



SOCIAL INVESTMENT ORGANIZATION

The Canadian Association for Socially Responsible Investment

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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorite des marches financiers
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

Attn:

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Dear Mr. Stevenson and Ms. Beaudoin:

Re: National Instrument 81-106 and mutual fund proxy voting

I am writing to you today on behalf of the Social Investment Organization on the issue of mandatory disclosure of proxy voting policies and votes cast by mutual funds.

The Social Investment Organization -- representing the socially responsible investment industry in Canada -- commends the CSA for its proposed policy and rule with regard to proxy voting as outlined in NI 81-106 and 81-106CP.

We are writing to you from our experience as the trade association for the socially responsible investment industry in Canada. Our members represent socially screened mutual funds, as well as financial institutions, asset management firms and financial advisors with socially responsible investment mandates. Our members serve more than half a million depositors and investors in Canada.

We believe that proxy voting represents a critical asset. It is important for investors to actively use their power as shareholders to vote on important corporate issues involving good governance, social responsibility and environmental sustainability. As such, investment funds have an obligation to develop proxy voting policies, and to implement procedures to vote their shares in accordance with these policies. Moreover, in order to assure investors that they have developed appropriate policies, and are voting their shares in alignment with those policies, it is essential that investment funds be required to disclose their policies and their actual votes.

We laud the CSA in recognizing the importance of this issue in the disclosure requirements proposed in this new National Instrument and its Companion Policy. Not only does the new Policy and Instrument achieve an important level of investor protection, but it also harmonizes Canadian and US policy, given the proxy voting requirements for investment funds recently put into place by the Securities and Exchange Commission.

One commenter on the earlier draft of the National Instrument suggested that it is not necessary for investment funds to be required to disclose their proxy votes. This commenter argued that mandatory proxy voting is not widely desired by mutual fund unitholders, nor would it help them in making buy, hold or sell decisions on their funds. Moreover, this commenter suggested that mandatory proxy voting is being used by special interests to use the voting power of the mutual fund industry to advance political or social agendas.

Without getting into these issues in detail, the SIO would like to emphasize that we do not view disclosure of proxy voting as a political activity. Investors are coming to a growing awareness that their proxy votes can have major impact on the long-term performance of the companies in which they hold shares. By communicating their views in a constructive way with management, and voting their shares appropriately, it is possible for investors to play a much more pro-active role in the oversight and direction of Canadian and international corporations. This can only improve the corporate governance and social responsibility practices of these companies, to the benefit of investors and society as a whole.

Moreover, since transparency is now recognized as a key principle of investment fund management, it only makes sense that investment funds be required to disclose their voting policies and practices, so that unitholders can judge for themselves whether funds have appropriate policies, and are voting in accord with those policies.

National Instrument 81-106

With these introductory comments, I would now like to address some specifics of the new rule, which is outlined in Part 10, proposed National Instrument 81-106.

On Part 10.2 (Policies and Procedures), we agree with the proposed minimum policies outlined. We commend the CSA in requiring funds to establish procedures to ensure that shares are voted in accordance with the policies. This will require funds to put in place practical measures to vote their shares so that their proxy policy is implemented. Without these measures, it would be possible for funds to fall back on delegating votes to managers or simply voting with corporate management on shareholder proposals.

This is not to say that funds can't delegate their voting. However, if they do, the managers who are responsible for voting must be guided by procedures to ensure that fund proxy policies are being implemented.

We also agree with the requirements in Part 10.3 on the specifics of the proxy voting record.

However, in section 10.4 (Preparation and Availability of Proxy Voting Record), we recommend that investment funds be given the option of providing written copies of the proxy policies and records on request by securityholders, or to provide these documents on their website and referring securityholders to the web for this information.

Investment funds are communicating increasingly with their investors and the investing public through their websites. Not only does this reduce the cost of providing printed materials, but it is more efficient because larger more effective communications can be conveyed through the web. In addition, it is more environmentally responsible by reducing the consumption of paper, chemicals and energy.

The Securities and Exchange Commission recognized this principle in its final rule on *Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies* (<http://www.sec.gov/rules/final/33-8188.htm>). According to the final rule, unitholders may obtain a copy of the voting record without charge upon request by calling a specified toll-free telephone number, or through the fund's website, or through the SEC's website.

The SEC modified its original rule to specifically permit investment funds to provide their voting records via the web. "This modification addresses concerns that the proposals would require funds with large numbers of holdings to produce lengthy proxy voting spreadsheets and to send them to investors who request them," states the final rule.

We agree with this approach. By specifically permitting investment funds to post their proxy policies and records on the web, the CSA would provide the option to mutual funds to set up a low-cost disclosure system.

In Canada, The Ethical Funds Company pioneered this approach in the mutual fund industry. In the pension community, the Ontario Teachers Pension Board and the Ontario Municipal Employees Retirement System post their votes on their website. The Canada Pension Plan Investment Board uses a system put in place by Institutional Shareholder Services to publicly report its shareholder votes. Existing systems are available to create a low-cost disclosure method to provide an up-to-date source of information on proxy policies and votes.

By providing this option to investment funds, CSA would help to shape how proxy votes are reported in the future, encouraging funds to post their policies and their votes on their websites for the information of unitholders. In addition, members of the investing public would have easy access to this information, enabling them to compare how various funds voted. As well, this would provide a more transparent voting environment in which investment funds would all know how each other voted, encouraging them to communicate with each other prior to important shareholder votes.

Conclusion

The SIO generally supports the proposed proxy voting Instrument and Policy. However, this already laudable policy can be strengthened considerably by giving investment funds the option to disclose their policies and records via the web.

Sincerely,

Eugene Ellmen
Executive Director