidator” is removed, or has reduced volumes. For example, so-called “managed account processing” performed in cooperation with intermediaries will no longer exist to the same degree – this mail elimination program currently saves Canadian issuers an estimated $3.4 Million per year. In addition, savings from high enrollment consent databases for electronic delivery of proxy-related materials will be diminished because, under the Proposal, there is no incentive to solicit and promote enrollments.

Again, all of these costs and inefficiencies arise because of the Proposal's interference with the proxy process. We believe that the CSA may be correct to address perceived deficiencies in the shareholder communication process. However, the shareholder communications industry and stakeholders count on *incremental* reforms that improve the flexibility and efficiency of the regulatory system without jeopardizing market functioning. We believe the CSA should engage in this kind of incremental reform and not dramatically restructure the proxy process.

PART II - PERCEIVED BENEFITS AND INTEGRITY ISSUES

Reform appears to be driven by the desire of issuers to obtain information regarding the identity of their shareholders and to communicate with all shareholders directly. Based on the DT report, we believe that the Proposal will likely fall short of expectations in addressing these issues. However, the Proposal will also likely have a negative effect in certain other areas important to the integrity of the proxy and voting process.

The Notice to the Proposal indicates that the CSA continues to believe in the principle of giving issuers access to information about their beneficial owners combined with the right and ability to communicate directly with their beneficial owners. The Proposal seeks to further this objective largely by giving issuers access to a list of NOBO shareholders.

We believe that the benefits cited in the Proposal will generally fall short of expectations. The benefits to issuers are largely illusory - and they will diminish further under the Proposal. For example, issuers will claim that having a choice in how to distribute proxy materials and tabulate voting instructions from NOBOs will be a major benefit. This perception makes the assumption that the current system will continue to be available to all issuers, at the same price and with the same service features. There is no support for this assumption since a change in the fundamental market structure caused by the Proposal will surely create a new business model for intermediaries, issuers and service providers alike.

These views are supported by DT – they conclude that NOBO lists for direct issuer mailings and shareholder identification will be of "limited usefulness". There are two reasons for this. First, the shares held by shareholders that object to sharing their information with issuers (referred to as OBO shareholders – Objecting Beneficial Owners) are significant. Second, the Proposal will trigger a migration of NOBO shareholders to OBO status. These points are made by DT, and are summarized below:

Institutional clients, who are mostly OBOs, hold a majority of shares in the market.

1 Although only approximately 20% of all shareholders in Canada (including NOBOs and registered) are OBOs, they are estimated to be holding 70% to 75% of the shares.

1 With the majority of the votes held by OBOs, the NOBO list will not be significantly useful to the issuers in vote solicitation.

1 Migration from being NOBOs to OBOs will further limit the usefulness of NOBO lists. (Canadian and US data suggests that the OBO proportion will increase to 40% to 45% of the beneficial shareholder population.) One reason for this is that some shareholders who are currently identified as NOBOs under NP41 will not be comfortable with giving issuers, and others, access to their identity, intermediary and account information. These shareholders will decide to migrate to OBO status and the usefulness of the NOBO lists for other purposes, including vote solicitation, will be discounted further.

DT also notes that the Proposal will result in several negative unintended consequences affecting the integrity of the proxy process. Two examples are summarized below.

(1) Regulatory burden and non-compliance will increase.

The Proposal will make regulatory standards more difficult to monitor and implement. In part, this is due to the increased level of decision-making and interaction of the parties within the proxy process (issuers, transfer agents, intermediaries and agents). Some of the factors contributing to regulatory risk and complexity that DT cites in its report are as follows:

It will be more challenging to implement/uphold the regulatory standards and to monitor compliance of the proxy process due to the increased number of participants (issuers, transfer agents, intermediaries and agents) fragmenting the required functions. For example under the Proposal, proxy mailing and vote tabulation for NOBOs can be performed by a number of different parties - transfer agents, service provider and other mailing houses/facilities.

1 In cases where problems occur, NOBOs will contact their intermediaries, who may not know who is responsible. Hence, it may take a longer period of time to resolve problems.

