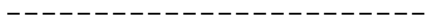


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ONTARIO SECURITIES COMMISSION

OSC PROXY VOTING INFRASTRUCTURE ROUNDTABLE



HELD ON: Friday, November 18, 2016
HELD AT: Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario

- MODERATORS:
- | | |
|-----------------|--------------|
| Monica Kowal | Vice-Chair |
| Grant Vingoe | Vice-Chair |
| Deborah Leckman | Commissioner |

1 PANELISTS:

2	Josh Bezonsky	OMERS
3	Lara Donaldson	Securities Transfer Association of
4		Canada
5	Frederic Duguay	Hansell LLP
6	Judy Foster	Scotiabank
7	David Masse	Governance Professionals of Canada
8	Penny Rice	Shorecrest
9	Winnie Sanjoto	OSC
10	Jeri Trotter	Broadridge

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1 --- Upon commencing at 8:30 a.m.

2 OPENING REMARKS:

3 VICE-CHAIR KOWAL: So I think we are
4 going to get started punctually this morning. Good
5 morning. I'm delighted that you've all come out this
6 morning, so thank you very, very much. We look forward
7 to a probing discussion of the world of proxy voting
8 infrastructure, and I'd like to extend a very warm
9 welcome as well to our panelists who are going to lead
10 us in this discussion, and I'll be introducing each of
11 you in just a few moments.

12 Those of us who have been involved in
13 capital markets for some time can certainly remember
14 when corporate governance and shareholder voting were
15 not particularly important in Canada, but over the past
16 20 years, good corporate governance and shareholder
17 voting have become essential to well-functioning
18 capital markets. Increasing attention has been paid to
19 how shareholder voices are heard or, unfortunately, in
20 some cases not heard through the proxy vote tabulation
21 process.

22 Over the past many years, two troubling
23 issues emerged: The first was identified by issuers
24 or, more specifically, by their transfer agents who
25 were tabulating proxy votes for meetings. They saw

1 instances where intermediaries, namely dealers and
2 custodians, appeared to be submitting more proxy votes
3 than they were entitled to vote based on the
4 information that the tabulators had, and this
5 phenomenon is generally referred to as overvoting.

6 The second issue was identified by
7 investors who reviewed the published aggregate voting
8 results and did not see their votes counted. Investors
9 were finding instances where the results didn't seem to
10 reflect their proxy votes; for example, where the
11 number of "no" votes cast in a particular matter was
12 actually less than the "no" votes that shareholder had
13 cast. This phenomenon is generally referred to as
14 missing votes.

15 Issuers and investors and others, both
16 in Canada and the U.S., continue to gather information
17 and press these concerns. Canadian securities
18 regulators closely monitor these developments and had
19 hoped that industry would come together on their own to
20 resolve these problems, but eventually, it became
21 apparent that that hope was unrealistic.

22 The right combination of resolve,
23 expertise, and the authority to systematically
24 investigate and assess these problems could only be
25 found in securities regulators. So as a result, the

1 OSC, along with our CSA colleagues, decided to take the
2 plunge and do a deep dive into how our world of proxy
3 voting infrastructure works on the inside.

4 Many of you were here in this room in
5 2014 when we held our first roundtable following the
6 publication of the CSA's consultation paper, and I'd
7 like to just acknowledge the contributions of
8 Vice-Chair Mary Condon and Vice-Chair Jim Turner who
9 hosted that roundtable. That was the first time in
10 Canada that all the key players sat around the table to
11 identify the problems and solutions, and I think it's
12 fair to say that a number of you had real doubts as to
13 whether we'd make any headway. So I'm happy to say
14 three years on that we have made significant progress,
15 and I'm going to touch on three points:

16 First, we did identify specific
17 problems with the tabulation process and analyzed the
18 root causes underlying those problems using actual
19 data. We uncovered systematic information and
20 communication gaps that were causing problems in the
21 tabulation process and contributing to overvoting and
22 the appearance of missing votes.

23 Second, we've achieved a breaking down
24 of the silos that contributed to these gaps by bringing
25 together CDS, intermediaries, Broadridge, and transfer

1 agents in a series of working group discussions so that
2 everyone could talk to one another about the problems
3 and the challenges that they were facing and getting
4 the system to work better.

5 Third, working with many of the people
6 in this room today, we developed a set of voluntary
7 protocols to bridge the information and communication
8 gaps that we identified. The protocols have been
9 published in draft for consultation by the CSA and
10 we're going to get them out very shortly in final, and
11 these protocols set out CSA staff expectations as to
12 the roles and responsibilities that each of CDS,
13 intermediaries, Broadridge and meeting tabulators play
14 at each stage of the vote reconciliation process. The
15 protocols also provide guidance on the kinds of
16 operational processes that should be implemented, and
17 we believe that this guidance, if industry implements
18 it, and we hope that they will, can meaningfully
19 improve the proxy voting system in a timely and
20 pragmatic way.

21 And we're going to be monitoring the
22 next two proxy seasons to see what improvements have,
23 in fact, been achieved with this approach. Depending
24 on what we see, we may determine that a more formal
25 regulatory approach is necessary.

1 And this brings us to today's
2 roundtable. Once again, we've brought together the
3 leading representatives from the key players in one
4 room to continue our dialogue, focusing on some
5 important short-term and long-term issues, and I'd like
6 to introduce our panelists:

7 Josh Bezonsky, put up your hand, wave,
8 Director of Compliance at OMERS, will be providing us
9 with the institutional investor perspective; Lara
10 Donaldson, the director, Lara, a Director of Regulatory
11 and Industry Affairs at Computershare, who will be
12 providing the tabulators' perspective on behalf of the
13 Securities Transfer Association of Canada; Frederic
14 Duguay, a partner at Hansell LLP, a law firm
15 specializing in advising boards, investors,
16 shareholders and management teams on corporate
17 governance matters; Judy Foster, Vice-President, Client
18 Services, Securities and Operations at Scotiabank, will
19 be providing the intermediary perspective on behalf of
20 the Investment Industry Association of Canada; David
21 Masse, who I'm assured will provide some thoughtful
22 discussion today, chair of the Corporate Governance
23 Professionals of Canada, formerly the Canadian Society
24 of Corporate Secretaries. The GPC is a national
25 organization representing the interests of corporate

1 secretaries and governance professionals in Canada.
2 And Penny Rice, a very warm welcome to Penny.
3 Co-founder and managing director at Shorecrest, and
4 she's been a leader in assisting the OSC as well as the
5 CSA, both in our shareholder meeting reviews and in the
6 development of the CSA protocols as our technical
7 advisor. And Jeri Trotter, welcome, Jeri, senior
8 director, Client Management Issuer Services at
9 Broadridge, the main voting agent for intermediaries.

10 The first panel focuses on the
11 short-term, and moderated by Commissioner Deborah
12 Leckman.

13 Voting continues to take place and
14 concrete improvements need to be made now, so the first
15 panel will focus on what aspects of the protocols can
16 be implemented now, the costs of implementation, and
17 what improvements can we expect and how to measure the
18 impact of those improvements.

19 The second panel will be moderated by
20 Vice-Chair Grant Vingoe, and this panel will focus on
21 how issuers and investors can take a greater leadership
22 role in how the proxy infrastructure improves and
23 evolves as we go forward, or whether we will need the
24 heavier hand of regulation to achieve our objectives.

25 The panel will also be addressing the

1 exciting opportunity that advancements in FinTech might
2 help solve the remaining challenges in the proxy
3 system, and I'd like to thank our colleagues. I think
4 we have a few from the FinTech community who have come
5 out this morning to join the discussion.

6 So before the panel begins, I'd like to
7 ask Winnie Sanjoto and Penny Rice to give us a quick
8 refresh of the key concepts underlying the proxy voting
9 infrastructure and the new protocols. Winnie is the
10 manager of the Corporate Finance Branch who has very
11 ably been leading this project since 2012 and has
12 extraordinary expertise in the area of shareholder
13 democracy and proxy voting.

14 As I mentioned, Penny acted as our
15 technical advisor on this project, and her expertise is
16 in both shareholder meeting reviews, as well as in the
17 development of our protocol and that assistance has
18 been invaluable. She brings more than 25 years of
19 experience to this.

20 Just as a quick matter of housekeeping,
21 we are going to try to keep time at the end of each
22 panel for questions. There are blank cards in the
23 folders on your chairs. If you have any questions that
24 you'd like to pass up, please feel free. Rob and Jacob
25 are happy to pick them up, or just speak up at the end

1 of the panel.

2 Our discussion is being transcribed, so
3 the transcript will be posted to the OSC Web site. We
4 also have photographs being taken, thank you, which
5 will be posted on our Web site, and I think we also
6 might have a few members of the media present for
7 today's event.

8 So if you have not already done so, I
9 would ask that you turn off your phones, please, and
10 with that, I hand it over to Winnie and Penny.

11 BACKGROUND PRESENTATION:

12 MS. SANJOTO: Thank you, Monica.

13 So turning to the first slide of our
14 presentation, we are just going to do a very brief
15 background presentation to set the stage for the panel
16 discussions, and this presentation will go over some
17 key concepts that are useful in understanding what we
18 did and why we did it, provide a very high level
19 summary of our CSA review, and explain at a high level
20 what the protocols do, and I'm hoping that we'll be
21 able to, I'll be able to move through my portion pretty
22 quickly because I think some of the more interesting
23 things are really what Penny found as a result of her
24 review of shareholder meetings.

25 So turning to the next slide, so I

1 think everyone is familiar with the intermediated
2 holding system, so I won't describe it in any great
3 detail, but the key points to note are that the
4 depository, CDS, is the registered shareholder and has
5 the rights under corporate law to vote, either in
6 person or by proxy, and that there is no single or
7 central register of beneficial owners. So ownership
8 information is essentially kept in multiple sets of
9 records.

10 So turning to the next slide, as a
11 result of the intermediated holding system, proxy vote
12 tabulation is actually quite a complex set of
13 activities, and all these processes and activities we
14 refer to as meeting vote reconciliation.

15 And so for each shareholder meeting
16 that takes place, the meeting tabulator essentially
17 constructs a register of intermediaries that are
18 entitled to submit proxy votes, and we refer to this as
19 setting up a vote entitlement account, and then it
20 matches proxy votes submitted from those intermediaries
21 to those vote entitlement accounts, and the tabulator
22 uses information that it receives from the depository,
23 CDS, and various intermediaries to set up these
24 entitlement accounts.

25 And the first set of information comes

1 from, generally, CDS, and where there is a U.S.
2 position, from DTC as well, and what they do is that
3 they send a document known as a CDS omnibus proxy to
4 the tabulator. In legal terms, this proxy is CDS
5 essentially giving voting authority over a specific
6 portion of its share position to a specific
7 intermediary that is a participant with CDS. In
8 information terms, the CDS omnibus proxy tells the
9 tabulator which CDS participants have vote entitlement
10 and how many, and you'll see a sample of, a portion of
11 a CDS omnibus proxy later in the presentation.

12 So next slide, please. So the second
13 piece of information that tabulators use to set up vote
14 entitlement accounts are known as a supplemental
15 omnibus proxy, and I apologize, there's a lot of
16 jargon, and supplemental omnibus proxies are mostly
17 called mini vote proxies and other names that they
18 have, but for simplicity's sake, we're just going to
19 call them supplemental.

20 And as background, intermediaries can
21 also hold shares for other intermediaries. So, for
22 example, a larger dealer could hold shares for a
23 smaller dealer that's a CDS participant in order to
24 report clearing and settlement for that smaller dealer.

25 So in legal terms, the supplemental

1 omnibus proxy is one intermediary giving voting
2 authority over a specific portion of its share position
3 to another intermediary, and in information terms, this
4 document tells the tabulator that it needs to subtract
5 vote entitlements from a specific intermediary's
6 account and give those entitlements to another
7 intermediary.

8 So turning to the next slide: And the
9 final piece of the meeting vote reconciliation puzzle
10 occurs when the intermediaries actually submit their
11 proxy votes on behalf of beneficial owners, and the
12 tabulator takes those votes and basically matches them
13 to an entitlement account that they have set up.

14 So turning to the next slide, the final
15 concept that I think is helpful to sort of be familiar
16 with is this idea of end-to-end vote confirmation, and
17 essentially, it's the idea that there's verification to
18 the beneficial owner or investor that their voting
19 instructions have made their way through the system and
20 through these series of meeting reconciliation
21 processes and have been accepted by the meeting
22 tabulator and the chair.

23 And this feature is not part of our
24 current vote reconciliation process, and so it is
25 actually not possible right now for an investor to have

1 clear line of sight as to whether or not their vote has
2 been accepted by a meeting tabulator or meeting chair.

3 So turning to the next slide, Monica
4 did talk about the reasons for our review, and these
5 slides really just sort of try to explain how an
6 overvoting situation appears from the perspective of a
7 tabulator. So in this case, the tabulator has set up a
8 vote entitlement account, but what they're getting for
9 that intermediary, and I'm calling them ABC U.S.
10 Markets, is more votes than are in that account, and
11 that's really at the heart of what this overvoting
12 situation is. It's a discrepancy between the number of
13 votes that are being submitted by an intermediary and
14 the amount of entitlements that that intermediary has
15 calculated based on the information in the various
16 documentation that it's received, and as Monica said,
17 this was something that issuers and, more specifically,
18 their tabulators were seeing instances of.

19 So turning to the next slide, the
20 second other issue was the so-called missing vote
21 problem, and so, I mean, it's pretty straightforward.
22 Investor submits 100 -- well, I think in my example, we
23 said 500 votes, but then it turns out that when you
24 look at the aggregate results, the total number of "no"
25 votes is, let's say, 100. So, again, why is this

1 happening? And I think that the whole discussion
2 around end-to-end vote confirmation arose as a result
3 of this phenomenon of what appeared to some investors
4 to be their votes going missing.

