

BLACKROCK

July 23, 2014

Submitted via email

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
The Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut

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Re: CSA Notice and Request for Comment – Proposed National Policy 25-201: *Guidance for Proxy Advisory Firms*

Dear Sir or Madam,

BlackRock, Inc. (“BlackRock”) is pleased to have the opportunity to respond to the Canadian Securities Administrators (“CSA”) consultation paper on the Proposed National Policy 25-201: *Guidance for Proxy Advisory Firms* (the “Proposed Policy”).

BlackRock believes that proxy advisory firms play an important role in enabling institutional investors to better fulfill their duties towards their clients. As discussed in more detail in our response¹ to the CSA Consultation Paper 25-401: *Potential Regulation of Proxy Advisory Firms*,

¹ http://www.osc.gov.on.ca/documents/en/Securities-Category2-Comments/com_20120920_25-401_zivnuskar.pdf

proxy advisory firms have become an integral and necessary part of institutional investors' execution of voting rights. At the very least, institutional investors rely on proxy advisors to repackage relevant shareholder meeting materials such as issuer publications and publicly available news flow into a concise and consistent format that can be more efficiently reviewed. Institutional investors are likely to also use proxy advisory research to help determine which resolutions will require greater attention or more in-depth analysis.

To summarize our view on the Proposed Policy, we agree with the CSA that institutional investors or other proxy advisory firms' clients are the best positioned to evaluate the services provided to them by proxy advisory firms. We broadly agree with the recommended practices in the Proposed Policy because we believe that transparency around proxy advisors' policies and processes can foster greater credibility as well as broader market comfort with the proxy advisory industry. In our view, the recommended practices for proxy advisory firms appear generally in line with the steps that proxy advisory firms have already taken to both mitigate potential conflicts of interest and increase transparency in their activities. We believe strongly in the merits of the advisory firms taking these steps, however we do not believe that investors will experience incremental benefit or protection by codifying these standards in prescriptive regulation. We believe that substantial additional regulation of proxy advisory firms would likely impose costs that will ultimately be borne by their clients (i.e., investors), and it should therefore be clear how such regulation would benefit investors. As such, we agree with the CSA's approach to provide policy-based guidance that is not intended to be prescriptive or exhaustive.

Attached please find responses to some of the specific questions posed in the Proposed Policy. We appreciate the opportunity to address and comment on the issues raised by the Proposed Policy. We are prepared to assist CSA in any way we can, and welcome continued dialogue on these important issues. Please contact us if you have any comments or questions regarding BlackRock's view.

Yours faithfully,

Zachary M. Oleksiuk
Vice President
Head of Corporate Governance and Responsible Investment, Americas

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. As of June 30, 2014, BlackRock's AUM was US\$4.594 trillion. BlackRock offers products that span the risk spectrum to meet clients' needs, including active, enhanced and index strategies across markets and asset classes. Products are offered in a variety of structures including separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles.

Our client base includes corporate, public funds, pension schemes, insurance companies, third-party and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals. BlackRock attempts to act as a voice for our clients and to communicate to policy makers the impact of proposals on the end investor. BlackRock supports regulatory reform globally where it increases transparency, protects investors, facilitates responsible growth of capital markets and, based on thorough cost-benefit analyses, preserves consumer choice.

BlackRock Asset Management Canada Limited is a member of the Canadian Coalition for Good Governance and a number of national industry associations reflecting our global activities and reach.

Responses to select questions in the Request for Comments on the Proposed Policy:

1. Do you agree with the recommended practices for proxy advisory firms? Please explain.

We broadly agree with the recommended practices in the Proposed Policy. Although we believe that no market failure has stemmed from the current practices of the proxy advisory industry, we welcome public disclosure by proxy advisory firms regarding policies on conflicts of interest, transparency and accuracy of vote recommendations, development of proxy voting guidelines, and communications with clients, market participants, the media and the public. We believe that transparency around proxy advisors' policies and processes can foster greater credibility as well as broader market comfort with the proxy advisory industry.

We agree with the CSA's approach to provide guidance that is not intended to be prescriptive or exhaustive. In our view, the recommended practices for proxy advisory firms appear generally in line with the steps that proxy advisory firms have already taken to mitigate potential conflicts of interest and to increase transparency in their activities. We believe strongly in the merits of the advisory firms taking these steps, however we do not believe that investors will experience incremental benefit or protection by codifying these standards in regulation. We believe that substantial additional regulation of proxy advisory firms would likely impose costs that will ultimately be borne by their clients (i.e., investors), and it should therefore be clear how such regulation would benefit investors.

