IIACACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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Via Email: consultation-en-cours@lautorite.qc.ca; comments@osc.gov.on.ca

July 15, 2016

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Attn:

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

Robert Blair
Secretary (Acting)
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

Dear Sirs/Mesdames:

Re: CSA Multilateral Staff Notice 54-304 – Request for Comments on Proposed Meeting Vote Reconciliation Protocols (the "Proposed Protocols")

The Investment Industry Association of Canada (IIAC)[1] appreciates the opportunity to provide comments in respect of the Proposed Protocols and related issues. As noted in the request for comments, the IIAC and its intermediary members participated by providing input into the Proposed Protocols which would serve as guidance to all key entities in the proxy voting process on operational processes to tabulate proxy votes. We are supportive of the initiative and we are confident it will enhance the reliability and

[1] The IIAC is the national association representing the position of 138 IIROC–regulated Dealer Member firms on securities regulation, public policy and industry issues. We work to foster a vibrant, prosperous investment industry driven by strong and efficient capital markets.

accountability of meeting vote reconciliation in an efficient and effective manner, to the extent that it takes into account existing operational processes and does not impose significant new resource requirements that add extra cost and burden for little benefit. Notably, our members are already subject to stringent regulatory requirements respecting share reconciliation[2] which have proven effective over the long-term and are committed to a well-functioning proxy voting system in Canada. With this in mind, we believe it is worth emphasizing that the proxy voting system and infrastructure in Canada generally works well and this is borne out by the CSA's review of shareholder meetings which did not reveal material instances of over-reporting or over-voting that would change the outcomes of shareholder votes[3].

In the circumstances, intervention in existing proxy voting processes through regulatory or infrastructure overhauls would be an unwarranted and disproportionate response to the issues presented. Rather, the Proposed Protocols represent an appropriate flexible approach to help minimize the identified communication or information gaps which may otherwise contribute to infrequent administrative error in the proxy voting operational processes and further support the integrity of the proxy voting process. We understand from participants in the current proxy season that have already implemented certain processes contemplated in the Proposed Protocols, that they have had positive experiences with improvement in communications; there has been more effective collaboration between entities and practical resolution of any information deficits. We believe that further time to evaluate these improvements would be beneficial to the industry and investors and that discussion through the planned Technical Committee and at contemplated industry roundtables will be useful for evaluating the initiative's success.

Questions

1. *The Protocols contain detailed guidance on operational process to support accurate, reliable and accountable proxy voting. Does the guidance achieve this objective? If not, what specific areas can be improved, or what alternative guidance could be provided?*

The IIAC and its members believe that the detailed guidance in the Proposed Protocols is useful for achieving the objective of supporting accurate, reliable and accountable proxy voting. The guidance outlines standardized processes for proxy voting that all key entities can reference and use flexibly to balance positions and resolve outstanding issues. We would suggest, however, the Proposed Protocols could be improved by including guidance that relevant up-to-date contact information be provided to the intermediaries by the transfer agents and Canadian Depository for Securities (CDS) representatives

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[2] In particular, IIROC Dealer Member Rules (DMRs): 17.2 Books and Records, 17.2A Internal Controls, 2600 Internal Control Policy Statement - records must be reconciled and balanced to depository daily, 16 and 300: Audit Requirements, DMR 20 Enforcement; and CDS Rules 3.4.3 Verification of Securities Balances and 9.1.2 Enforcement – Suspension of Membership.

[3] See Finding 1 in the CSA Staff Notice 54-303 Progress Report on the Review of Proxy Voting Infrastructure (the "Progress Report"), issued January 29, 2015. Any "irregularities" tend to be infrequent occurrences in unusual circumstances or due to administrative error and are not the general rule.

to further alleviate communication challenges and this would be required for the use of any communication tool. Also, we believe the draft meeting reconciliation flow chart will require some modification to accurately reflect the reconciliation process in the Proposed Protocol.

2. *What are the cost and resource impacts on key stakeholders of implementing the information and communication improvements contemplated in the Protocols? In particular, what issues do intermediaries such as investment dealers anticipate in implementing the Protocols, and to what extent would any additional costs associated with implementing the Protocols be passed on to issuers or investors?*

With the early adoption of improvements associated with the guidance, the intermediaries have experienced an escalation in the amount of time and resources devoted to more frequent communication with other key entities and to balance positions, while dealing with increasingly complex strategies, in favour of greater accuracy. In general, though, the intermediaries do not anticipate significant increased costs arising from implementation of the Proposed Protocols to the extent that they refer to existing proxy voting operational processes.

However, the intermediaries are somewhat concerned with the non-existing proxy voting operational processes referred to in the Proposed Protocols, namely the proposed development of end-to-end vote confirmation. We believe that discussion by the industry would be helpful to fully understand the operational and cost impacts of this model for disclosure. There are issues that require examination such as the ability of the adjudicator to make “last-minute” decisions on votes that cannot be confirmed until after the vote is complete and confidentiality requirements for shareholders.