5 So turning to the next slide, this is
6 really just an excuse for me to do a Venn diagram. So
7 slide 11. So what did we do? We initiated a review in
8 2013 and it was a multi-stage process. So in Stage 1,
9 we identified what we were going to examine, meeting
10 vote reconciliation. In Stage 2, we did fact-finding,
11 and Penny is going to speak to what we did, and in the
12 third stage, we developed solutions by sharing our
13 findings with the key entities engaged in meeting vote
14 reconciliation and drafting a set of protocols to
15 address those issues, and we published the protocols
16 for comment at the end of March, and we are now in the
17 process of finalizing them. So we are hoping to
18 finalize them and publish them shortly and definitely
19 in advance of the next proxy season.

20 So turning to slide 12, I'm going to
21 actually have Penny now talk a little bit about what we
22 found and sort of go through the process of the
23 shareholder meeting review.

24 MS. RICE: As Winnie mentioned, the CSA
25 selected six meetings that they asked us to review for

1 accuracy on the tabulation and to provide a formal
2 report on not only the votes that were included, but
3 the votes that were excluded. We also did a
4 reconciliation between what the tabulator's vote
5 entitlement was and what the intermediary thought their
6 vote entitlement was. In order to do this, the CSA
7 requested through the issuer and through the
8 intermediaries all of their supporting documentation on
9 those six meetings. They, in turn, asked, of course,
10 their tabulator and Broadridge in all cases to provide
11 us that information as they acted on their behalf.

12 When we prepared the report, the
13 findings really fell down into two gaps, and the first
14 one is the information gap. The meeting tabulators
15 don't always have complete and accurate vote
16 entitlement information from dealers and custodians,
17 and part of that is the initial entitlement comes from
18 CDS and DTC, but then there's movement between the
19 various brokers that, as Winnie mentioned, are moved by
20 supplemental omnibus proxies.

21 So part of the issue is that the proxy
22 votes, the formal votes, and the supplemental omnibus
23 proxies aren't always that easy to tie back into CDS
24 because the names don't match, and at the time, there
25 was no other identifiers that linked the two together,

1 and as well as sometimes the documentation appeared to
2 have gone missing in that a supplemental omnibus proxy
3 was provided, for instance, on the Broadridge side as
4 being sent, but in the tabulator's documentation, they
5 had not received that particular omnibus proxy, and
6 because it's paper going back and forth, you can see
7 it's probably easy to have things that get misplaced or
8 aren't included.

9 And so as a result of that missing
10 information, the tabulator often had to make judgment
11 calls and that meant that the same vote, depending on
12 who tabulated it, could either accept the vote, reject
13 the vote, or put it in an incorrect vote entitlement
14 that then resulted in it being prorated, which not only
15 affected the actual vote that was being submitted, but
16 obviously, all the other votes that were submitted
17 under that incorrect vote entitlement.

18 If we just want to turn to the next
19 slide before I get into the information gap, obviously,
20 we took a situation and changed the name to economize
21 it, but the first document shows you that this
22 particular intermediary had two legal names and that's
23 how the CDS and DTC omnibus proxies are issued and they
24 are very basic. It's, basically, in the case of CDS, a
25 CDS CUID. Then the legal name of the intermediary and

1 then the number of shares that they're entitled to, and
2 that's the starting point. So if you can't tie back to
3 the starting point, you can see how, as it progresses
4 and shares are moved back and forth between
5 intermediaries, it gets even more complicated.

6 Now, this particular intermediary had
7 the two legal names and then they had three operating
8 names which the formal vote was issued under. Now, in
9 this particular formal vote, you can see that the CUID
10 is there and it's easy enough to match them back, but
11 at the time this review was done in 2014, the CUIDs
12 were not on the formal votes.

13 So as you can see for ABC U.S. Markets,
14 it has a legal entitlement and the names exactly match,
15 but ABC Street and ABC Cross Street, there is nothing
16 on those formal votes that actually ties them back to
17 their entitlement, and so ABC Street actually belonged
18 to the top one, which was ABC Bank, and ABC Cross
19 Street was tied back to ABC U.S. Markets.

20 So you can see, and what was
21 interesting was that there was no issue with ABC U.S.
22 Markets because they were allocated to the right
23 position. ABC Street, even though there was again
24 nothing to tie them to, it was consistent. Everybody
25 in all the six meetings that we reviewed knew that it

1 belonged to ABC Main Bank.

2 Where the discrepancy came in was when
3 ABC Cross Street, which, again, had the same sort of
4 situation in that the names couldn't be linked
5 together, but in that case, it didn't seem to be as
6 common knowledge that ABC Cross Street's entitlement
7 was under ABC U.S. Markets.

8 And so if we go to the next slide, ABC
9 Cross Markets is a -- Cross Street, sorry, is a
10 business line of ABC Markets, and that's where
11 entitlement was to vote, but ABC Main Bank and AMC U.S.
12 Markets were CDS participants, so ABC Cross Street did
13 not have an omnibus proxy putting anything into their
14 name, and as a result, in the six reviews, there was
15 unequal treatment to it. In some cases, it was
16 excluded and not voted at all because they couldn't
17 match it to the entitlement. In other cases, it was
18 incorrectly counted under ABC Main Bank where the
19 entitlement didn't actually exist, in which case it
20 caused a proration under that entitlement, and there
21 were instances where it actually got counted under the
22 right custodian. So in those cases, you can see that
23 it depended on who your tabulator was going to be, how
24 your actual final vote ended up.

25 And in this particular case, all six

1 meetings were annual meetings, and there was nothing
2 material in the sense that it changed the outcome, but
3 you could see how in some meetings, if the vote was
4 close or that was a particularly large vote, that
5 particular institutional share could cause some
6 discrepancy and perhaps the outcome of the meeting.

7 The second finding was the
8 communication gaps, and I can go back to that slide
9 before I deal with it.

10 The next example that we're going to
11 show you is that there is no reconciliation, for
12 instance, when a vote is submitted. The tabulator
13 right now doesn't communicate back and say, "I received
14 this vote and X number of shares," and the same with
15 the documentation. They don't confirm back that
16 they've received a supplemental omnibus proxy.

17 So in the next example that I have to
18 show you, that's an example -- sorry, if you go to the
19 next slide. Yes. This is the example of, in one case,
20 a supplemental omnibus proxy was issued to move shares
21 between Broker A and Broker B.

22 So it was 500,000 shares and Broker A's
23 originally entitlement was 5 million shares, and so
24 when they moved the omnibus proxy, it took them down to
25 4,500, or sorry, 4.5 million shares of entitlement.

1 Broker B had a million shares to start with and that
2 omnibus proxy gave them an extra 500,000, so they had a
3 total entitlement of 1.5 million. If the omnibus proxy
4 had been received when they voted their respective
5 votes of 2.6 million and 1.4 million, all of those
6 votes would have been included, but because there was
7 no omnibus proxy received, even though on the
8 Broadridge side, there was one showing being issued,
9 the 500,000 shares did not get moved, so that when they
10 submitted the vote under Broker A, there was no change.
11 All of their votes were accepted. Where the problem
12 comes in is on Broker B. When they voted their 1.4
13 million shares, they only had an entitlement of 1
14 million shares, and so their entire position was
15 prorated, and the vote was reduced by 400,000.

16 And as I said, in these examples, they
17 were all annual meetings with strong support, so it
18 doesn't affect the outcome, but it did demonstrate that
19 because there isn't a communication between them,
20 Broadridge would have been unaware their supplemental
21 omnibus was received and the tabulator would have been
22 unaware that a supplemental omnibus was sent. So the
23 communication gap caused discrepancies in the votes
24 because there was no opportunity for either party to
25 clear it up.

1 Those are very basic examples. There
2 is a number of examples that happened throughout the
3 review that highlighted, I think, the difference
4 between what was being committed as a vote and what the
5 actual entitlement showed.

6 So the next slide is about what the
7 protocols do.

8 MS. SANJOTO: So I'm going to jump in
9 here and sort of talk about at a high level what these
10 protocols are. As Monica said, these are voluntary
11 protocols and they really are an attempt to delineate
12 who is responsible for what, and provide guidance on
13 the kinds of processes we expect should be in place to
14 address these types of information and communication
15 gaps, and they really are intended to build on existing
16 processes, not to require a major technological
17 overhaul and we, in particular, do not want them to
18 prevent better or more cost-effective solutions from
19 being developed.

20 So I'm going to turn it now to Penny to
21 just very quickly go through some of the specific
22 guidance.

23 MS. RICE: The first change affects the
24 information and the tabulation, and the idea of it is
25 to get consistent information on not only the formal

1 votes, but on the supplemental votes so that they can
2 be tied back to the originating document of CDS and
3 DTC.

4 So the protocols are asking for the CDS
5 Alpha CUID and identifier to be put on the formal vote,
6 and as you can see from that example, they are now on
7 the formal vote, and in that particular case, that
8 would have cleared up any discrepancy on where the
9 actual entitlement belonged to, so not only would all
10 of the votes have been counted, but there would have
11 been some comfort for the intermediary that it doesn't
12 matter who's tabulating their vote. They're going to
13 get consistent treatment.

14 In order to do that, though, we need to
15 investigate fungible and non-fungible accounts and that
16 some intermediaries have one legal entity and multiple
17 operating names underneath it, and they prefer to have
18 them separate. They do not want to be sharing votes
19 among their operating, and so those intermediaries
20 would need to indicate that their accounts aren't
21 fungible, and the solution in the protocols right now
22 is that you would then issue a supplemental omnibus for
23 that and not put the CUID on the formal vote. That's
24 enough.

25 So the idea is that there will be more

1 information not on the formal votes, but on the
2 supplemental omnibus so that they can tie them back and
3 that the tabulator will create a consistent method of
4 creating those vote entitlement accounts so everybody
5 can expect the same result.

6 And the other I think really
7 significant part, which is probably going to be the
8 most work, is to increase the communication. So right
9 now when the DTC omnibus isn't received, the tabulator
10 is going to make more of an effort to make sure the
11 issuer is aware of that, that their votes won't be
12 counted, and to get that DTC omnibus.

13 The tabulator will also contact
14 Broadridge or the intermediary if there is a problem or
15 expected problem, and the intermediary should take the
16 action not only to fix it for this meeting, but to fix
17 it for future meetings. One of the things we found is
18 that the problems are systemic in that if there's a
19 lack of information on the vote, obviously, it occurs
20 or reoccurs for every meeting, and to encourage the
21 developments of an end-to-end vote reconciliation
22 system.

23 As far as accountability, the issuer we
24 found was not aware in most cases that there were votes
25 not being counted, so when the tabulator does the

1 scrutineer's report, there's a number of items that
2 will be listed on the bottom of the scrutineer's report
3 about what is being excluded from the vote, and then
4 the intermediary would then have the information from
5 Robert, I'm sorry, from the tabulator, so that they
6 could then provide that information to their underlying
7 client, the beneficial holder, whether or not their
8 vote was accepted or rejected.

9 Even with these protocols, the
10 tabulator is just going to know whether or not they
11 accepted or rejected an individual intermediary's vote.
12 It will be the intermediary that needs to confirm
13 underneath that that your vote was accepted or
14 rejected. And...

15 MS. SANJOTO: Yes. So given the
16 constraints of time, I think all we'll say to conclude
17 is that the protocols are really intended to be a
18 foundation for further work. We are by no means
19 suggesting that the protocols magically create an
20 end-to-end system that is paperless and that will
21 provide realtime vote confirmation to investors. That
22 is not what the protocols do.

23 What we think they do is that they set
24 out some guidance around how to actually start having
25 proper collaboration and conversations around how to

1 build those systems and build those processes, and are
2 really the first step, in our view, in moving the
3 process forward.

4 So, hopefully, this gives enough of a
5 flavour of what we've been doing and, hopefully, sets
6 the foundation for the next panel discussions, and Deb
7 Leckman, Commissioner Leckman will be moderating that
8 panel.

9 PANEL DISCUSSION: Topic One.

10 COMMISSIONER LECKMAN: Thanks, Winnie.

11 As Monica mentioned, this first panel
12 focuses on what can be done to improve meeting vote
13 reconciliation in the short-term. The panel will
14 discuss what aspects of the protocols can be or
15 already...

16 --- Off Record Discussion.

17 COMMISSIONER LECKMAN: So the panel
18 will discuss what aspects of the protocols can be or
19 already have been implemented for the next two proxy
20 seasons, the cost of implementing them, and how to
21 measure their impact.

22 We have about 45 minutes, including
23 time for questions. So we'll spend about 10 to 15
24 minutes on each of the following three questions:

25 First, I'd like to begin our discussion

1 with the question to those panel members who have been
2 quite closely involved in the protocol development
3 process; specifically, Jeri, Lara and Judy.

4 Could you briefly describe, and in
5 layperson's terms if possible, what aspects of the
6 protocols you plan to implement over the next two proxy
7 seasons, how do you think they will improve meeting
8 vote reconciliation, and the associated costs. Let's
9 start with Judy, Lara, and then Jeri.

10 MS. FOSTER: Okay. I may steal their
11 thunder by going first probably.

12 Just as a comment from where I stand
13 and myself, I think part of the real value of the
14 protocols, of the creation of the draft is really
15 getting everyone into the room. I think we were all
16 somewhat shocked by some of the discrepancies that were
17 identified and some of the issues that came out through
18 the discussions, so I think that in itself was a
19 huge -- is part of the success of the protocols going
20 forward.

21 In terms of protocols, the next two
22 years, the one commitment we made when we stepped away
23 prior to the 2016 proxy season is that we would do what
24 we could through the 2016 proxy season to deal with the
25 draft protocols, and I think with the earlier set of

1 questions that talked about low-hanging fruit, and I
2 think really a lot of the low-hanging fruit has been
3 addressed, a lot of the activity items identified in
4 the draft protocols in fact are in play.

