



The Canadian Depository for Securities Limited

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Mr. John Stevenson, Secretary

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Ontario Securities Commission (OSC)
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario
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Re: OSC Staff Notice 54-701 – Regulatory Developments Regarding Shareholder Democracy Issues

Introduction

The Canadian Depository for Securities Limited (CDS) supports the Ontario Securities Commission (OSC) in its efforts to review shareholder democracy issues pertaining to: slate and majority voting for uncontested director elections; shareholder advisory votes on executive compensation; and the effectiveness of the proxy voting system. CDS is pleased to provide its comments and observations on the effectiveness of the proxy voting system, an area where CDS believes it can make a valuable contribution to the continuing discussions on “fixing” the proxy voting system.

Issuers, industry participants and investors have raised numerous questions as to whether the current proxy system is functioning with appropriate reliability, integrity and transparency. The Davies Ward Phillips & Vineberg LLP discussion paper on *The Quality of the Shareholder Vote in Canada* and the Globe and Mail article dated January 31, 2011 by Janet McFarland titled *Voting Problems Dog Corporate Canada* and comments submitted to the Canadian Securities Administrators (CSA) on National Instrument 54-101 (NI 54-101) have identified concerns as to whether only investors entitled to vote are receiving proxies, whether enough time is being provided to allow the investors to make informed decisions, and whether votes are being tabulated in accordance with investors’ instructions. CDS is of the view that the current proxy process is being impacted by:

1. the complexity of the proxy processing system in Canada
2. the need for pre-reconciliation of participants’ investor positions before proxies are distributed to address over-reporting and over-voting of positions
3. the need for vote confirmation
4. the need to treat registered and beneficial shareholders alike
5. the need for transparency and auditability through the process.

In looking at other jurisdictions, the concept release on the U.S. Proxy System (Release Nos. 34-62495; IA-3052; IC-29340; File No. S7-14-10) by the Securities and Exchange Commission (SEC) also identified some of the above issues as having an impact on the proxy voting system in the U.S.

The Canadian capital markets have evolved significantly in the past 20 years. Shareholders are more informed and shareholder activism has become prevalent. Technological advancements have created the opportunity to realize processing efficiencies to manage resources while allowing all to reduce costs and satisfy regulatory requirements. Determining how data are gathered and reconciled to record date positions and the provision of vote tracking will have a major influence on the design of a reliable and

efficient proxy voting system. The complexity of the holistic and automated system that is required to gather investor information, apply investor preferences to issuer choices and to track shareholder votes is significant and will require industry input and consensus.

CDS Clearing and Depository Services Inc.

CDS Clearing and Depository Services Inc. (CDS Clearing), a subsidiary of The Canadian Depository for Securities Limited, is Canada's national securities depository, clearing and settlement hub. CDS Clearing in its role as Canada's central securities depository acts as the registered holder for over C\$3 trillion in securities. CDS Clearing maintains records of the positions held by financial intermediaries (brokers and dealers who are CDS Clearing participants) on behalf of their clients. Through CDSX[®], the clearing, settlement and depository system maintained and operated by CDS Clearing, and its entitlements processing operations, CDS Clearing gathers and distributes information on corporate actions to its participants. Each participant with holdings provides instructions to CDS Clearing on voluntary events on behalf of their customers.

Conclusion

Increased shareholder activism and scrutiny of the proxy voting process have led to ongoing requests for regulatory changes that place additional burdens on the current proxy process. CDS is of the view that a data-gathering repository with appropriate accessibility and measurable controls should be considered as the most viable solution for resolving the five key challenges identified with the current proxy voting system in Canada. There are additional benefits to the capital markets to be realized from this central data-repository model. These include:

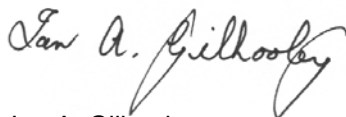
- a transparent platform for competitive pricing
- a system that allows all stakeholders to meet their regulatory obligations
- an efficient and effective proxy voting system that reduces overall costs to issuers and to the industry.

CDS views the time as being right to implement changes that will leverage existing technology, address competitive market forces and satisfy best practices.

CDS has an established record of accomplishment in the design and development of consensus-driven solutions for the Canadian capital markets and looks forward to meeting with the OSC as it continues to investigate the scope of a regulatory proposal on the effectiveness of the proxy voting system.

I would be pleased to respond to any questions you may have on the content of our submission. I can be reached by telephone at (416) 365-3574 or by e-mail at igilhooley@cds.ca

Yours truly,



Ian A. Gilhooley
President and Chief Executive Officer