

Annex A

Proposed National Policy 25-201 *Guidance for Proxy Advisory Firms*

Part 1 Purpose and application

1.1 Purpose of this Policy

The Canadian Securities Administrators (CSA or we) recognize that proxy voting, which provides a means for investors and issuers to engage in dialogue about matters concerning the issuer, is integral in maintaining confidence in our capital markets.

We acknowledge that proxy advisory firms play an important role in the proxy voting process by providing services that facilitate investor participation in the voting process such as analyzing proxy materials and providing vote recommendations. Some proxy advisory firms also provide other types of services to issuers, including consulting services on corporate governance matters.

The purpose of this Policy is to set out recommended practices for proxy advisory firms in relation to the services they provide to their clients and their activities. This Policy provides guidance to proxy advisory firms designed to

- (a) promote transparency in the processes leading to a vote recommendation and the development of proxy voting guidelines, and
- (b) foster understanding among market participants about the activities of proxy advisory firms.

The guidance addresses conflicts of interest, the determination of vote recommendations, the development of proxy voting guidelines and communications with clients, market participants, the media and the public.

The guidance in this Policy is not intended to be prescriptive or exhaustive.

The CSA encourage proxy advisory firms to consider this guidance in developing and implementing practices that are tailored to their structure and activities.

1.2 Application

This Policy is designed to assist all firms that provide proxy advisory services. Proxy advisory services include any of the following:

- (a) analyzing the matters put to a vote at a shareholders' meeting;
- (b) making vote recommendations;
- (c) developing proxy voting guidelines.

Although some proxy advisory firms may provide other types of services, this Policy addresses processes that lead to vote recommendations and proxy voting guidelines determined or developed by proxy advisory firms.

Part 2 Guidance

2.1 Conflicts of interest

(1) Effective identification, management and mitigation of actual or potential conflicts of interest are essential in ensuring the ability of the proxy advisory firm to offer independent and objective services to a client.

(2) A conflict of interest exists where the interests of a proxy advisory firm are or may be perceived to be inconsistent with, or diverge from, those of a client. A conflict might also arise between the interests of one group of clients and another. By way of example, a conflict of interest exists in any of the following circumstances:

- (a) a proxy advisory firm provides vote recommendations to an investor client on corporate governance matters of an issuer to which the proxy advisory firm provided consulting services;
- (b) an investor client of a proxy advisory firm submits a shareholder proposal to be put to a vote at a shareholders' meeting that could be the subject of a favourable vote recommendation by the proxy advisory firm;
- (c) a proxy advisory firm is owned, in whole or in part, by an investor client who invests in issuers in relation to which the proxy advisory firm is or has been mandated to make vote recommendations.

(3) Proxy advisory firms may address actual or potential conflicts of interest by implementing appropriate practices. Proxy advisory firms may consider taking the following steps to address actual or potential conflicts of interest:

(a) establishing, maintaining and applying written policies and procedures designed to identify, manage and mitigate actual or potential conflicts of interest that could influence their research and analysis, vote recommendations or proxy voting guidelines;

(b) designing and implementing internal safeguards and controls designed to monitor the effectiveness of the policies and procedures, including organizational structures, lines of reporting and information barriers, to mitigate actual or potential conflicts of interest;

(c) establishing, maintaining and complying with a code of conduct that sets standards of behaviour and practices for the proxy advisory firm, including individuals acting on its behalf, which incorporates guidance to promote the independence of the proxy voting process, including guidance that is intended to prevent individuals acting on behalf of the proxy advisory firm from benefiting on the basis of material, non-public information available to the proxy advisory firm;

(d) obtaining affirmation of the code of conduct from all individuals acting on their behalf upon hiring and on an annual basis thereafter and providing related training on a regular basis;

(e) evaluating the effectiveness of their policies and procedures, internal safeguards and controls and code of conduct on a regular basis to ensure that they remain appropriate and effective.

(4) The chief executive officer and the board of directors (or equivalent body) of a proxy advisory firm are generally expected to be responsible for

(a) setting and preserving a culture of compliance respecting conflicts of interest, and

(b) endorsing the policies and procedures and the code of conduct adopted to address actual or potential conflict of interest situations and ensuring that the individuals acting on behalf of the proxy advisory firm are made aware of its policies and procedures and code of conduct.