5 So Penny referenced some of them, but
6 the creation and distribution of association tables
7 from Broadridge to help with some of the naming
8 conventions within the -- between the environment have
9 been distributed.

10 The use of the supplemental omnibus
11 proxies in situations where there are these legal
12 entity differences that don't get addressed through the
13 CUID structure or through the association table,
14 modification of the supplemental omnibus proxy which
15 you're seeing in terms of the Alpha CUID and the DTC
16 participant numbers, so those have all been rolled out
17 through the course of the 2016 proxy season.

18 Not specific to the protocols, but it's
19 referenced in terms of the communication gap, certainly
20 a commitment was made that there would be more open
21 communication and questions around activities, and the
22 participants I see, obviously, and certainly, I see in
23 my shop a lot more communication and discussion with
24 the TA's around items that are received, overvote
25 situations or things that could have created overvote

1 situations. So definitely more communication and a lot
2 more discussion around issues that would have gone
3 unnoticed or unaddressed and, you know, again, provided
4 some of the information that surprised us that we, in
5 fact, were in an overvote situation that could have
6 been seen with an awareness within the community of
7 that.

8 I think, you know, some of the
9 discussions that we had identified tools that we
10 perhaps were not using effectively, so increased use
11 through this season of the Broadridge tools that have
12 been identified. So, generally, a lot of the items
13 identified in the draft protocol have been instituted.

14 In terms of cost, Jeri can probably
15 talk a little bit more to cost, but certainly, from our
16 perspective, these have not been a priority.
17 Resources, probably the cost in terms of...

18 --- Off Record Discussion

19 MS. FOSTER: Resources within the
20 organizations that are more focused probably, you know,
21 more resources in a TA community to discuss, but
22 nothing that has been expensive, which I think has
23 driven better quality of the processes and have
24 addressed issues that were outlined in the report.

25 In terms of some of the other items, I

1 think they're items that we have to look at and work
2 within the community which could be in the report.
3 There probably is a cost associated with that that will
4 have to be identified, and certainly we'll have to have
5 a strategy on how to manage that, which may create some
6 technology requirements within organizations, which
7 will have to be costed.

8 That's pretty much our perspective on
9 the matter of the protocols.

10 COMMISSIONER LECKMAN: Thank you.
11 Lara.

12 MS. DONALDSON: Thank you. And thank
13 you to Winnie...

14 --- Off Record Discussion

15 MS. DONALDSON: First of all, thank you
16 to Winnie and Jeri for describing, or sorry, Winnie and
17 Penny for describing the tabulation process, so it
18 means I don't have to. It is a very complicated
19 process and tabulators are working with material at the
20 end of the process where there's various different
21 parties involved, so it does tend to become very
22 complex in the end and quite manual.

23 And as we saw through the process of
24 the review of the six meetings, the different
25 tabulators within the transfer agent community in

1 Canada did not necessarily always act consistently, and
2 that is certainly something that we have hit on, and
3 it's a topic of conversation, whatever, in order to put
4 some more consistency behind the process.

5 In terms of communication with the
6 intermediaries and the overvote situations that we are
7 encountering, I would certainly agree that the breaking
8 down of silos is something that we have seen through
9 the process. There is a lot more communication going
10 on. We are certainly working with the intermediaries
11 and reaching out when we see an overvote in the process
12 to try and rectify it and get the appropriate
13 documentation in place.

14 One of the things we do struggle with
15 is that these things tend to happen quite late in the
16 tabulation process where we're right up to the end of
17 the vote cutoff, which is typically 48 hours before a
18 meeting, and when you're dealing with multiple meetings
19 on a single day, which is very common through the proxy
20 season, April, May, June specifically, it can be a
21 challenge. We're working with a manual process in
22 order to try and make sure that the issuer has the
23 correct vote when they go into the meeting.

24 The Broadridge association table which
25 has been talked about a little bit has been helpful to

1 the tabulators. As Penny mentioned, we are working
2 with multiple numbers, names, intermediaries,
3 structures, and we weren't always able to match names
4 back. We do need to, as tabulators, make sure that we
5 have the proper process in place so that the vote
6 entitlement is legally passed through to the
7 appropriate parties.

8 So when we receive a proxy and the
9 name's slightly different, we're not always comfortable
10 matching it back to a position where you may logically
11 think it belongs, but sometimes we don't know for sure.
12 So we do need to make sure that if we're challenged in
13 the end as to why we accepted the proxy, that we have
14 the proper documentation in place. The association
15 table does help. There's still maybe paperwork
16 involved, but it has definitely been a step in the
17 right direction.

18 In terms of costs, anything right now
19 that the tabulators are working on is really some
20 additional manual processes, so what we're looking at
21 is additional paper cost right now, especially through
22 the busier time when, again, we're working with
23 multiple meetings.

24 Given the protocols are still in draft
25 form and technology advancements haven't been

1 contemplated at this point, they would also need to go
2 through the specific process of each transfer agent.

3 Each of our members is kind of at a
4 different stage in terms of technology and so they
5 would have to each look at it individually to determine
6 what their appropriate costs would be for the
7 implementation.

8 COMMISSIONER LECKMAN: Thanks, Lara.
9 Jeri.

10 MS. TROTTER: Can you hear me okay?

11 So, first of all, I'd like to thank the
12 OSC for inviting me to this roundtable and my colleague
13 Rene Shorter and I participated in the working group
14 and we really found all of the members to be very open,
15 respectful, and able to talk about the processes
16 regarding vote tabulation.

17 I think it's also important to point
18 out the role of Broadridge. Broadridge is bound by the
19 contracts with the intermediaries who are obligated by
20 the regulations set out before them, and we're also
21 obligated by these arrangements.

22 Broadridge Investor Communication
23 Solutions is not the record keeper for the
24 intermediaries. The record date files are actually
25 passed to us and we ingest those into our systems for

1 distribution and proxy tabulation. Broadridge is also
2 directed by each intermediary on how that account is to
3 be handled, if it's to be wrapped for managed account
4 processing, et cetera.

5 We actually believe or we do believe
6 that all market participants, including everyone
7 previously mentioned, depository, issuers are
8 responsible for the reliability of the proxy
9 infrastructure as a whole. We believe that technology
10 will enhance the transparency, integrity, accuracy and
11 accountability of the proxy system.

12 We also agree with the CSA statement
13 that shareholder voting is one of the most important
14 methods by which shareholders can affect governance,
15 and because we share this belief, we invest heavily in
16 continuous improvements, particularly in technology
17 solutions that support the principles of efficient
18 information access and delivery.

19 Through the working group meetings, we
20 have implemented several changes on the vote reports to
21 assist the tabulators to identify the intermediary
22 entitlement when calculating the official vote
23 entitlement. These relate to the published association
24 tables to match, map the Broadridge client number to
25 the CDS/DTC intermediary or entitlement, sorry, through

1 their CUID or DTC number.

2 As Penny had mentioned, there are cases
3 where the intermediary uses the name of a financial
4 entity to brand themselves that doesn't coincide with
5 the actual name on the depository ledger.

6 For 2017, supplemental omnibus proxies
7 will be faxed, and I know that doesn't seem like a very
8 big step forward, but it's certainly better than mail,
9 and we certainly don't expect this to be the solution.

10 You know, we are looking for the
11 transfer agents and tabulators to complete development
12 that will actually ingest these files, these
13 transmission files for omnibus proxies.

14 And in order to achieve an end-to-end
15 vote confirmation, as we described it in the protocols,
16 there has to be an electronic interface between the
17 tabulators and Broadridge and that needs to be
18 developed.

19 Through our U.S. project for vote
20 confirmation, and this was a pilot project, Broadridge
21 did develop a process of file exchange between
22 ourselves and the tabulators, and this would confirm
23 the voting file and also a response file containing any
24 issues that the tabulator identified. Unfortunately,
25 this didn't go any further because it really required

1 more development on both sides.

2 In terms of cost, Broadridge has
3 certainly made a significant investment and continues
4 to do so in proxy tools for all of the proxy
5 participants. So any additional costs related to what
6 the protocols are intending up to vote confirmation we
7 really can't make an assessment at this time.

8 Thank you.

9 COMMISSIONER LECKMAN: Thanks, Jeri.
10 It's encouraging to hear that you're working together
11 and there are concrete actions that have been taken.

12 So now Question 2, for David, Josh and
13 Fred: You approach the proxy voting infrastructure
14 from the perspective of issuers, investors, and
15 governance advisors. What are your thoughts on the
16 impact of the protocols? We'll start with Josh, then
17 David, and end with Fred.

18 VICE-CHAIR KOWAL: Thanks for moving
19 the mic close.

20 MR. BEZONSKY: Thank you.

21 So I'd like to start by saying how much
22 we truly appreciate the OSC's work to-date and
23 continued leadership in this area for giving these
24 issues the attention that we feel that they merit.

25 So echoing a comment made by Jeri, one

1 of the most fundamental rights of shareholders is, of
2 course, to vote their shares, and as investors with
3 significant long-term financial interests in the
4 Canadian capital markets, we certainly value the voting
5 rights associated with the securities in which we
6 invest.

7 We devote considerable resources to
8 engaging with boards, management, and other
9 stakeholders, carefully reviewing proxy circulars and
10 other continuous disclosure documents, and to casting
11 our votes thoughtfully. So it's very important to each
12 of us around the table, to the institutional investors
13 in particular perhaps, that our voting instructions
14 reach the issuer and those instructions are given their
15 full weight.

16 OMERS has worked collaboratively with
17 its peers in the pension fund space, in particular with
18 PSP and the Caisse, with CPP, Teachers, AIMCo and
19 bcIMC. We've submitted letters in response to the CSA
20 consultations in 2013 and in 2016, and our primary ask
21 has been throughout and continues to be that vote
22 entitlements must be fully reconciled in a consistent
23 way. In our view, regardless of the number of
24 intermediaries in the chain, each share, setting aside
25 multiple voting shares, each share must only be voted

1 once.

2 So given all of the work that, as I've
3 mentioned, that we do in considering particular votes,
4 we found it to be disheartening when these issues
5 started to be more fully scoped out. I know that Lara
6 and others at Computershare had been involved in a
7 study in 2011 and had seen that there was prorating by
8 tabulators in as many as I believe it was 17 percent of
9 the meetings that you had looked at, at that time.

10 MS. DONALDSON: I don't have --

11 MR. MASSE: I believe that to be
12 approximate.

13 MR. BEZONSKY: Okay.

14 MR. DUGUAY: I'll corroborate that.

15 MR. BEZONSKY: So in our view, any
16 dilution of our vote is material, and we found that
17 figure to be quite staggering.

18 Our second ask that we've made, and I'm
19 pleased to see some progress, real progress it seems in
20 this area, relates to end-to-end vote confirmation. So
21 we're looking for confirmation from the issuer, through
22 intermediaries as appropriate, that voting instructions
23 have been received and properly recorded at a meeting,
24 that the votes cast have been given their full weight,
25 and we feel that the confirmation must be provided back

1 to the ultimate investor, must be electronic. We'd
2 like it to be sent, I know this is still being worked
3 on, we would like it to be sent at three stages:

4 When the voting instructions have been
5 received by the tabulator; when the voting instructions
6 have been accepted and proposed, processed, excuse me,
7 by the tabulator; and finally, when the voting
8 instructions have been confirmed as voted at the
9 shareholder meeting.

10 As part of this, we've made it clear
11 that we feel that voter anonymity is to be preserved.
12 We're in favour of the continuation of the OBO/NOBO
13 distinction and have gone on record about that, and you
14 know, we feel that the confirmation system must be
15 practical, accessible and compatible for investors to
16 use third party service providers to access meeting
17 materials and vote electronically.

18 Finally, we feel that there should be
19 an end-to-end operational audit of the system. We're
20 to some extent agnostic as to how often that might
21 occur, but we've suggested that every three years might
22 be a good frequency.

23 Why do we feel that an end-to-end
24 operational audit is necessary? Mostly because, as
25 Winnie and Penny have walked us through, there are so

1 many -- there are really multiple participants involved
2 in the system, and it's interesting that no one
3 category of participant has complete access to
4 information about or control over significant portions
5 of the system in order to assess the reliability of the
6 infrastructure as a whole.

7 So we feel that the CSA are the
8 appropriate body to assume or conduct this audit, or
9 certainly to co-ordinate it. They already have
10 authority over most significant participants, and we
11 feel that the objective of such an audit would be
12 consistent with your mandate of fostering fair,
13 efficient and transparent capital markets.

14 COMMISSIONER LECKMAN: Thank you.
15 David.

16 MR. MASSE: So my wife told me to
17 behave.

18 I'd like to thank the CSA for inviting
19 a troublemaker. My reputation precedes me. And oddly,
20 sitting here this morning, I have a -- a wave of
21 compassion came over me for Donald Trump, of all
22 people.

23 I don't know where to begin exactly. I
24 would say that a good portion of the responsibility for
25 the state of things right now doesn't rest with anybody

1 in this room. The corporate regulators have
2 essentially turned a blind eye to the development of
3 the capital markets and we have corporation statutes
4 that are firmly planted in the 18th -- in the 19th
5 century, pardon me.

6 The problem here is paper. The system,
7 I realize that, you know, it works, perhaps in a
8 material sense the system works, but there is a huge
9 collision of paper that occurs in a very, very short
10 period of time. It's a little bit like if you printed
11 up all the proxy circulars and all of the proxy forms
12 and put them on a pallet and dropped them off at First
13 Canadian Place onto the plaza below, and then gave
14 people 24 hours to sort it all out.

