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BY EMAIL

June 18, 2014

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

C/O: Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
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C/O : Secretary  
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20 Queen Street West  
Suite 1900, P.O. Box 55  
Toronto, ON M5H 3S8  
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Dear Sir/Madam:

**RE: Notice and Request for Comment Proposed National Policy 25-201 Guidance for Proxy Advisory Firms (“Proposed Policy”)**

This submission is made by the Public Sector Pension Investment Board (“PSP Investments”) in response to the Proposed Policy released on April 24, 2014.

By way of background, PSP Investments is a Canadian Crown corporation established to invest the amounts transferred by the Government of Canada since April 1, 2000, for the pension plans of the Public Service, the Canadian Forces and the Royal Canadian

Mounted Police, and since March 1, 2007, for the Reserve Force Pension Plan. To achieve its investment mandate, PSP Investments makes investments in public and private assets. As at September 30, 2013, PSP Investments' net assets under management were worth over \$82.3 billion.

### **General Comments**

We are pleased to have the opportunity to comment on the issues raised in the Proposed Policy. As a long-term institutional investor in the global equity markets, through proxy voting and active engagement with issuers, we promote better corporate governance and corporate responsibility with the objective of enhancing issuer performance and shareholder value.

Last year, PSP Investments voted globally at more than 2,900 shareholder meetings which represented over 30,000 resolutions. As part of the active management of our proxy voting activities, we review proxy circulars, reports from proxy advisory firms and other service providers and consult with our portfolio managers when voting the equities held in accounts managed internally as well as those in segregated accounts managed by external managers. PSP Investments uses the voting platform of a proxy advisory firm to ensure that all votes are submitted validly and on time, but PSP Investments retains at all times full voting authority.

As we stated in our comment letter on the 2012 *CSA Consultation Paper 25-401: Potential Regulation of Proxy Advisory Firms*, we are not concerned about the role or current structure of proxy advisory firms. We feel that they provide a number of valuable services and generally promote good corporate governance practices. While their proxy advisor reports and voting recommendations may be a matter of interest to us, we evaluate matters on which we are entitled to vote carefully and cast our votes as we consider appropriate, in accordance with the Proxy Voting Guidelines adopted by our Board of Directors.

Regarding the Proposed Policy, we do not believe that the proposed approach of providing guidance on recommended practices and disclosure by proxy advisory firms will lead to meaningful changes since proxy advisory firms operating in Canada already have similar policies and practices in place and disclose them publicly. We believe that the lack of understanding from issuers and other market participants on the role of proxy advisory firms has contributed to the development of unnecessary regulation.

Notwithstanding our continued belief that regulation of proxy advisory firms is not required, we are satisfied that the Proposed Policy is limited to providing guidance on practices and disclosure and is not intended to be prescriptive.

### **Specific Comments**

#### **Conflicts of Interest**

There is a perception from issuers that conflicts of interest exist with proxy advisor firms and that these conflicts of interest are not properly managed. Having had the opportunity

to discuss this issue with proxy advisory firms, we do not have any reasons to believe that the ethical walls in place within proxy advisory firms or their internal processes are inefficient to manage properly conflicts of interest. We do not expect the Proposed Policy to result in any substantive changes since proxy advisory firms already have appropriate policies and procedures in place.

### **Transparency and Accuracy of Vote Recommendations**

We do not think that transparency is a significant problem; proxy advisory firm reports disclose adequately the reasons for their vote recommendations and make available their voting policies on their websites. In addition, voting recommendations are derived from the information that issuers disclose in their proxy circulars.

Although factual errors can occur from time to time (sometimes due to a lack of clarity in the proxy circular), we, as a client of the proxy advisory firms, are satisfied with the proxy reports we receive and do not believe that there is a problem with the quality of the vote recommendations or the resources, knowledge and expertise of the proxy advisory firms.

### **Development of Proxy Voting Guidelines**

Proxy advisory firms already develop their proxy voting guidelines in a highly consultative manner, soliciting input from its clients, the institutional shareholders. We question whether proxy advisory firms need to regularly consult with and consider the preferences and views of the general public on governance issues and proxy voting guidelines. The proxy advisory firms relationship with its clients is governed by private contractual arrangements and therefore guidance suggesting input from the general public is overreaching. The decision to consult with issuers should be left to the proxy advisory firms. However, issuers should always be made aware of any changes to the proxy voting guidelines, as discussed above.

