Canadian Labour Congress
Congrès du travail du Canada

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E-mail: jstevenson@osc.gov.on.ca

Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

Dear Mr. Stevenson:

Re: Consultation Paper 25-401: *Potential Regulation of Proxy Advisory Firms*

As administrator for the Canadian Labour Congress staff pension plan, I am responding on behalf of the members to your consultation on the regulation of proxy advisors.

In our view, the voting rights of our equity holdings are assets of the Fund, and we believe we have a duty to exercise those rights in a manner that consistently reflects our views on the issues presented to us as shareholders. We require the assistance of a proxy voting service to exercise our voting rights.

As we read the CSA's consultation, the trigger for establishing this forum for discussion about proxy advisory firms is a set of concerns raised primarily (if not exclusively) by issuers and their advisors, and the CSA notes that no complaints about proxy advisory firms have been received by CSA members from institutional investors who subscribe to such services.

The purpose of the consultation is to discover whether the services provided by such firms have a negative impact on the integrity of Canadian capital markets. In contemplation that such negative impact is found, the CSA has described several options for the regulation of proxy advisors and indicated which regulatory response it prefers.

We now turn to the question of the nature of the impact of proxy advisory firms on the integrity of Canadian capital markets.

First, we address the issue of transparency. We receive sufficient information from our proxy advisor to enable us to understand the rationale for the

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positions taken on all voting issues, particularly when that position is opposed to management's voting recommendation. We do not believe that disclosure to issuers by proxy advisors of the advisor's issue analysis should be required. An investor who pays for the services of a proxy advisor is the arbiter of quality of the information provided to it, just as an issuer assesses the quality of the services that various consultants provide to it without shareholder intervention.

Similarly, we do not believe that the related issuer concern about the lack of mechanisms mandated by the regulator that may be used to "question" the analysis of proxy advisors is a threat to market integrity. We are well aware that differences of opinion occur between issuers and proxy advisors. Indeed, our proxy advisor highlights these differences in the course of its analysis. Moreover, clients of proxy advisory firms have access to the issuer perspective in the proxy materials of that issuer.

Turning to the matter of whether it is a threat to market integrity if proxy advisors are corporate governance standard setters, we note that we expect our proxy advisor to identify and explain the governance standards that it uses to evaluate issuers in the markets in which we invest. From our point of view, this is a key part of the value of the service. We require research about the social, environmental and governance practices of companies in the markets in which we invest because we do not generate such market-wide data internally.

Our use of a proxy advisor is in fact very similar to corporate reliance on the services of compensation consultants and proxy solicitation firms. These service providers furnish corporations with data about market practice and recommendations for specific action.

The CSA also asks whether the degree to which institutional investors "rely too much" on the vote recommendations provided by proxy advisory firms is a threat to market integrity. We select a proxy advisor and a set of voting guidelines that will contribute to a voting record that reflects our views on social, environmental and corporate governance matters put to a shareholder vote. Naturally, we rely on the advisor to assist us in voting our equity holdings. The selection of a proxy advisor requires care on the part of the investor both at the point that the advisor is retained, and throughout the life of the relationship. As is the case with all situations in which we find it necessary to delegate some part of our responsibilities, we do so in a way that allows us to retain ultimate responsibility for all of the investment activities of the Fund.

Finally, we come to the question of conflicts of interest. As we noted above, our proxy advisor discloses that it does not provide services for a fee to any public company except in that company's capacity as an institutional investor.

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Our proxy service provider facilitates its clients' dialogues with issuers on their environmental, social and corporate governance policies and practices through its shareholder engagement service. The Fund is a client of this service. On occasion, shareholder proposals are filed by one or more clients of the engagement service. The position taken on shareholder proposals by the proxy voting service depends upon how the issue raised by the proposal is addressed under our voting guidelines, not by the identity of the filer of the proposal.

From our perspective, proxy voting and engagement services are complimentary. As you are no doubt aware, there are many matters on which shareholders seek disclosure or other corporate action that is not provided by companies and is not mandated by relevant rule makers. Shareholder engagement is the term commonly used in Canada and many other jurisdictions to describe any communication between corporations and their shareholders that is initiated by either party on matters pertaining to corporate activity. Like voting our shares, we believe that engagement with the issuers of the shares we hold within our portfolio is a part of our duty as fiduciaries.

We end with an expression of our disappointment in the CSA for allocating time and effort to a consultation on the regulation of proxy advisors. The resources expended by the CSA on this file could have been directed to drafting requirements for corporate disclosure on social and environmental matters that shareholders require to thoroughly evaluate investment risks. Examples of much needed disclosures include human rights and environmental performance assessments for issuers in the mining sector, and environmental performance and climate-related risks in the oil and gas sector. The lack of regulatory requirements for meaningful corporate social and environmental disclosures is in our view a known threat to market integrity.

Sincerely,

Les Steel
Plan Administrator for the
Canadian Labour Congress
Staff Pension Plan

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