15 It's a daunting, daunting, daunting
16 thing. What we're discussing here is we're discussing
17 shareholder rights and the system that we have
18 currently is failing to an absolutely astounding
19 degree. I would say that, and I challenge anybody to
20 correct me, more than 90 percent of shares of Canadian
21 public companies are beneficially owned. The
22 corporation statutes only recognize registered
23 shareholders. That means that 90 percent of the shares
24 in the system don't benefit from rights, from complete
25 rights under the corporation statutes. Again, no one's

1 fault here. What is shocking to me is that when I look
2 around the table, corporation regulator's not here.
3 That to me is absolutely shocking.

4 What I'm hearing this morning, Jeri, is
5 I heard the word "fax". It's stunning, absolutely
6 stunning, and that word shows up as well in the
7 consultation documents. Absolutely stunning that we're
8 talking about faxes in this day and age. That is
9 marginally better, and I think Jeri mentioned that,
10 marginally better than paper. There is no way there
11 should be paper in this process.

12 Now, so how do you get rid of paper?
13 Here's another shocking thing. Getting rid of paper is
14 to everyone's benefit. You reduce the cost
15 dramatically, and you eliminate virtually every single
16 headache that we're talking about today.

17 How do you do that? Paper has been
18 eliminated in all other respects of investor
19 entitlements in the capital markets for a long time
20 now. We use electronic data interchange. Without
21 that, the capital markets would come to a screeching
22 halt. It's an incident or perhaps a -- it's an
23 incident of the way we've addressed paper in settlement
24 in the capital markets that voting wasn't addressed.
25 No one, again, no one's to blame.

1 There is so much precedent for using
2 paperless systems, electronic systems to transact
3 security values in the Canadian marketplace, and where
4 is that expertise? Where is the expertise in
5 settlement? This is a settlement problem. The
6 expertise in settlement in Canada and the
7 responsibility for settlement in Canada sits with the
8 Bank of Canada.

9 When transactional data in the capital
10 markets is failing under the weight of paper, who was
11 one of the key players that brought about paperless
12 transactions moving us to T+3? The Bank of Canada was
13 one of the key players in setting up CDS. Why is there
14 no chair around this table for the Bank of Canada?
15 Incomprehensible to me.

16 If you take one example: Let's take an
17 example that has nothing to do with shares, nothing to
18 do with votes. Something called the Large Value
19 Transfer System. It's one of the more recent
20 innovations on the payment side of financial systems in
21 Canada that was implemented with guidance from the Bank
22 of Canada. If you read -- there's a white paper
23 available. If you read the white paper, you'll see a
24 roadmap to how you solve this problem.

25 Interestingly, right, there was a lot

1 of resistance from Canadian chartered banks. A lot of
2 people going, "Oh, geez, I don't know. What are you
3 going to do with this? Blah, blah, blah. It looks
4 like a pain in the butt."

5 The reality is that it was implemented
6 pretty much on budget, on time. You're talking about
7 approximately five years. That's what it takes. From
8 the time you start working on dematerializing
9 transactions, takes about five years. You've got to
10 map all the processes, and you've got to come up with
11 an agreed data set, right?

12 This is not, this is not rocket
13 science. The processes are extremely well-known. The
14 cost of doing that is not great for the LVTS in Canada,
15 if you were to apply the same process, let's say, and
16 you were to put the burden on issuers, okay, to develop
17 that system.

18 And so take an issuer that has 300
19 million shares in the marketplace. The total cost of
20 implementing the system would be \$7,000 if you use the
21 data that came out of the LVTS implementation, right?
22 It's trivial, right. Issuers are spending hundreds of
23 thousands of dollars, just issuers, I'm not talking
24 about anybody else in this, in this arena, hundreds of
25 thousands of dollars to support the current paper-based

1 system that's failing.

2 COMMISSIONER LECKMAN: Sorry, David. I
3 don't want to interrupt you --

4 MR. MASSE: Yeah, I know.

5 COMMISSIONER LECKMAN: We need time for
6 others. Maybe you can wrap up.

7 MR. MASSE: Fair enough. So one last
8 point: When you look at this and when you listen to
9 the testimony so far this morning, I'll tell you what
10 you're hearing. You are hearing massive agency costs,
11 massive agency costs that are standing between the
12 issuer on the one hand and the investor on the other.
13 There's no place for that.

14 And the core mission: I would say CSA
15 have two very, very primary responsibilities. One is
16 investor protection, and the other, which goes hand in
17 hand with that, is managing agency costs, and I think
18 that what we're witnessing right now and, again, no
19 fault to anyone around the table, it's just the way the
20 world has evolved, is a failure, a very significant
21 failure on both counts. Thank you.

22 COMMISSIONER LECKMAN: Thank you,
23 David. I'd ask Fred to give his response now and then
24 maybe we could open it up if anyone else would like to
25 respond to any of David's comments.

1 MR. DUGUAY: So certainly. So I guess
2 in light of the system that we have and that we all
3 inherited, I'll frame my comments as follows:

4 And first of all, I would echo what
5 everyone in the room believes and that is to commend
6 the CSA and the leadership of the OSC for advancing the
7 initiative forward to address the concerns of issuers
8 and investors and to bring the key entities together to
9 work collectively to develop solutions to these
10 concerns, and we as a firm believe that the release of
11 the protocols is a giant step forward in this
12 regulatory initiative.

13 The protocols are comprehensive.
14 Although they are voluntary, they clearly set minimum
15 expectations on the role and responsibilities of the
16 key entities to support accurate, reliable, and
17 accountable meeting vote reconciliation. Setting these
18 clear responsibilities and communication protocols will
19 help support accurate vote reconciliation which we all
20 remember was identified as the first key issue in the
21 consultation paper that was published in August 2013.

22 Broadly speaking, what will be achieved
23 with the protocols? I think, first of all, they'll
24 facilitate further collaboration and working together
25 to address these issues, and they really help in

1 breaking these silos. We heard that earlier this
2 morning, and really the fact that these key entities
3 have operated for so long in silos has negatively
4 contributed to the opaqueness of the current system, so
5 that is one great improvement that the protocols will
6 bring and to have the communication flow between the
7 waterfall of intermediaries and, ultimately, to the
8 tabulators.

9 The protocols also confirm a number of
10 processes that are currently in securities regulation,
11 and notably, National Instrument 54-101. We still have
12 the slide up here. It says that the -- you've not
13 addressed mandating intermediaries to reconcile all
14 client accounts at the record date prior to solicit
15 proxy votes, but the protocols do say that
16 intermediaries are expected to implement appropriate
17 processes to ensure that the meeting vote tabulator has
18 complete and accurate vote entitlement information for
19 each intermediary that they will solicit vote
20 instructions from the beneficial owners, and we believe
21 that this is consistent with the practice of
22 pre-meeting vote reconciliation which is really key in
23 having the intermediaries bring their record positions
24 in line with their entitlement early in the process to
25 confirm whether a supplemental omnibus proxy should be

1 prepared.

2 You need pre-meeting vote
3 reconciliation at the outset in order to have integrity
4 in the system going forward. You can't meaningfully
5 reconcile a vote later on in the process if the records
6 to begin with were not accurate, and so yeah.

7 One question that's unclear to us from
8 our read of the protocols would be in respect of the
9 financial scrutineer's report which the protocols say
10 would include information in respect of votes that were
11 not received or were not included in the final tally,
12 and also the number of any overvotes that could not
13 properly be reconciled to any resulting prorations.

14 So it's unclear whether tabulators are
15 intended to share this information publicly, and while
16 the protocols recommend that the information be
17 communicated back to the intermediaries and,
18 ultimately, down to the beneficial shareholder, it's
19 unclear how this discrepancy that's been identified
20 should be remedied when, in fact, the meeting has
21 already occurred, and whether the intention of this is
22 to have it used I guess as a forward-looking, "Here's
23 what we learned and this is what we'll do later on,"
24 which, you know, is speaking from, I guess, from where
25 Josh would be sitting from an investor's point of view,

1 would be, you know, unsatisfying when you get that
2 information back that your vote, you know, has been
3 rejected or prorated and the meeting has already
4 happened.

5 And it may not be material to the
6 outcome of the meeting, but, you know, having dealt
7 with these instances in the past and helped advise
8 clients working through the system in the past, it
9 becomes very unsatisfying, particularly in a major --
10 in a situation where there's been a plan of arrangement
11 or merger and you're trying to communicate this
12 information back to the board, but the board has
13 changed, the chairman has stepped down as a result of
14 the merger, so it becomes difficult.

15 Going forward, what the protocols I
16 think will bring in speaking to that and also in
17 speaking to the issues that Josh brought forward in
18 terms of end-to-end vote confirmation and the three
19 steps where, as an investor, they would like to know
20 that the vote has been received and tallied at the
21 meeting, and this has been identified I believe with
22 the work that Broadridge has been doing in the U.S. as
23 part of their end-to-end vote confirmation, and that's
24 really the encouragement for early voting and the need
25 for voting to occur earlier in the process in order to

1 allow time to reconcile any discrepancies that may be
2 found throughout the chain.

3 So, you know, we think that the
4 continued involvement and engagement of the regulators
5 in monitoring this implementation as you mentioned,
6 Monica, at the outset for the next two years, and
7 reporting on the progress that has been made through
8 these learnings will ensure that the key entities that
9 we have here today will continue to collaborate and
10 work together to develop these solutions as we go
11 forward.

12 COMMISSIONER LECKMAN: Thank you, Fred.
13 I know many of the comments that David made will be
14 addressed in the second panel, but just going a little
15 bit off script, is there any immediate comment anyone
16 would like to share at this point concerning what
17 David brought forward?

18 MS. TROTTER: If I could just add: So
19 I certainly agree with David with respect to the facts,
20 and certainly, from a paperless perspective, and I
21 believe that, you know, the parties are working towards
22 having the ability for the electronic delivery and
23 electronic acceptance of votes.

24 I know that Stack had at one point
25 raised a concern as to whether a fax transmission or I

1 should say a vote transmission could be considered as
2 an executed vote. Right now, there is some question as
3 to whether that's the acceptability. It certainly
4 hasn't been challenged in court and I think that that's
5 where everyone is looking at as to what protection,
6 what can be properly accepted, should it ever be
7 challenged in court.

8 I also think that Fred made a very good
9 point with respect to saying pre-meeting reconciliation
10 versus record date reconciliation. I think that's a
11 very, very big distinction. Record date files are
12 pulled the night of record, and we know that
13 intermediaries are dealing with failed trades and other
14 situations where they're having to reconcile their
15 file, which may need to be adjusted in the Broadridge
16 file. So I wanted to address those two points.

17 COMMISSIONER LECKMAN: Thank you.

18 VICE-CHAIR KOWAL: David raised so many
19 issues that are near and dear to our heart and one of
20 them very much is the challenge that I think many
21 countries, but certainly, we in Canada share, which is
22 the challenge of keeping legislation modern and
23 responsive to the evolving complexity of our capital
24 markets and systems in the economy.

25 So we are very much in -- you know,

1 trying to use the tools that we have. We regularly,
2 you know, scan the country for who has authority to do
3 what, under what, you know, hook, what brook, what
4 rule, what head of authority, and those issues are very
5 much on our minds, and what we're seeing today in the
6 approach with the protocols is an effort to be
7 pragmatic and responsive and driving change and
8 improvements today, but David's comments in terms of
9 the bigger challenges still needing tackling is very
10 well taken.

11 MR. MASSE: Thank you for not beating
12 me up and having me thrown out of the room.

13 MS. DONALDSON: If I could add on to
14 Jeri's comments about the acceptance of electronic
15 votes: The tabulators are certainly very interested in
16 removing as much paper from the process as we possibly
17 can. It's post errors, human error, losing paper: We
18 would prefer to use electronic.

19 The allowance of an electronic
20 signature is something that we are looking at. We've
21 certainly in the last few years made advances in terms
22 of allowing registered shareholders to vote
23 electronically and all transfer agents offer that
24 option to issuers now who wish to take advantage of it.

25 There is still a lot of paper in the

1 process that, you know, unfortunately, it's going to be
2 very difficult to eliminate. We're moving to full
3 e-delivery and have registered shareholders who may --
4 beneficial shareholders can send to their
5 intermediaries and back, but you can't pass through to
6 the issuer if they're doing a mailing directly.
7 There's some other challenges that we're working on as
8 well, but certainly, eliminating paper is something
9 that is top of mind that we're working towards.

10 COMMISSIONER LECKMAN: So the final
11 question is for Penny and Josh, who proposed a full
12 operational audit, and you represent pension funds.

13 So Penny, as someone who's conducted
14 detailed reviews of shareholder meetings, do you have
15 any thoughts on other targeted ways we could measure
16 progress, any additional metrics, how the data could be
17 collected and the cost of initiatives?

18 MS. RICE: I think both through my
19 dealings --

20 VICE-CHAIR KOWAL: Microphone.

21 MS. RICE: Oh, sorry. I think from my
22 dealings with the proxy solicitor and also through this
23 process, the tabulators have been keeping records of
24 overvote and providing statistical information. So I
25 would suggest that it would be beneficial to keep doing

1 that, but then to share that information with the proxy
2 working group so that you can get a feel for the
3 progress that we're making and where the problems still
4 exist, and to have specific information.

5 I think one thing that really helped
6 with this review over other attempts to change the
7 proxy voting system is that we took specific meetings
8 and specific examples and actually looked at the
9 process and what happened, so it was a lot easier to
10 see where the fail happened.

11 And I also think it would be important
12 for intermediaries, when they are contacted by a
13 tabulator because there is a problem with your vote, to
14 keep a record of that and the actions that they took
15 for that exact same reason. When you meet again to go
16 through the progress that we've made, you've got both
17 sides of it to see exactly what happened and what still
18 needs to be improved.