It is also notable that no “real time” end-to-end vote confirmation system has been developed to date. However, we are committed to working with the industry and the CSA to identify both the impacts and benefits of these aspects of the Proposed Protocols.

To the extent that expansion of “pre-reconciliation” of record date vote entitlement by intermediaries may be advocated, we also note that this would cause a significant change to the structure of proxy voting which would necessitate adding days to the process at significant cost, when general reconciliation of positions on a daily basis is already part of the process engaged by intermediaries, as described in Appendix A attached. In particular, there will be time constraint challenges for performing a pre-mailing date reconciliation, as vote and record date information may be received from an issuer as little as two weeks prior to a meeting. Also intermediaries not having access to omnibus proxy information would need to know what positions are being reported to the Agent or Tabulator by the Depositories, in order to understand what to reconcile to, however this information would only be released to the Agent or Tabulator by the Depository Trust and Clearing Corporation (DTCC) or CDS, based on the issuer authorization and is not provided to intermediaries by CDS or DTCC.

3. *What is a reasonable timeframe for implementing the information and communication improvements contemplated in the Protocols?*

While large intermediary firms are currently already engaged in the process of implementing the improvements in the Proposed Protocols, we believe that smaller firms will need time to adjust and as such it would be reasonable to provide a phase-in on a "best efforts" basis through the next proxy season following publication of the final protocols and with full implementation for the 2018 proxy season. We also note that it would be premature to include any expected implementation timeframe for end-to-end vote confirmation given the lack of consensus on how it can be implemented and costs associated with it.

4. *Which aspects of the Protocols (if any) should be codified as securities legislation, and which as CSA policy or CSA staff guidance?*

We believe that the Proposed Protocols should remain as CSA staff guidance given the technical and detailed nature of the operational processes as well as to allow the key entities involved in the proxy voting process to have the flexibility to identify and implement alternative ways where feasible to achieve accurate, reliable and accountable meeting vote reconciliation. This process will encourage improved communication and collaboration to resolve issues. Codification would more likely produce breakdowns in communication where parties may have differing opinions about adherence to rules and for which "penalties" would be unclear, so it would not seemingly assist investors with the proxy voting process.

5. *Not all the entities that engage in meeting vote reconciliation are "market participants" or subject to compliance review provisions (where the "market participant" concept does not exist) under securities legislation. Do you think that all entities that play a key role in meeting vote reconciliation should be "market participants" or subject to compliance review provisions, including proxy voting agents and meeting tabulators?*

As relationships between the key entities in the meeting vote reconciliation process are well-established and function satisfactorily together overall, the potential designation of new market participants under securities legislation does not appear necessary and may not be feasible in the case of providers of operational processes and technology. The intermediaries are IIROC members that are subject to compliance review of the self-regulatory organization and this existing regulation provides accountability to the proxy voting process already. The intermediaries are also committed to meeting with the other key entities to review the results of the implementation of the Proposed Protocols and engage in a continuous improvement exercise to ensure the meeting vote reconciliation process maintains its integrity.

In conclusion, we look forward to continued dialogue with the CSA and key entities in the proxy voting process to ensure that the proxy voting infrastructure continues to be accurate, reliable and transparent.

Yours sincerely,

"Naomi Solomon"

Appendix "A" - Intermediaries' Vote Reconciliation Process

There are general processes employed by intermediaries that may be characterized as "pre" or "post" reconciliation.

"Pre-reconciliation" is the intermediaries' obligation under IIROC Rules, to reconcile their books and records daily against ledger holdings at DTCC and CDS, and encompasses proxy voting. The daily reconciliation process is subject to audit by regulators. Intermediaries download their reconciliation files daily to ensure that all positions are accurately reflected and balance. Any exceptions are researched and documented (e.g. corporate transactions or failed trades). The intermediaries suppress the reporting of any record date positions held in internal account ranges that relate to open stock loans and pledges, which helps reduce potential over vote situations. Record date positions provided by CDS and DTCC to transfer agents on behalf of intermediaries do not include open pledges, stock loans, open and failed trades over record date and are not included on the omnibus proxies.

"Post-reconciliation" is a process in which subscribing dealer intermediaries will review the Over Reporting Prevention Service report provided by Broadridge and investigate any discrepancies between the number of holdings reported by the dealer and the dealer's CDS position and make adjustments to prepare for voting. If a dealer has identified an issue, the necessary adjustments are made through the use of the service provider's system and the source of the issue and resolution are documented for the dealer's internal files. In respect of a minority of dealers that are not subscribed, they would be dependent upon effective communications with tabulators to identify any potential voting irregularities. The tabulator of the meeting must receive and reconcile the adjustments, so that it does not appear as though an over-voting situation is occurring.