3. Will the Proposed Policy promote meaningful disclosure to the proxy advisory firms' clients, market participants and the public? If not, what additional information should be disclosed?

In our view, the CSA correctly identifies institutional investors or other proxy advisory firms' clients as the best positioned arbiters for evaluating the services provided to them by proxy advisory firms. We believe institutional investor clients already have access to the information required to assess proxy advisors' policies on conflicts of interest, transparency and accuracy of vote recommendations, development of proxy voting guidelines, and communications with clients, market participants, the media and the public. Such information is typically reviewed in the context of a request for proposal or due diligence by investor clients.

We support the Proposed Policy's emphasis on protecting proprietary or commercially sensitive information belonging to proxy advisory firms, because there is already an effective market oversight mechanism in place in the form of the commercial relationship between proxy advisors and their investor clients. We do not believe that there would be significant public benefits associated with the disclosure of proxy advisors' proprietary or commercially sensitive information and note the potential for harm to proxy advisory clients in the event that their proprietary information is compromised.

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 should be the objectives and format of such engagement?

We believe that proxy advisory firms should be transparent in their policies regarding dialogue with issuers, including whether they do engage with issuers when they prepare vote recommendations. However, we do not believe that it is necessary or appropriate for regulators to encourage proxy advisory firms to engage with issuers during the vote recommendation process.

We believe that the CSA correctly reminds issuers that they may engage with their shareholders, who have the ultimate responsibility of determining how to exercise their right to vote, to explain why they have adopted a given corporate governance practice. Direct and private engagement with issuers allows investors to share their philosophy and approach to investment and corporate governance with issuers and to enhance the issuers' understanding of investors' objectives. It also

gives investors the opportunity to improve their understanding of issuers and the issuers' governance structures as well as to better inform their voting and investment decisions.

At the same time, we do not believe that issuers, investors, and/or proxy advisors should be overly reliant on engagement to communicate views on corporate governance or to inform voting decisions, or that engagement for its own sake is necessarily a valuable activity; this is because the information circular is the primary means for issuers to communicate their corporate governance practices to shareholders, and shareholders can make their views on governance issues publicly available through website posting and/or other means. As with any other resource allocation decision, investors must prioritize their engagement activities in part according to their need for clarification of publicly disclosed information, their views regarding governance-related risks at an issuer, and their expectations of the potential outcomes associated with their engagement.

We expect that proxy advisors must similarly prioritize their resources, and we note that the costs of proxy advisor engagement activities would be borne by proxy advisors' clients. As such, it should be clear how engagement by proxy advisors would benefit investors; in our view the primary benefit of engagement for proxy advisors would typically be limited to clarifying proxy advisors' understanding of publicly disclosed information in order to potentially better inform their analysis of proxy issues.

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 vote recommendations? 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?

We believe these questions may in part relate to the debate over the influence of proxy advisory firms on how institutional investors vote. The level of influence proxy advisory firms have will depend on how investors use proxy advisors. On one end of the spectrum, some investors look at proxy advisory research primarily for the centralization and simplified digestion of information including details on the issuer's governance structure, directors' biographies, strategic updates and compensation structures. They regard this research to be solely an information tool to supplement their own internally produced research. On the other end of the spectrum are investors who outsource their voting activities to proxy advisory firms and therefore vote in line with all of the proxy advisor's recommendations. Investors can subscribe to research from more than one advisory firm, and also take into consideration materials published by the company, research produced by sell side investment houses, and internal research, among other inputs. Ultimately, the investors have final responsibility for the vote decision on their assets.

We expect that investors that adopt a proxy advisory firm's proxy voting guidelines would review those guidelines from time to time to assess agreement. However, we do not see the benefit of encouraging proxy advisory firms to obtain confirmation that their clients have reviewed and agreed with the proxy advisory firm's proxy voting guidelines leading to vote recommendations, and we would be concerned about the incremental costs associated with such an activity, which would ultimately be borne by proxy advisory firms' clients. Rather, while likely outside of the scope of the Proposed Policy, we believe that any effort to build market confidence in proxy advisors should include encouraging institutional investors to provide transparency regarding their use of proxy advisors, as well as what resources the investors themselves devote to voting and stewardship more broadly.