19 COMMISSIONER LECKMAN: Thank you.

20 MR. BEZONSKY: Can I add something?

21 So I think, Penny, you mentioned that
22 there had been a focus on six AGMs, all of which had
23 strong support. So I think that's a great start.

24 It would be interesting, if possible,
25 to look at a larger sample of votes and possibly

1 looking at maybe an M&A situation or something that
2 might have been more contested, just to, you know, see
3 what -- I think it would be interesting in particular
4 to see if there's a bias that one could find in the
5 proration and rejection process. Is there a bias
6 towards -- in support of management or the reverse, and
7 just certainly a larger sample size would maybe help
8 and we could see more about whether the issue of things
9 being caught too late is really determinative.

10 MS. RICE: Sorry. One thing I should
11 have said is the first year we did this, we did do just
12 six annual meetings. The second year we did one
13 contested meeting, and actually, there was far less
14 discrepancies, and not to give up our proxy solicitors,
15 but I think it was because there was a proxy solicitor
16 on both sides who are manually intervening and getting
17 those missing pieces of paper and documentation each
18 for their own side.

19 So we did look at one. I take your
20 point on the six meetings. That's really more of a CSA
21 decision because it's expensive to do that. That was
22 very time-consuming. I have to get information from
23 both sides, basically recreate the whole meeting, and
24 it's not even just looking at the discrepancies. I
25 looked at what they actually took versus what they

1 didn't take to see if there was any consistency there
2 and just sort of point out that, in some cases, extra
3 information is used in order to accept something, but
4 when that extra information is missing, then it doesn't
5 get accepted. So I take your point. It's just a
6 question of who's going to pay for that.

7 MR. MASSE: I think I would add, I
8 would add to that that the issuer that I was working
9 for, I've since retired, but the issuer I was working
10 for was one of the six. All of the data went through
11 my hands, at least I was copied on it, and it is a
12 massive -- I mean, my hats off to the CSA for wading
13 through. I mean, wading through just our data would
14 have been a mind-numbing task. Wading through six,
15 more mind-numbing, and I can tell you that I was very,
16 very surprised because I had never -- if there had been
17 a problem with proxy voting in the sense of, like,
18 major disconnects and stuff like that, right,
19 theoretically, it would go to the issuer's chair.

20 In all the years that I was involved
21 directly and managing annual meetings, I never got a
22 call from the transfer agent saying, "Hey, we've got a
23 major problem," including the meeting that was the
24 subject of the review, and the thing that I found
25 really, really disconcerting was the volume of problems

1 with that meeting, overvotes and all types of issues,
2 right, and weren't considered to be material enough to
3 raise with myself and much less the chair.

4 So to answer your question about
5 whether there's a management bias in solving those
6 problems, I can tell you there's no bias because
7 management wasn't involved one little bit.

8 So, and I think to Penny's point where
9 you've got a contested meeting, right, there are many
10 more mechanisms. There's a much more granular focus on
11 the process as a result of the involvement of proxy
12 solicitors and so on that it's not -- I'm not surprised
13 to hear the integrity would be somewhat better than it
14 is in a normal course meeting.

15 So, I mean, and I regret to kind of
16 inject a positive note about a system I've qualified as
17 being a moribund system, right, but it's just we
18 shouldn't even be sitting here discussing this, right.
19 This should all happen, you know, via robots and
20 machines and stuff like that, and if you tried to raise
21 the topic at a Christmas party a year after you saw the
22 problem, they'd probably eject you. They wouldn't even
23 let you finish your drink. They'd say, "Get out of
24 here. You're a boring guy."

25 COMMISSIONER LECKMAN: Before we go to

1 questions, is there any other roundtable participant
2 who wants any closing remarks?

3 MS. DONALDSON: I would just, if I can,
4 make two comments about the conversation.

5 So Penny mentioned that on a
6 contentious meeting, there were less problems, but I
7 would like to add that that's because there was more
8 paper and people on the process. Again, there was more
9 manual work being done on the meeting itself to figure
10 out where the problems were and correct them. We need
11 something that's more streamlined and electronic and
12 eliminating the problems to start with.

13 And in terms of the management bias, on
14 the tabulator side, and David's comment about the
15 tabulator sharing information about overvotes, that is
16 something that the tabulators have taken on as a
17 responsibility. We will be communicating more with
18 issuers as overvotes and problems occur, but I would
19 like to say that before all of the focus came on the
20 proxy system, when we had those conversations with
21 issuers, they really weren't that interested in them.
22 They didn't understand them. They didn't want us to
23 explain them to them. They just wanted their numbers
24 for the meeting and to move forward, and if there was a
25 large problem, then certainly, it was something we

1 would work to rectify, but again, we weren't getting a
2 lot of focus from the chair or management on some of
3 those issues.

4 MR. MASSE: You know, I think that's
5 true, and I was -- the biggest problem I ever had to
6 deal with was -- occurs, obviously, after the meeting.

7 We got a call from a very, very
8 prominent institutional investor, and they had voted
9 massively to withhold from a member of the board and
10 they didn't see it when I published the voting results,
11 and so we did a post-mortem after the fact. Like, what
12 happened to their votes? I mean, it was a very, very
13 large position, right? Like, really, really a large
14 position, and we were never able to figure out after
15 the fact what happened, and then you've got the luxury
16 of time, right? So...

17 MS. DONALDSON: The luxury of time, but
18 no ability to correct.

19 MR. MASSE: With no ability to correct
20 it, that's correct. Yes, luxury of time, but no
21 ability to correct.

22 MS. DONALDSON: And in terms of
23 management bias, I mean, tabulators act for the
24 issuers, so certainly, we are working for the issuer,
25 but we do have an independent responsibility to ensure

1 that the shareholder voice is being heard, so as we
2 receive a vote, we need to make sure we are tabulating
3 as it was received. So we do take that very seriously,
4 and we do feel that that is an independent
5 responsibility of the tabulator.

6 The one issue we deal with is the chair
7 does have the ability to say, "We accept or reject
8 these votes." So we do have to, in some instances,
9 work with the chair to make them understand why some
10 votes maybe should or should not be rejected, but
11 ultimately, it is their call in the end. So we do have
12 that challenge as well.

13 MR. MASSE: And just maybe a final
14 point on materiality, because we've heard about
15 materiality: When directors look at their "for" and
16 "withhold" votes, they get very, very concerned about
17 the basis points, right?

18 COMMISSIONER LECKMAN: Thank you. I
19 think we have a question.

20 MR. TABESH: Hi. My name is Hooman
21 Tabesh. I work for one of the proxy solicitors. I'm
22 general counsel at Kingsdale, and I've been involved in
23 the original consultations.

24 Two things I'd like to mention, one of
25 which is to Lara's point.

1 We were just involved in a proxy
2 contest. I won't mention which, and one side won by
3 300,000 votes, which is a fraction of the total
4 outstanding. One of the things that I would encourage
5 Judy maybe that we find is there's a huge issue which
6 gives the chair the ability to count or not count votes
7 is record date reconciliation by the back offices. To
8 us, that's always been a weak point, being able to get
9 the exact record date of each back of intermediary, of
10 some of the banks, not all.

11 But otherwise, I commend everyone. I
12 know from Broadridge's perspective, from the
13 tabulator's perspective, they're doing what they can,
14 and I commend CSA for taking the initiative.

15 My only concern is what I'm hearing,
16 and I say this with utmost respect, as I understand it
17 is a lot of work to be done, what I'm hearing is a
18 promise to communicate more, promise to do more. I
19 just, you know, I'm as hopeful as I can be. I just
20 wonder how effective it will be without some sort of a
21 regulatory mandate.

22 COMMISSIONER LECKMAN: Are there any
23 other questions? Thank you.

24 I want to thank the panel for their
25 very insightful discussion. I'd also like to

1 acknowledge Winnie formally because I've been on this
2 proxy voting initiative with her since 2013, and I
3 can't believe the sea change in attitude of the
4 participants. On the first panel, there were people
5 saying there weren't any problems. So I think we've
6 come a tremendously far way, and having sat in on some
7 of the working group meetings with Winnie, I know it's
8 her tact and determination and insistence of herding
9 cats to get everybody together and on the same page. I
10 think Winnie's done a tremendous job.

11 And with that, we'll take a 15-minute
12 break.

13 VICE-CHAIR KOWAL: Should we shorten it
14 in light of the time?

15 COMMISSIONER LECKMAN: 10-minute break?
16 Five after 10:00 we'll be back.

17 --- Recess at 9:54 a.m.

18 --- Upon resuming at 10:06 a.m.

19 PANEL DISCUSSION: Topic Two.

20 VICE-CHAIR VINGOE: Okay. So we're
21 embarking on our second panel, and I think we have a
22 really good foundation and some of the discussion at
23 the end about improvements that could be made looking
24 into the future, that really is the essence of the
25 second panel, to explore a longer-term strategy for the

1 proxy voting infrastructure.

2 So we're going to continue the
3 discussion about how the modernization of the proxy
4 voting infrastructure could take place and the elements
5 that we focused on are becoming increasingly paperless,
6 so that it is a reality that the use of faxes is a
7 significant improvement over mailing and it's
8 undeniable and it is a waypoint on the way to further
9 improvement in communication or information.

10 Another issue is realtime end-to-end
11 voting confirmation and we've expressed that in the
12 consultation as an aspiration or an expectation that
13 the beneficial owner should be able, after a meeting,
14 to know what happened to their vote and to have
15 confirmation that it was counted or prorated or
16 whatever actually happened to the vote.

17 And then the other element is the
18 concept that Fred mentioned about a fully reconciled
19 list of beneficial owners with voting entitlements and,
20 of course, the relevant period is the record date and
21 everyone knows that intermediaries have challenges
22 around that because of issues associated with trading
23 and the possibility of fails and the need to reconcile
24 their own trading records as a foundation for this
25 process.

1 And with all of these potential
2 improvements, you know, it's really -- the protocols
3 build on the existing system, but with all these
4 potential improvements, we have a number of different
5 constituencies represented here and the issue arises:
6 Who should pay for it and who are the natural parties
7 to pay for it and pay for what?

8 So I'd like to turn it over to, in this
9 order, Jeri, Judy, and Lara to talk about specifically
10 what would be needed in terms of technology builds to
11 enable each of these features to develop. You know,
12 often lawyers like myself underestimate the systems'
13 development efforts that are necessary to bring any of
14 this about. It's easy to say these are logical steps,
15 but we should explore what builds would be necessary,
16 and then if each person could also talk about the issue
17 of cost and how it should be allocated.

18 So with that, I think I'll start with
19 Jeri.

20 MS. TROTTER: Sure. So as I previously
21 mentioned, we've made several investments to develop
22 paper processes, including material request, the
23 electronic vote transmission and the transmission for
24 supplemental omnibus proxies.

25 It's important to note that the vote

1 transmissions are sequentially numbered and within the
2 file layout, and the file is delivered daily even when
3 there aren't any votes. The file has header and
4 trailer records for validation.

5 We're currently looking to receive
6 confirmation from the tabulators that they've completed
7 their development to accept the updated file with the
8 CUID numbers as recommended in the protocols.

9 Broadridge offers a dedicated online
10 portal that was created to foster the communication
11 between transfer agents, issuers and Broadridge.
12 However, most Canadian transfer agents currently do not
13 use this portal, which provides online access to vote
14 reports and supplemental omnibus proxies. We would
15 encourage transfer agents as part of the vote
16 reconciliation efforts to utilize all available tools,
17 including the portal, to access information about
18 issuer votes, omnibus proxies, and position entitlement
19 information.

20 In terms of vote confirmation, a vote
21 can only be confirmed once the chairman has accepted
22 the submitted vote by the tabulator at the meeting.
23 We've referred to the U.S. vote confirmation pilot
24 projects previously and we believe that the process
25 developed and agreed upon by the participants in the

1 U.S. pilot can be adapted to Canada. It was determined
2 that only votes issued up to the vote entitlement in
3 the records of the tabulator would be eligible for vote
4 confirmation. Procedures were developed that allowed
5 the intermediaries and the transfer agents to adjust
6 their entitlement and, if needed, adjustments could be
7 made in advance of casting of votes. These adjustments
8 may be as a result of the tabulator not having all the
9 information available, such as missing DTC omnibus
10 proxies.

11 In order to assist the communication
12 between the intermediaries and tabulators, Broadridge
13 developed an electronic communication tool that allowed
14 the intermediaries and tabulators to question their
15 entitlement, identify differences, adjust and agree on
16 the official voting entitlement. This communication
17 portal could be used to formalize the CSA
18 recommendation on communication between transfer agent,
19 intermediaries and Broadridge.

20 In practice, end-to-end vote
21 confirmation can be provided on an industry-wide basis
22 to security holders that use various voting platforms
23 without requiring beneficial account holders to provide
24 identifying information to third parties who are not
25 authorized today to receive that information.

1 Simply stated: Corporate issuers that
2 desire to provide end-to-end vote confirmation to
3 security holders would request their tabulators to
4 provide Broadridge with confirmation that the voting
5 reports provided to them on behalf of our clients are
6 included in their final tabulation. Upon notification
7 by an issuer's tabulator that these reports are
8 included, Broadridge can then confirm electronically to
9 beneficial security holders that their votes are
10 included as instructed in the final tabulation.

11 We believe that for end-to-end vote
12 confirmation to be achievable, we need to have the
13 co-operation of the Canadian tabulators and their U.S.
14 counterparts, so both Canada and the U.S. have a
15 consistent system that works cross-border. Between 50
16 and 60 percent of the meetings we process for Canadian
17 intermediaries are for U.S. securities, and as such,
18 directly impacted by the proxy structure in North
19 America.

20 It's important to note that for the
21 pilot project today, there has been no cost
22 transference to the intermediary or the issuer, and in
23 terms of costs for the vote-to-vote confirmation system
24 in Canada, there really needs to be -- or I should say
25 until there is a decision on how to use the technology

1 that is scaleable, we're really unable to assess what
2 that cost would be.