We urge the CSA to recognize that the Proposal raises serious integrity concerns. There are great risks in putting not only new, but greater, responsibilities on parties in the chain – especially where these tasks are complex and increase costs by an unacceptable amount because they lend themselves to economies of scale.

(2) The range of services to OBOs and the effectiveness of soliciting proxies from OBOs will decline under the Proposal.

Services to OBOs will likely suffer as a result of the Proposal because, in part, the Proposal creates a mismatch of cost and service incentives to issuers and intermediaries.

Under the Proposal, we think that the cost for OBO proxy mailings and vote tabulation will likely be the responsibility of financial intermediaries. Because processing volumes may be lower, each intermediary will face technology spending and cost increases or else discontinue service functions at current levels. At the same time, they will have no incentive to reduce certain costs, such as printing costs.

From the issuer's perspective, they wish to maximize proxy vote returns as quickly as possible, and at the lowest possible cost, prior to a corporate meeting. If financial intermediaries have little incentive to provide "extra" proxy solicitation service for OBOs, this goal will not be satisfied and issuers will face higher costs to get the results they want. Are financial intermediaries likely to maintain electronic voting applications for institutional holders? We think not. If institutions find it less convenient to vote, what will be the impact on total vote returns and the timeliness of those returns? The likely result will be additional spending by issuers, and a less effective vote turn out.

1 Under the current regime most of the effort required to coordinate the multiple mailings and manage the vote returns for beneficial holders is consolidated under one roof. The Proposal creates a potential scenario whereby communications would be required with three shareholder groups (registered shareholders, OBOs and NOBOs) instead of two. Three or more parties would manage these communications. As a result, the coordination and processing of the vote instructions will require extensive oversight by the issuer and contesting parties and will lead to added risk of error. On this point, giving the issuer primary responsibility for the task of vote reconciliation will undoubtedly be perceived, by dissidents and others, to lack the same level of integrity and independence as under the current system. We predict more litigation and more need for regulation. Under the Proposal, contests would be extremely complex, potentially unfair – and costly.

In summary, we believe that the Proposal will fall short of achieving the CSA's stated objectives. Most significantly, the Proposal would cause great harm to parts of the current system that work well.

We do not agree with CSA staff that the Proposal will significantly improve issuers' access to information concerning, and communication with, beneficial owners. In any case, we believe that these goals can be pursued by less intrusive means than the Proposal without jeopardizing the proxy process.

PART III - US EXPERIENCE - BACKGROUND AND RECENT DEVELOPMENTS

The SEC has for many years shown great caution in proposing significant changes to the proxy process for US issuers. Furthermore, the SEC clearly separates the proxy process from a perceived need to allow issuers to be “closer” to their shareholders. In addressing the issue of what types of

shareholder communications reporting issuers should be permitted to mail directly to NOBOs, a Report of the SEC Advisory Committee on Shareholder Communications (June 1982) entitled “Improving Communication Between Issuers and Beneficial Owners of Nominee Held Securities” determined that “shareholder identification need not be linked to distribution of proxy material". This committee's evaluation of the matter concentrated on four areas of concern: technical feasibility, cost feasibility, practicality and legal and other considerations. In summarizing and agreeing with the committee's recommendations, the SEC stated:

[The Committee concluded] . . . that there were substantial questions about the workability and cost of direct proxy communication in connection with the distribution of proxy material. Nevertheless, it believed that many of these questions would be avoided by the adoption of a system that would retain the existing procedures for disseminating proxy information, but would provide issuers with access to the names, addresses and securities positions of consenting beneficial share owners whose stock is held by broker-dealers. As the Committee stated, “such a system should neither disrupt the existing system of proxy distribution, nor burden the corporate and financial communities with additional unnecessary costs.” It would be used to augment the proxy distribution process by permitting issuers to contact consenting beneficial holders to determine whether materials are being timely delivered and to urge them to instruct their brokers how they wish to vote their shares, and for other incidental purposes throughout the year. Accordingly, the Committee recommended the adoption of a system that would leave intact the current proxy system and would provide issuers with access to information about consenting beneficial owners. . . . The Commission believes that the Committee has recommended a reasonable solution to a difficult issue . ..