### **Communications with Clients, Market Participants, the Media and the Public**

We question the guidance to put policies in place to manage communications with respect to the media and public in general and any questions, concerns, or complaints that the proxy advisory firms may receive. As noted above the relationship between proxy advisory firms and its clients is a contractual one and if and how the proxy advisory firms communicate with third parties should not be subject to regulation.

Furthermore, we question whether the guidance to communicate in reports to clients “any known or potential limitations or conditions in the research and analysis used to prepare the vote recommendations” is reasonable or even possible to fulfill in practical terms.

Similarly, we do not believe it is practical to suggest that proxy advisors’ reports provide “identification of the information that is factual and that information that comes from analytical models and assumptions”.

The institutions have the requisite expertise to make these distinctions for themselves and the Proposed Policy should not set up unreasonable expectations.

### **Corporate Governance Practices**

Proxy advisory firms develop their proxy voting policies in consultation with their clients and in some instances the issuers. The proxy voting policies generally incorporate what is predominantly seen as best governance practices which is generally adapted to the standards of the local market. We feel that the influence of these voting policies has generally had a positive impact on corporate governance practices in Canada as issuers are paying attention to them. It is important to note that large institutional investors such as PSP Investments generally have their own proxy voting guidelines which may differ from those of the proxy advisory firm on many fronts. We encourage issuers to provide feedback on PSP Investments' Proxy Voting Guidelines, if they have concerns with the governance aspects that we consider when voting. PSP Investments is employing the research services of more than one proxy advisory firm and does not rely exclusively on these proxy advisor reports when making its voting decisions. In addition to these reports, PSP Investments carefully reviews proxy circulars, consults its portfolio managers, conducts its own independent research prior to casting its vote. We believe that many institutional investors have a similar decision-making process.

### **Response to specific Questions**

- 1) *Do you agree with the recommended practices for proxy advisory firms?*

No, the Proposed Policy generally mirrors the policies and practices that proxy advisory firms already follow. Regulation appears unnecessary.

- 2) *Are there other material concerns with proxy advisory firms that have not been covered in the Proposed Policy?*

No.

- 3) *Will the Proposed Policy promote meaningful disclosure to the proxy advisory firms' clients, market participants and the public?*

Since the relationship between the proxy advisory firm and the client is a private contractual one, we disagree with the suggested guidance to consult with issuers, other market participants and the public on vote recommendations and changes to proxy voting guidelines. Proxy advisory firms already develop their proxy voting guidelines in a highly consultative manner and these guidelines are made available on their website.

- 4) *We encourage proxy advisory firms to consider designating a person to assist with addressing conflicts of interest. Should we also encourage proxy advisory firms to have the person assist with addressing determination of vote recommendations, development of proxy voting guidelines and communication matters?*

As discussed above, PSP Investments is satisfied with the quality of the reports it receives from proxy advisory firms and the resources, knowledge and expertise of the proxy advisory firms. Although potential conflicts of interest may arise from time to time, as a client of proxy advisory firms, we are not concerned with the independence of the reports we receive and are satisfied with the current policies and procedures in place to safeguard against conflicts of interest.

- 5) *We expect proxy advisory firms to disclose their approach regarding dialogue or contact with issuers when they prepare vote recommendations. Should we also encourage proxy advisory firms to engage with issuers during this process? If so, what would be the objectives and format of these objectives?*

Proxy advisory firms already disclose their approach regarding dialogue or contact with issuers. The decision to consult or not with issuers should be left to the proxy advisory firms. We are comfortable with any intervention from an issuer to correct factual errors.

- 6) *A proxy advisory firm may provide automatic vote services to a client based on the proxy advisory firm's proxy voting guidelines. Should we encourage proxy advisory firms to consider obtaining confirmation that the client has reviewed and agreed with the proxy advisory firm's proxy voting guidelines leading to the vote recommendation? If so, should we encourage proxy advisory firms to consider obtaining such confirmation annually and following any amendments to the proxy advisory firm's proxy voting guidelines?*

No, institutional investors are sophisticated investors with the required expertise to manage their proxy voting activities.

We appreciate this opportunity to comment on the Proposed Policy. Please do not hesitate to contact the undersigned if you wish to discuss any aspect of this letter in further detail.

Sincerely,



Stéphanie Lachance  
Vice President, Responsible Investment and  
Corporate Secretary