3 VICE-CHAIR VINGOE: Judy.

4 MS. FOSTER: We're done. In terms of
5 realtime end-to-end confirmation, this to me is just
6 the next phase of the protocol work that's been done.
7 I think we need to come together as an industry. We
8 need to define exactly what we mean by end-to-end vote
9 confirmation. I think we all have, you know, it in our
10 head, but I think we need to actually, you know,
11 articulate and document what we think that means, and
12 that would probably allow us to do some kind of
13 analysis around the cost.

14 As we look at it, in any project, in
15 any initiative, I'm the ops person in the room. You
16 know, when you look at what your wish is and you start
17 to look at what is available and what is scaleable and
18 the cost benefits associated with that, you often make
19 decisions around that, and I think we really haven't
20 stepped back.

21 It's almost a motherhood, it's a
22 motherhood statement that we should do this, I think,
23 and I don't think anyone disagrees, you know, the
24 integrity of the vote and the ability to confirm back
25 to your beneficial owners that, in fact, your vote has

1 been counted, it has been heard, is absolutely
2 fundamental.

3 But what does that mean? How long will
4 that take? What is the technology? What are the
5 requirements of the initiative? That's a project.
6 That is a very large initiative that needs to be
7 funded, don't ask me who will fund it, but funded,
8 assessed, and then, you know, a cost benefit analysis
9 around what we can do quickly, what will take a longer
10 term initiative and, you know, what are the final
11 benefits.

12 VICE-CHAIR VINGOE: Isn't there a
13 vastly different cost to, like, track the history of
14 the vote as the proxy goes through the various stages
15 as opposed to being able to have a system that, with
16 certainty, gives you the voting result that you can
17 transmit back to the beneficial owner?

18 MS. FOSTER: Probably. Probably there
19 are phases that would be faster, easier and cheaper. I
20 mean, part of the difficulty of all of us in this room,
21 and I think David talked about it, this is a very
22 bifurcated process, many stakeholders, many steps along
23 the way, systems that don't talk and, you know, as we
24 move through the process, the other thing we need to
25 keep in mind is the people who participated in

1 protocols, development of protocols were primarily the
2 large banks or organizations. We also have other
3 communities out there who are part of this, this issue,
4 part of, you know, the solution, and we need to look at
5 it holistically in terms of resources, costs associated
6 with the solution.

7 So I think you really do need to assess
8 what we need, nice to haves, and a plan that gets us
9 over time to where we ultimately need to be, and again,
10 working in the world of operations, where you often
11 start out with the vision and you get to 80, 90 percent
12 and you say, you know, "We're good," but it's the last
13 10, 15 percent is so expensive and the benefit is not
14 worth the effort. And I don't think we've really done
15 that and assessed the requirements to bring this all
16 together so that we're communicating through our
17 technologies.

18 I mean, we have Broadridge in the
19 middle of a lot of this. It addresses a lot of the
20 issues. Not everyone is on Broadridge. You know, we
21 always talk about solutions associated with Broadridge.

22 So, I mean, I think it is unfortunately
23 the next step. I think, you know, to David's point,
24 the organization that can drive that and I think,
25 certainly, the participants in the previous protocols

1 have identified we're willing to come to the table, and
2 this is not cheap. You know, we bring resources and
3 talent and time to this and we're absolutely willing to
4 participate and engage, and then look to see what we --
5 you know, where we go.

6 And one of the comments, you know, I
7 made to my colleagues is we all benefit from the
8 nominee environment. It allows us to trade, to settle,
9 you know, tax reporting. All of it is just so much
10 more efficient through the nominee. This is one of,
11 you know, the things that Dave thought was not fully
12 addressed in this. I've been told a lot of these
13 meetings we talk about, you know, we balance dividends.
14 Why can't we balance proxies?

15 That's money. Money comes in. Money
16 gets distributed. It's very clean. It's very -- if
17 you have it, if you have an entitlement, you usually
18 know who owes it to you and you can get it fairly
19 simply. This is just a moving target of activity, and
20 we've got a lot of activities in the capital markets
21 that cause annoyance. Stock borrow lending, you know.
22 We have a lot of discussions about the impact of stock
23 borrow lending. We have discussions about failed
24 trades, margin accounts, lots of activities in the net
25 worth that takes something that is basically a simple

1 allotment of an entitlement that causes confusion, and
2 to Lara's point, in a time frame that, you know, you're
3 running to manage.

4 VICE-CHAIR VINGOE: Thank you.

5 MS. FOSTER: I want to talk a little
6 bit about -- I was quiet in the first part. I'm going
7 to talk a little bit about --

8 VICE-CHAIR KOWAL: Reminder to speak
9 up, please.

10 MS. FOSTER: -- about the reconciling
11 on record date, so record date or pre-mailing I think
12 we're really talking about.

13 I almost am uncomfortable saying this
14 because the thought that we're not reconciled is
15 probably something no one wants to talk to, and we
16 reconcile our books and records. We talk about that
17 all the time in terms of our holdings, our entitle --
18 our depository location. So we assume that we have a
19 reconciled stock record that generates these
20 entitlements.

21 My organization, we actually over the
22 course of the summer have been doing pre-mailing
23 reconciliation through a very quiet period. I had a
24 resource and we took a run at it. This is a huge
25 undertaking. This is, you know, a resource who is

1 doing this through the summer months, so not a lot of
2 activity and not -- fairly quiet. I could not even
3 imagine doing this through proxy season, certainly not
4 with the resources and the technology we have currently
5 in place.

6 What it's identified for me is that
7 some of the issues that we historically thought would
8 cause issues are not. Stock borrow lending. Everyone
9 assumes that stock borrow lending is the primary
10 problem. Most -- increasingly for us as we go through
11 this, not, not the issue. Failed trades, huge number
12 of issues around failed trades in an environment where
13 I don't even know who owes me the shares. So the bulk
14 of my failed trades were in Cena [ph]. I don't even
15 know the counterparty on the other side who I -- if I
16 wished to claim an entitlement from them. Margin
17 accounts, interesting in terms of some of the effects.
18 We just, you know, flukily had some positions that we
19 had large margin positions we would have thought were
20 smaller.

21 So each situation that we balanced, in
22 fact, identified a unique situation that we had to work
23 our way through, but we actually -- we saw benefit. We
24 actually worked through the process. We worked
25 through -- we cleaned up the "no" vote situations. We

1 dealt with, you know, some of our own stock record in
2 terms of the mailing, and we certainly saw that we had
3 fewer overvote issues and then we get to the reports,
4 but this is not a scaleable process. This is a huge
5 undertaking by an intermediary to attempt to do this
6 through the proxy season.

7 VICE-CHAIR VINGOE: Like a major
8 exception-based manual process.

9 MS. FOSTER: Absolutely. And in many
10 cases, the impact, the final impact on the vote would
11 have been notional. If every retail client had voted,
12 I would have been in trouble. I don't run into that
13 situation very often. So the actual ability to satisfy
14 my beneficial owners who wished to vote I had no
15 problems with because I had sufficient entitlement in
16 my network. So, and I probably would have been in a
17 Cena [ph] situation in a prorated situation myself in
18 terms of what I would do.

19 So, again, I think we need to define
20 what this looks like. Definitely, there would be
21 technology requirements within my organization around
22 identifying margin accounts who were, you know, who
23 actually were voting against their margin positions. A
24 margin account doesn't mean you're using margin. So I
25 would have to be able to identify who that was. We

1 would certainly need protocols around what we would do
2 about a failed trade. Do we prorate? Do we need to do
3 some kind of LIFO, FIFO? I think there would, you
4 know, absolutely have to be protocols or
5 recommendations around that, and we cannot do it in the
6 time frame that we have currently.

7 So in terms of the record date to mail
8 date, that is too short a time. This is something that
9 we will, in fact -- you know, I think to do, there
10 would definitely have to be some changes in terms of
11 providing time for people to do that, and someone's got
12 to fund the army who would have to work through this,
13 through the process.

14 So an interesting process, one that
15 identified a lot of information in my organization and
16 we did make some changes, you know, operations to a
17 couple of things, but it's not scaleable, and it is
18 certainly something that again, motherhood, but in the
19 real world, there would have to be assessments around
20 what I would do.

21 VICE-CHAIR VINGOE: I guess we'd be the
22 recipient of these, of the inputs based on this
23 exception system or issues like fails, and how do you
24 respond on the technology and the cost.

25 MS. DONALDSON: Well, just to follow up

1 on Judy's comments, I think it is amazing you've gone
2 through that process and taken the time to actually
3 look at the pre-mailing reconciliation and what would
4 be involved there.

5 One thing that I think is very relevant
6 to mention at this point is that issues were
7 identified, but as you said, it's not a problem because
8 not all of your retail holders vote. We are dealing
9 with one account for Scotia, in your situation, as a
10 bulk and as the votes come in, we draw down from it and
11 the problems that are identified when reviews are done,
12 like the ones that Penny and Winnie worked through on
13 those six meetings, would only identify an actual
14 overvote situation that actually appears to the
15 tabulator.

16 Something that's a problem underneath
17 the process would never come to light, and we know not
18 all retail shareholders vote. We know most -- there's
19 always, at meetings, there are always retail
20 shareholders who are not even mailed to because of the
21 current processes under 54-101 where you're going to
22 have holders coded as "S" or "D", special or declined,
23 and not actually received material. So there should
24 never be a situation, frankly, if we're dealing with
25 reconciled records where there would even be an

1 overvote.

2 Just to go back on the two questions,
3 paperless and having end-to-end vote confirmation:

4 So moving to a paperless process, we
5 actually believe we require quite substantial changes
6 to regulation. As I mentioned earlier, paperless
7 deliverance to registered shareholders is a process
8 that would have to be looked at. We do still have some
9 registered shareholders and they are still an important
10 part of the voting process. They would need to provide
11 a valid e-mail address. There would have to be changes
12 to National Instrument 11-201 in terms of the
13 requirement for consent. Right now, we can't use an
14 e-mail address for delivery unless the holder has
15 actually consented to receive material electronically.
16 Anti-spam and other legislation would also have to be
17 considered.

18 There would also need to be changes to
19 the direct consent rule, which I spoke about earlier in
20 terms of the consent from the beneficial holder which
21 sits with the intermediary and can be passed along to
22 their agent, Broadridge, but doesn't come to the issuer
23 or their agent if they're mailing to novos [ph]
24 directly. We're not allowed to use their e-mail
25 addresses right now.

1 Paperless tabulation: There would also
2 need to be some substantial changes, so right now, the
3 omnibus proxy we receive from CDS is still paper. We
4 still receive it through the paper envelope system. We
5 don't get an electronic version. Again, that comes
6 down to the signature on the omnibus proxy which is
7 something that we are looking for. And then the DTC
8 omnibus out of the U.S. is also quite often paper,
9 although there is an electronic process now as well.

10 For registered shareholders, in order
11 to eliminate paper voting, again the paper proxy would
12 need to be eliminated. You'd have to move to all
13 electronic which, as I mentioned, would have to be
14 looked at in terms of the consent.

15 We would also need to look at other
16 processes like a proxy revocation, how a shareholder
17 would appear at a meeting to revoke a proxy. If it was
18 previously voted electronically, what would be
19 acceptable in those processes.

20 We are still very much dependent on
21 paper in some of these ways, whether it's a limited
22 proxy or a proxy revocation, and we do know that when
23 things get contentious, people certainly tend to revert
24 to paper because they're more comfortable with it.
25 Whether it's the issuer or the proxy solicitors or, you

1 know, Broadridge, we tend to start looking more towards
2 paper because people want something concrete that they
3 can look at and review when we're sitting around the
4 table discussing what's accepted and what's not.

5 In terms of end-to-end vote
6 confirmation, this is actually a topic which I'm really
7 conflicted on. I understand the importance of it. I
8 understand why institutional investors and retail
9 investors want to know that their vote was cast,
10 tabulated, received. I know it's a concern that right
11 now, any kind of confirmation would be after the fact,
12 after the meeting where nothing could be corrected, but
13 I really truly believe there should be more effort put
14 on the processes before the meeting and that if people
15 actually trusted the system and believed in the system
16 itself, they wouldn't need the confirmation after the
17 fact because they would rely on the system to say,
18 "Yes, I know it works, and I know my vote got tabulated
19 and counted."

20 Obviously, that's not going to work in
21 any kind of a system where there's possibility of the
22 overvotes or unreconciled records, but again,
23 end-to-end vote is putting a process on the end, where
24 I really think the concentration should be on the
25 beginning and correcting what is actually wrong with

1 the system as opposed to looking at more Band-Aid
2 solutions to be put on the end.

3 It would require, obviously, fully
4 reconciled lists on record date which, as Judy has just
5 said, is something that would be a great deal of work
6 in the current environment, but I do think that it is
7 something that needs to be looked at more closely.

8 VICE-CHAIR VINGOE: Okay. Thank you.
9 Do any of the other panelists want to weigh in on this
10 aspect?

11 MR. MASSE: How could I possibly
12 resist?

13 VICE-CHAIR VINGOE: An invitation.

14 MR. MASSE: So this is kind of music to
15 my ears, to be honest, and it's music to my ears
16 because it really underscores the depth of the problem.
17 The problem is very, very deep. It's like when I was a
18 little kid, we used to go to a lake up north and there
19 was a lot of silt. I don't know if you've ever stepped
20 into silt thinking it was sand? Oh, my god. It's just
21 really, really horrifying.

22 I'm encouraged by all of this. What
23 I'm hearing from the intermediary side is that if --
24 even if you were to wave a magic wand and dematerialize
25 all of the data that's circulating on votes, there is

1 still work that needs to be done by the intermediaries
2 internally to get the data they need out of their own
3 shareholder records, and so there's certainly work for
4 the intermediaries there that only the intermediaries
5 could shoulder.