In 1985, after several years of discussion amongst the American Society of Corporate Secretaries, the Securities Industry Association (SIA), and the New York Stock Exchange, Securities and Exchange Commission Rule 14(b)1, commonly referred to as the “NOBO” rule, was adopted.

As the rule making evolved, the participants in the shareowner communication industry were faced with several critical decisions. In order to ascertain the desires of street owners with respect to disclosure of their identities to issuers, the members of the bank and brokerage community were required to survey all of their existing customers and include an option on new account forms.

Nominees were concerned about providing issuers and/or their designated agents with their customer lists. It was agreed that the nominees' identity would be removed from the underlying customer list and that the information would be provided through an intermediary. The recommended intermediary at that time was The Independent Election Corporation of America (IECA). **The rule specifically prohibited the use of NOBO information for the purposes of proxy distribution**.

Recently, the discussion has included consideration of the cost of the proxy process and whether the process works efficiently. The concept of utilizing NOBOs for proxy distribution again has been raised. However, in October 1999, the SEC reviewed its 1982 finding (see above) and decided to not look into changes in the concept until a later time and with the benefit of further study.

This Fall, several industry leaders took up a suggestion made by Mr. D. Martin, SEC Director of the Division of Corporate Finance, to form a “neutral” forum. This forum (which includes a representative from our U.S. affiliate) represents all major industry groups and began its work with an initial mandate to discuss and find common ground to resolve, among other things, the various issues involved in direct proxy mailings. However, at this point in time, the forum is not considering the wholesale reform measures that the Proposal puts forward. Rather, the forum is focused on seeking ways to encourage the continued investment in technology and realize the significant opportunities for additional cost savings.

We suggest that the CSA give consideration to the SEC's approach. In particular, if the manner of regulating shareholder communications is to be changed without significant disruption, the issue of proxy mailings and “corporate governance” must be separated and properly evaluated.

PART IV - OUR PROPOSAL

We urge the CSA to consider approaching reform to the shareholder communications process along the lines of our proposal described below, which makes two principal recommendations.

Recommendation One - We recommend that the Proposal be amended to permit direct issuer distribution of materials to NOBOs other than proxy-related materials. We believe that it is possible to make reforms that serve to advance the perceived benefits to issuers of providing them with access to the identity of their beneficial owners and the possibility of direct shareholder communications. However, we do not agree that the perceived benefits are necessarily linked to the direct distribution by issuers of proxy-related materials.

There are substantial unanswered questions about the effects on the efficiencies and regulatory integrity of permitting issuers to make direct distribution of proxy-related materials. The DT report is a good start, but we do not think that the CSA has paid sufficient attention to the issues raised.

Although the CSA may have sifted through the issues and formed some general impressions, in the end they cannot possibly be confident that they have found a reasonable solution because they have not made a comprehensive study of costs and benefits of the proposed changes. The conclusory statement made in the Notice to the Proposal that “the benefits that could result, are so important that they outweigh efficiency concerns” is not the right approach. Neither is the statement that the Proposal represents “what the CSA believe is an appropriate balancing of interests” – while also admitting that the CSA has “not been able to achieve a complete consensus concerning the proposed National Instrument, because certain market participants have mutually exclusive interests”.

We are also not persuaded that the issuer surveys made by the CSA (referred to in the Notice to the Proposal) are a sufficient basis for deciding the issues. We have reviewed the survey and the summary results. The survey does not “drill down” to a meaningful level of detail. There is no significant information sought or obtained regarding costs/efficiencies and integrity of voting. In any case, it is unlikely that issuers alone can predict the impact on cost/service of changes set out in the Proposal – DT also makes this point and notes that the reasons for this are as follows:

Most issuers are not aware of the changes that the Proposal will introduce, and they are not fully aware of the impact that the proposed policy may have.

1 From DT's contacts with the issuers, it appears that issuers do not have enough information to make an informed decision regarding the changes in the Proposal.

1 Transfer agent pricing is currently bundled with other services that are provided. This does not allow for easy identification of proxy mailing and tabulation unit costs. As a result, issuers are currently unable to compare with the service offerings of others.