6 The thing that strikes me, and I
7 mentioned it before, is that there's a lot of money in
8 paper. There's a huge amount of money in terms of
9 expense that's wrapped around all that paper to make it
10 work as well as it works today. So if you see that as
11 a pool, a funding pool, and that's money that's
12 sitting, that the issuers are expensing currently,
13 right, so if you can figure out how to access that pool
14 of funding, you could address most of the cost.

15 So you wouldn't -- I don't think
16 that -- you wouldn't be able to address -- there's no
17 obvious way to address some of the cost that's
18 happening internally for an intermediary that's got to,
19 let's say, clean up its own -- the way it accounts for
20 share positions, right, but maybe even that is
21 addressable. Maybe if you've got -- if that pool is
22 properly managed, right, you put together a kind of a
23 community pool and you say, you know, this -- the
24 regulator says, "These funds are available to address
25 these problems." So if need be, you subsidize, to a

1 degree, you subsidize the work that needs to be done
2 internally on the intermediary side of the house, or
3 you do almost like a reporting pool in war. You know,
4 you get all the intermediaries to kind of agree on a
5 pool that's going to, you know, do the work for
6 everyone's benefit.

7 So I think that once you get going on
8 this, I think, intuitively I think, that funding is --
9 more or less looks after itself, and I think that in a
10 mature system, you would have cost reductions, very,
11 very substantial cost reductions for every single
12 player in this universe, right. You wouldn't get the
13 cost down to zero, right, but you -- I think everyone
14 benefits.

15 The concern I had with notice and
16 access was that as you dematerialize an aspect of the
17 problem, like, for instance, printing, printing and
18 mailing proxy circulars, what you do is you're allowing
19 that pool to drain to a degree, and to the extent that
20 that pool of expense drains, your ability to tap those
21 funds to build a future system, obviously, is impaired.

22 So as it happens, I don't think -- most
23 nice [ph] certainly have an impact in terms of reducing
24 issuer expense. It certainly didn't drain the expense
25 pool, but it certainly did drain some funds out of

1 that, out of that pool. So -- but overall, I'm
2 encouraged because what I'm hearing is much more of an
3 acknowledgement than I heard, let's say, back in 2011,
4 that the problem needs to be fixed. So...

5 VICE-CHAIR VINGOE: Thank you. The
6 next question to explore is really how much of this
7 area is within our own control in a North American
8 environment. There are -- obviously, DTC and U.S.
9 processes are extremely important, and if we made
10 advances in these areas, do we really have the leeway
11 to do it with some independence or would it fit in,
12 would it mold on to the way processing occurs in the
13 United States or is it essential to have a North
14 America-wide approach to these issues. And so I'll
15 begin on that with Jeri and then Lara.

16 MS. TROTTER: Sure. And I think you've
17 hit it right on. I think it's really important to look
18 at the proxy system from a North American perspective
19 and not in silos by country. As we've moved to T+2,
20 you know, and Lara and I certainly have had this
21 conversation with respect to the settlement cycle, it
22 really is important and we can see that the Canadian
23 participants needed to move in the same direction for
24 settlement as we did in the U.S., and our markets are
25 connected in settlement and as such, they're really

1 connected in the proxy processes as well. It's
2 important to note that many, many Canadian issuers, if
3 not all of them, do have security holders that hold
4 through a U.S. intermediary.

5 And Stack has mentioned in the past
6 that there are several overvote situations that can
7 come down to missing DTC omnibus proxies, and as a
8 result of the pilot project in the U.S., the U.S.
9 issuers were having the same concern regarding getting
10 the Canadian CDS omnibus proxy, and I think the
11 question is, why is something like an omnibus proxy so
12 difficult to obtain?

13 This should be just a standard delivery
14 to the transfer agent. Both depositories know who that
15 transfer agent is, and not necessarily going to the
16 issuer and, you know, Lara has talked many times that
17 issuers do not understand what that document is or the
18 importance of that document.

19 We can't criticize an intermediary for
20 being in an overvote position when all their positions
21 are not being recognized by the tabulator, and we
22 recognize that tabulators in Canada are seeking to
23 obtain that document, but really, it is not that easily
24 accessible.

25 We need to, I think we need to solve

1 the vote entitlement issue starting with the
2 depositories, ensuring that all intermediaries share
3 entitlements and both depositories are properly
4 distributed to the tabulator.

5 It would be beneficial for the Canadian
6 regulators to have discussions with their U.S.
7 counterparts, and certainly, regarding the steps that
8 are being made in Canada, which could benefit the
9 tabulation for both Canada or Canadian and U.S. issuer
10 meetings. It would also encourage a unified movement
11 towards a solution for end-to-end that works for
12 intermediaries, tabulators, issuers, and Broadridge on
13 both sides of the border.

14 VICE-CHAIR VINGOE: Thanks. Lara.

15 MS. DONALDSON: So just to echo Jeri's
16 comments, you know, when we looked at T+2, there was
17 really no question that North America needed to move at
18 the same time. Canada and the U.S. are so integrated
19 that it had to be done concurrently, and I do believe,
20 as Jeri said, that, you know, the system with proxy is
21 the same. It is so integrated that there really needs
22 to be more focus put on consistency.

23 The problems with the intermediary
24 votes and matching votes to omnibus proxies is more
25 common in Canada with the U.S. brokers and then with

1 the Canadian brokers, it was more common on the U.S.
2 issuers.

3 The DTC omnibus proxies have been a
4 problem for as long as I can remember, and issuers do
5 not understand what it is or why it is important. The
6 U.S. rule is that the omnibus proxy needs to be
7 delivered to the issuer and they cannot deliver it to
8 the transfer agent, and they -- even the electronic
9 version, the issuer still has to give authorization to
10 the transfer agent each and every year in order to
11 access the electronic version.

12 This is something that the transfer
13 agents did comment on in the recent SEC consultation
14 that came out late last year, that Rule 1788, which
15 does require the DTC omnibus to go to the issuer, needs
16 to be changed, deleted, amended. Something needs to
17 happen to it. Given what's happening in the U.S. with
18 the recent announcement about the SEC chair stepping
19 down, we don't know when any kind of rule changes are
20 going to even occur at this point.

21 We do still have ongoing issues with
22 receiving the DTC omnibus proxy. It is something that
23 we track. You know, we don't even look at it as an
24 overvoting or because we don't believe that's what it
25 is, and it's just missing documentation. So when we do

1 our statistics, we do it separately. So we're not
2 actually reflecting it in the overvote numbers, but it
3 does increase the number of meetings with problems
4 exponentially, and it is something that should be easy
5 to fix.

6 VICE-CHAIR VINGOE: Right. Any other
7 comment on the Canada/U.S. situation and the frictions
8 that it creates or the impediments to improvements that
9 might --

10 MR. MASSE: I will just add that as a
11 victim of the DTC omnibus proxy, I worked with our
12 transfer agent to get my hands on it and transfer it
13 over to them. It is a little bit of a mystery, and
14 it's not, even for the issuer who is entitled to it,
15 not always easy to figure out how to get your hands on
16 the DTC omnibus proxy. A little bit of a spaghetti
17 mess, and every year, it seems different, so there's
18 almost no benefit to understanding how you did it the
19 previous year.

20 VICE-CHAIR VINGOE: Well, hopefully,
21 we'll be able to make some progress with the SEC staff
22 on these issues as the project moves forward in the
23 future.

24 So the next area is the legal aspect of
25 it, the legal framework which I think primarily relates

1 to signatures and paperless processes and proxies. Are
2 there changes in securities law or corporate law that
3 are necessary for us to advance in the ways we've
4 discussed? And I think I'll start with Fred and then
5 Lara.

6 MR. DUGUAY: Certainly. I didn't think
7 I was going to say this this morning, but I'm
8 completely aligned with David on the matter more
9 broadly speaking to changes that need to be made in
10 corporate law, and more particularly, to fix the
11 complexities that are created by the distinctions
12 between registered shareholders and beneficial
13 shareholders.

14 What that creates is that under
15 corporate law, it assumes that shareholders still hold
16 their shares directly, which we know and we have
17 statistics that were said this morning, 90 percent of
18 the time this is not the case, and the major problem is
19 that it treats any deviation from that direct ownership
20 as a voluntary choice that's made by the shareholder
21 which, again, in reality, it's not the case. It's
22 not -- myself, if I'm opening an account tomorrow
23 morning and I want to buy shares of a company, I'm not
24 making a voluntary choice not to be a registered
25 shareholder.

1 The other issue in corporate law is
2 that it's internally inconsistent in respect to the
3 rights that beneficial holders have in some cases and
4 in others that they don't, such as requisitioning a
5 meeting, for example, or the right to dissent, and when
6 you look at the most recent proposed amendments to the
7 CBCA that were introduced in Bill C-25, they still do
8 not address these issues, despite the fact that the
9 last review that was undertaken for the CBCA in 2009
10 did point out that as significant issues. So there is,
11 again, this gap and this lack of, as David said,
12 bringing the corporate statute at least up-to-date to
13 recognize this as a fact, really.

14 When we talk about a paperless system,
15 really I think in terms of the objectives it should
16 achieve is promoting a direct relationship between the
17 shareholder and their shares that are voted and
18 received by the tabulator, but under the current
19 system, there's no direct relationship and as we've
20 explored, the only way to communicate these preferences
21 is through these layers of intermediaries. So what
22 that does is when you bring unnecessary complexity into
23 the system, you're going to lead to unnecessary
24 mistakes.

25 There's a fascinating read from a

1 decision from the Delaware courts earlier this year in
2 respect of T. Rowe Price losing their standing for a
3 right to dissent in respect of a buyout of Dell, and
4 it's completely fascinating because it explains really
5 all of the steps that T. Rowe Price had to make in
6 order to communicate their voting preferences through
7 their proxy advisory firms and up to the meeting and
8 because they had postponed the meeting three times, the
9 meeting had changed and the standing instruction was no
10 longer the case, and what that meant was the
11 instruction to vote against, which was always the
12 standing instruction, wasn't fully reconciled and
13 received at the ultimate meeting, and I think that cost
14 T. Rowe Price \$300 million in terms of their right to
15 dissent. So that's unfortunate.

16 I think in terms of, more broadly, in
17 securities law, I think the comment I would make is,
18 you know, there should be an effort to revisit existing
19 rules and to look at them so that they're more
20 technology neutral, so that they can accommodate these
21 new technologies that we're speaking into that will
22 come, and another innovations that seek to promote
23 efficiency, accuracy and security in record-keeping.

24 So, for example, if we look at the
25 Securities Act, you know, there are record-keeping

1 requirements that market participants have to follow,
2 and, for example, market participants are required to
3 keep books, records and other documents that are
4 necessary for the proper recording of their business
5 transactions, and these books and records have to be
6 delivered to the Commission upon a compliance review in
7 the form in which they are kept.

8 So when we're speaking about seeing
9 these requirements, we're trying to -- the goal should
10 be to make it technology neutral, so that we don't
11 necessarily recognize paper almost as the default
12 option when we're looking at record-keeping, but
13 recognizing the increased use and role of technology.

14 Lara spoke earlier in terms of, you
15 know, the issue of proxies and having it still a
16 physical signature. Well, that defaults into a paper
17 system and not a paperless system, so are there ways
18 that we can recognize electronic signatures in ways
19 that are still secure so that, you know, we can
20 eliminate that paper.

21 VICE-CHAIR VINGOE: Lara, add to that?

22 MS. DONALDSON: Just to add on:
23 Obviously, electronic signatures, as we mentioned, are
24 a concern and then the consents in terms of e-delivery
25 and moving to a paper process.

1 You know, I found it interesting that
2 they recently proposed a change to the OBCA requiring
3 issuers to add an e-mail address to their records.
4 That was Bill 218, but there's nothing in there about
5 how the e-mail address is allowed to be used, so if
6 it's there, do we still need consent or would we be
7 allowed to use an e-mail if it's on our records, and
8 can we use it for electronic delivery, but then that
9 adds to additional sort of operational issues. What
10 does that mean in terms of return mail? We know people
11 change their e-mail address a lot more than they change
12 their mailing address. So return two times? Is the
13 address shut down? Do you default to paper? You know,
14 how do you manage that kind of process as well?

15 There's also concern about spam filters
16 and other reasons that people may not receive an e-mail
17 as opposed to an actual physical mailing sitting in
18 their mailbox.

19 And then there's issues with the voting
20 as well. You know, as I mentioned earlier, transfer
21 agents have worked to allow for electronic voting for
22 registered shareholders and novos [ph] where we're
23 allowed to do those mailings, but when you look at a
24 corporation trying to vote, we still look for
25 indication of who has that authorization to actually

1 act and vote on behalf of that corporation, and often
2 that kind of authorization does come in a paper format
3 as well, so what would be needed in order to allow for
4 voting by corporation, estates, or other entities where
5 it's not necessarily a direct relationship.

6 VICE-CHAIR VINGOE: Thanks. So
7 we're -- time is passing, so I'm now going to get to
8 the next two questions, and stay generally on schedule.

9 The next question is, when you consider
10 the complexity involved in moving forward with
11 end-to-end reconciliation and the ability to make
12 inquiry and paperless processes, you know, we as
13 regulators have had I think very useful involvement in
14 developing the protocols and encouraging further
15 development in the future, but with these potential
16 changes and improvements, given the complexity, do you
17 think there's the same role for the regulator in
18 facilitating these discussions and being directive as
19 appropriate in moving this area forward in a less
20 paper-based, more efficient manner beyond the
21 protocols. And for that question, I'll start actually
22 with Josh.

23 MR. BEZONSKY: Thank you. So we
24 certainly think that there's a role for the regulators
25 to play. One thing that's come up and that is, of

1 course, important, I think we all acknowledge that, is
2 cost, and I just -- I'd like to put that in some
3 context because -- so we don't feel that investors
4 should bear the costs, and I think we have a very sound
5 reason for saying that. So, the shareholder right to
6 vote isn't a "nice to have". It's a fundamental right
7 that's afforded to investors. So we think it would be
8 strange to expect investors to bear the financial
9 responsibility for their rights to be affected. So I
10 did want to make that comment to you.

11 We feel that, ideally, the issuers
12 should be looked to for certain of those costs. I
13 found David's comments interesting about how we could
14 get to -- was it \$7,000 per issuer if proper allocation
15 were to be devised?

16 MR. MASSE: Actually, that, sorry,
17 that -- I'll explain what that calculation is.

18 So I looked at the white paper, the
19 LVTS white paper from the Bank of Canada. I looked at
20 the cost of implementing that system, which is an EDI
21 system, which is the same thing you would implement
22 here, and I brought that current with the Bank of
23 Canada inflation calculator. You would, ideally, you
24 would prorate that, let's say, through the number of
25 shares listed in Canada. I didn't have that data, so

1 what I did is I took that cost and I divided it just on
2 a -- divided by the 3,500 public companies in Canada,
3 which is not a fair basis for the calculation, but
4 that's what yielded \$7,000.

5 So, and that would be unfair, be an
6 unfair burden on the small issuers, and it would be an
7 unfair advantage to large cap issuers, but, you know,
8 for somebody with, let's say -- well, it would be an
9 average, an average amount for issuers, but I mean,
10 that's where the pool, that's where the cost is.

11 And, you know, to your point saying
12 that investors shouldn't bear the cost, investors do
13 bear the cost, right? Bear the cost indirectly because
14 they're paying brokerage fees and all types of
15 different fees for the current intermediated system,
16 and it's necessary. I don't think -- there's no
17 proposal to get rid of the intermediated system. I
18 think it's vital. It's a necessary component, right,
19 just like Broadridge I think is a necessary component,
20 right. It's a necessary component to the system. I
21 don't think you'd want to eliminate any of the players
22 or any of the silos or any of the stacks. What you
23 want to do is figure out how to get the paper out.
24 That's really the key, and...

25 VICE-CHAIR VINGOE: It's got to be --

1 it's a potentially very difficult task for regulators
2 to actually address this, the type of allocation issue
3 that you're talking about, but of course, in the U.S.
4 with large-scale systems, they end up in that final
5 arbitral role if people can't reach agreement on
6 allocation. Fred, does that resonate?

7 MR. DUGUAY: Yeah. I would agree. I
8 think, you know, the question what is the role or do
9 regulators have a role is not the right question. The
10 right question is, you know, how would the regulators
11 partner with the market participants on this, on this
12 initiative?

13 I feel, you know, the common theme that
14 came out a few weeks ago for those of us that attended
15 Dialogue was that, you know, change and disruption is
16 coming, and it will come from the outside and the
17 parallels that we're seeing in the financial services
18 industry with the rise of the Internet, for example,
19 in the '90s, I think from a regulatory perspective are
20 interesting parallels to be drawn in terms of, you
21 know, having the private sector lead on this because
22 the reality is that development of what's going to come
23 in the next three, five, in the next decade is going to
24 move faster than any underlying legal or regulatory
25 framework that we could put into place.

1 And, you know, in fact, this has been I
2 think recognized by IOSCO in terms of looking at what
3 are the principles that we can find common consensus on
4 and put forward and then have the private sector and
5 the players come to an agreement on these principles
6 and experiment with new technologies in a way that can
7 make the system better. Ultimately, I think that's the
8 ultimate goal.

9 VICE-CHAIR VINGOE: So with that in
10 mind, and actually, I'm thinking back to the OSC
11 Dialogue addressing FinTech and technology issues, is
12 there a potential in new technologies and distributed
13 ledgers, blockchain to actually have records that are
14 determinative across different participants in the
15 process through the use of blockchain or similar
16 technologies? I want to address that to Jeri.

17 MS. TROTTER: Sure. I should preface
18 by saying I am not an expert in blockchain, and so any
19 questions regarding the intricacies of blockchain, I
20 will come back to you with that.

21 So, but I think it is important to
22 communicate that Broadridge is looking at blockchain
23 for the proxy process. We've made a number of
24 investments in the most prominent blockchain
25 innovators, including Digital Asset Holdings, and I

1 know Blake Masters was speaking at the OSC Dialogue.
2 Really had some interesting comments about blockchain
3 and its -- in proxy.

4 In May 2016, we joined the Hyperledger
5 Foundation, and this is a collaboration on blockchain
6 technology into the proxy process. We also acquired
7 technology assets of INVESHARE entering into an
8 agreement to use those assets to develop blockchain
9 applications for the proxy business.

10 Recently, our CEO, Rich Daley,
11 indicated in our latest earnings call that Broadridge
12 believes that blockchain offers three potential
13 benefits to the proxy marketplace. First, it can
14 increase efficiency by reducing the complexity of the
15 reconciliation process that exists today. Secondly, it
16 can increase security via encryption, and third, it can
17 increase transparency around both.

18 And Broadridge does intend and working
19 on delivering an enhanced corporate governance,
20 enhanced corporate governance as we build out these
21 products and the framework over the longer term.

22 VICE-CHAIR VINGOE: Thank you. Any
23 other comments on the promise of, or lack of promise of
24 new technologies in aiding in this process? That's the
25 ultimate goal with what the issue is: Will there be a

1 technological solution that will allow even an
2 intermediary's ledgers to be reconciled more
3 effectively at record date as opposed to -- same
4 technology can be applied in many different aspects of
5 this process, but --

6 MR. MASSE: Grant, I'd like to say a
7 few words about blockchain.

8 VICE-CHAIR VINGOE: Okay.

9 MR. MASSE: As a result of experiences
10 in a previous life, I do know a lot about encryption.
11 I do know a lot about that aspect of new technology.

12 The appeal of the -- first of all, the
13 fascination of the -- the current fascination of the
14 financial community, including regulators, with
15 blockchain is that it's a -- the source is fear. So
16 the blockchain has the ability to disintermediate even
17 people like central banks. So if you're a central bank
18 and you rely on monetary policy as a lever to manage
19 the economy, you've got to be staying up nights
20 worrying about what blockchain is going to do to your
21 levers. So I think that's where the financial
22 community is looking at blockchain very, very
23 seriously.

24 Blockchain is a distributed ledger and
25 it lends itself very, very well to a discrete, tangible

1 value security. Payment is the obvious one, and
2 Bitcoin is the obvious current product in the
3 marketplace.

4 The problem with blockchain is that
5 right now, the only blockchain protocol that's
6 available, that's deployed is what they refer to as
7 proof of work. Now, proof of work, if you remember
8 that -- you have to ask yourself which ledger are you
9 going to translate into something like blockchain. It
10 would pretty much have to work security by security.

11 So let's say an issuer's common shares,
12 let's say you had an issuer with 300 million common
13 shares outstanding. You have to generate a blockchain
14 ledger for that. At the -- using a proof of work
15 algorithm, the cost currently would be in the vicinity
16 of \$18 billion. If you were using Ontario Hydro rates
17 to generate 300 million tokens in a proof of work, in
18 the current proof of work algorithm, the cost would be
19 less. It would be \$8.6 billion, right.

20 So the blockchain people come back at
21 that and they say, "Oh, we're not going to do proof of
22 work. We're going to do proof of stake." There's no
23 proof of stake system in the market right now. There's
24 not going to be anything before 2017 through a theory.
25 If you use proof of stake, you get an order of

1 magnitude improvement in the cost, okay.

2 So the cost, let's say, for an issuer
3 with 300 million shares outstanding for a proof of
4 stake distributed ledger would drop dramatically.
5 You'd be looking at \$173,000 based on the same Ontario
6 Hydro kilowatt rate to run the processors to get that,
7 right.

8 VICE-CHAIR VINGOE: It shows how the
9 protocols will have to, and methods by which the
10 distributed ledger is calculated and used, will have to
11 evolve the --

12 MR. MASSE: Correct.

13 VICE-CHAIR VINGOE: -- practicable.

14 MR. MASSE: Correct. So what people
15 are doing is they're saying, well, we're not going to
16 use -- our distributed ledger is going to be a
17 permission distributed ledger. So it's not going to be
18 like Bitcoin. It's going to be managed by a small
19 handful of people based on private protocols and that
20 will reduce the cost further.

21 The issue there is that the benefit to
22 a distributed ledger is that it allows you to run a
23 ledger in an environment where there's no trust.
24 That's the key, right. So if you're transferring,
25 let's say, if you're buying drugs from a dealer in

1 Colombia, Bitcoin is really, really important because
2 there is no environment of trust, right, and it manages
3 to transfer the value in the absence of trust.

4 That is not the Canadian capital
5 markets, right. There's no absence of trust. I mean,
6 perhaps you guys know more than I do, but I don't think
7 there's an absence of trust in the Canadian capital
8 markets.

9 So when you're looking at a blockchain
10 implementation, right, to avoid some of the blockchain
11 inherent problems associated with the tremendous cost
12 of the distributed ledger, right, it's no better than a
13 private database. It's subject to the same risks.
14 It's subject to the same IT and data risks as a private
15 database.

16 So this blockchain debate and the
17 fascination of the financial industry with blockchain,
18 first of all, it's not clear that there's an obvious
19 application, at least certainly not in the rise right
20 now of the proxy vote, number one, and number two,
21 there's no particular benefit, right, because you're
22 not getting anything really better than what you would
23 have right now by using a database with EDI.

24 My last comment on this is that even if
25 somebody -- even if, let's say, Jeri, unbeknownst to me

1 has developed an exceedingly efficient blockchain
2 solution that Broadridge is about to deploy, right, the
3 issue there is you would still need normalized data
4 flows. You'll still have to do the work of normalizing
5 all the data flows because everyone, all the players,
6 everybody who touches the ledger would have to --
7 they'd be transmitting by machine, not faxes, not
8 letters, not phone calls, right? Be transmitting by
9 machine, so you still have to normalize. You have to
10 define all data flows, you've got to normalize them,
11 right, so that work is a sine qua non of any paperless
12 approach.

13 VICE-CHAIR VINGOE: So I think we'll
14 need to follow that closely to the emerging technology
15 and there may be new facets of it that may make it
16 integral to what develops in the future, but it
17 requires observation. One question.

18 MR. VERBEETEN: Russell Verbeeten. I'm
19 from a company called Consensus. We do a lot of work
20 on the theory of blockchain. Definitely just a few
21 comments on the state of the networks.

22 So yes, proof of work is, on the
23 Bitcoin, blockchain, those numbers are true.
24 Scaleability will be achieved not only through
25 consortium chains, these permission chains, and not

1 only through their interoperation with public networks
2 that may continue to operate on a proof of work system,
3 but also through other scalability infrastructure
4 that's already being worked on. Things like stake
5 channels, for instance. We can get -- we can basically
6 mirror the security of a public network running other
7 approved or Consensus algorithm, proof of stake,
8 Consensus algorithm, but overlay these state channels,
9 which are basically off-chain transaction systems that
10 sync up with the main chain every so often. So you can
11 get high throughput on security tradings or proxy
12 votes, for instance, but they're always reconciled
13 cryptographically.

14 There is, actually, much more security
15 in a blockchain system even in comparison between a
16 database and private network. A database's
17 architecture is one where you basically have all this
18 GUI data and this thing that's protected with this wall
19 around it like a firewall, whereas a blockchain system,
20 even in a consortium context or private context,
21 there's the security kind of at every layer of the
22 system, kind of on a granular level.

23 So I agree with most of what you're
24 saying except for the last point where you say that
25 there's a similar sort of security risk. I think what

1 we're actually talking about is fundamental, a
2 fundamentally new database architecture, new database
3 technology that is more secure. It's got a more secure
4 nature.

5 MR. MASSE: And I agree with that.
6 Clearly, it's true because falsifying a blockchain
7 ledger is a huge amount of work and when you look at
8 the cost benefit of doing -- of mounting the attack, it
9 doesn't make any sense, and it could work in an
10 environment where there's less, perhaps less trust than
11 you would like, or you can deliver more trust than you
12 currently have, right, but I think that the issue there
13 is -- what we're really talking about is what the
14 database looks like, and let's say if --

15 VICE-CHAIR VINGOE: David, I think
16 we're going to have to --

17 MR. MASSE: Yes, that's fine.

18 VICE-CHAIR VINGOE: Actually, the
19 blockchain issue is fascinating and could continue
20 indefinitely, but I know --

21 MR. DUGUAY: That's the next
22 roundtable.

23 VICE-CHAIR VINGOE: The next
24 roundtable. It's for discussion privately amongst us
25 at the end of this.

1 So I want to thank our panelists. I
2 hope it's been a useful presentation. It's certainly
3 been for us to hear everyone's viewpoint on the
4 protocols and the future.

5 So I'd like to extend my thanks again
6 to the panelists and note as well that a transcript is
7 going to be available, and I think this could be the
8 beginning of dialogue that may go in many different
9 directions. So thank you to everyone.

10 --- Applause

11 VICE-CHAIR KOWAL: I think we'll wrap
12 it up there. Thanks, everyone, for coming out. We've
13 made a lot of progress, and we still have a long way to
14 go, so stay tuned, and I'm sure we'll be having another
15 roundtable at some point.

16 --- Whereupon the roundtable adjourned at 11:07 a.m.

17
18 I HEREBY CERTIFY THE FOREGOING
19 to be a true and accurate
20 transcription of my shorthand notes
21 to the best of my skill and ability.

22
23 _____
24 Beverley Killen, CSR
25 Computer-Aided Transcription