1 In order to determine the most cost efficient mailing and vote tabulation process, issuers will require unit cost information from both transfer agents and service providers.

Finally, the CSA's response to concerns with respect to competition and economies of scale is inadequate. The CSA, in part, addresses these concerns by citing the requirement in the Proposal that all requests for beneficial ownership information be made using the services of a transfer agent – that this will facilitate an efficient communications process and encourage a limited number of entities to make investment in technology. Without more explanation, it is difficult to assess how this “fix” resolves a much larger tension between fostering competition and facilitating efficiencies. It seems extremely superficial when put alongside the DT report which shows a need to consider industry structure and a host of other factors.

Recommendation Two – For the reasons above, we recommend that a special task force be formed to work with the CSA to, among other things, establish a practical approach to consider proxy reform that will (i) not put at risk the integrity, efficiency, and reliability of the current process, (ii) see that any new industry structure still encourages continued investment in, and deployment of, new technologies to further reduce overall industry costs, especially the cost to issuers, and (iii) that the overall industry savings that have been created by the current shareholder communications process continue.

To date, improvements to the shareholder communication process have been a result of changes supported by a vast majority of industry constituents (namely, intermediaries, issuers, institutional investors and service providers). We therefore believe it would be imprudent to propose any future changes unless they too have such support. The CSA can show significant leadership if it calls together the perspectives on business practices, goals, cost considerations and desired levels of active involvement of each group participating in the process for the purpose of creating a workable plan.

We acknowledge that a previous attempt to find an industry solution was unsuccessful. The Industry Implementation and Monitoring Committee ("IIMC"), formed in late 1987 to monitor the operation of NP41, was designed to make recommendations to the CSA as to modifications to NP41. Unfortunately, the IIMC lacked a clear mandate, became bogged down in detail, and generally failed to achieve its potential.

In the meantime, much has changed. For example, the benefits of new technology - in particular, new forms of sending and sharing proxy and voting data - have made shareholder communications extremely complex. The stakes are much higher now. Significant investments in technology have been made, and are still needed, to serve the increasing demands of issuers and security holders. Under the Proposal, new investment in voting and proxy processing (such as our significant commitment to develop televoting - a service that we developed and first offered in 1997) will not be made without a stable market model.

It is generally acknowledged that a high level of process integrity and performance and significant cost efficiencies and savings, have been achieved and enjoyed by Canadian issuers because of IICC. The process integrity and performance achievements are a result of our precise and efficient handling of a multitude of varied and complex tasks, significantly aided by our aggressive application of technology. In fact, we voluntarily measure and publicly report on the accuracy of our own performance and Deloitte & Touche performs annual reviews of the accuracy of both IICC's operations and reported voting results.

For your information, we have also included with this letter a summary "Information Release" (see Appendix 3) that sets out a number of specific observations and comments we have regarding the Proposal.

We urge the CSA to consider our proposal because we believe it would advance many of the CSA's stated objectives without jeopardizing the proxy system. A great deal of progress has been made in developing an extremely reliable model of shareholder communications and we are committed to helping resolve the issues that remain open.

Yours very truly,

Jim Atkinson
President

CC: Mr. R. Schifellite, ADP Investor Communication Services
Mr. E. J. Waitzer, Stikeman Elliott
Mr. J. E. Walker, Stikeman Elliott

Appendix 1

Please see the enclosed Deloitte & Touche Report “Economic Impact Analysis on the Proposed Changes to National Policy 41”.

This Microsoft PowerPoint document is not included on the diskette.

Appendix 2

Please see the enclosed Executive Summary, Deloitte & Touche "Economic Impact Analysis on the Proposed Changes to National Policy 41".

This Microsoft PowerPoint document is not included on the diskette.

Appendix 3

Please see the enclosed “Information Release“. The Information Release consists of two (2) key documents:

1. Fact Sheet Prepared by IICC Investor Communications for Canadian Public Corporations.

2. Fact Sheet Prepared by IICC Investor Communications for Canadian Financial Intermediaries.

These documents are available in an electronic Word Perfect version for the diskette.