(5) To assist with addressing actual or potential conflicts of interest, proxy advisory firms may wish to consider designating an appropriately qualified person who would be responsible, among other things, for

- (a) monitoring and assessing compliance by the proxy advisory firm, and individuals acting on its behalf, with its policies and procedures and code of conduct,
 - (b) assessing the appropriateness of the internal safeguards and controls adopted by the proxy advisory firm and monitoring conflicts of interest identification and management, and
 - (c) periodically reporting on his or her activities to the chief executive officer and the board of directors of the proxy advisory firm or any equivalent body.
- (6) We expect proxy advisory firms to disclose to their clients, in a timely manner, any actual or potential conflict of interest between the proxy advisory firm and the client and to provide sufficient information to enable the client to understand the nature and substance of the conflict.
- (7) Where possible and without compromising the proprietary or commercially sensitive nature of information, we expect proxy advisory firms to post or describe on their website their policies and procedures, internal safeguards and controls, code of conduct and compliance program respecting conflicts of interest, including any related amendments.

2.2 Transparency and accuracy of vote recommendations

- (1) It is important for market participants to understand how proxy advisory firms arrive at a specific vote recommendation and to assess the quality of the research and analysis behind such a recommendation. Proxy advisory firms can facilitate this by ensuring that vote recommendations are determined in a transparent manner and that the information underlying those recommendations is accurate.
- (2) We expect proxy advisory firms to ensure that
- (a) vote recommendations are determined in a consistent manner in accordance with the proxy voting guidelines of the proxy advisory firm or the proxy voting guidelines of the clients,
 - (b) vote recommendations are determined based on up-to-date publicly available information about the issuer, and

(c) vote recommendations are prepared in accordance with an approach or methodologies aimed at, amongst other things, reducing the risk of factual errors or inaccuracies.

(3) Proxy advisory firms may consider taking the following steps when determining vote recommendations:

(a) establishing, maintaining and applying written policies and procedures describing the approach or methodologies used to prepare vote recommendations, such as research, information and data gathering, benchmarks, sources of information from third parties, local market or regulatory conditions, criteria, analytical models and assumptions, and the relative weight of these elements in preparing vote recommendations;

(b) designing and implementing internal safeguards and controls to increase the accuracy and reliability of the information and data used in the preparation of vote recommendations. We encourage proxy advisory firms to have in place a quality assurance process to review vote recommendations before they are provided to clients, including verifying the accuracy of information and data used and reviewing the research and analysis performed by individuals acting on their behalf;

(c) evaluating the effectiveness of their policies and procedures as well as internal safeguards and controls on a regular basis to ensure that they remain appropriate and effective.

(4) We encourage proxy advisory firms to have the resources, knowledge and expertise required to prepare rigorous and credible vote recommendations. This includes hiring and retaining individuals that have the particular experience, competencies, skills and training required to perform their duties on behalf of the proxy advisory firm in the ordinary course of business.

(5) Where possible and without compromising the proprietary or commercially sensitive nature of information, we expect proxy advisory firms to post or describe on their website their policies and procedures as well as internal safeguards and controls leading to vote recommendations, including any related amendments.

2.3 Development of proxy voting guidelines

(1) It is good practice for proxy advisory firms to ensure that their proxy voting guidelines, which may have an influence on corporate governance practices of issuers, are developed in a consultative and comprehensive manner. This promotes a clearer and

more complete understanding of the proxy voting guidelines and their underlying rationale and enables market participants to evaluate the applicability of the proxy voting guidelines to the corporate governance practices of issuers.

(2) Proxy advisory firms may consider the following when developing proxy voting guidelines:

(a) establishing, maintaining and applying written policies and procedures describing the process followed in developing and updating proxy voting guidelines, such as identification of standards and practices, policy formulation and approval, implementation and evaluation of proxy voting guidelines;

(b) regularly consulting with and considering the preferences and views of their clients, market participants and the public on corporate governance issues and on their proxy voting guidelines;

(c) taking into account local market or regulatory conditions.

(3) We encourage proxy advisory firms to ensure that they have the resources, knowledge and expertise required to develop and update appropriate proxy voting guidelines. This includes hiring and retaining individuals that have the particular experience, competencies, skills and training required to perform their duties on behalf of the proxy advisory firm in the ordinary course of business.

(4) Without compromising the proprietary or commercially sensitive nature of information, we expect proxy advisory firms to post on their website their proxy voting guidelines and any updates to them. We encourage proxy advisory firms to explain the rationale for their proxy voting guidelines and to provide any other relevant information which could contribute to understanding the reasons behind the proxy voting guidelines and any updates to them.

(5) Where possible and without compromising the proprietary or commercially sensitive nature of information, we expect proxy advisory firms to post or describe on their website their policies and procedures and consultations leading to the development of proxy voting guidelines, including any related amendments.

2.4 Communications with clients, market participants, the media and the public

- (1) It is good practice for proxy advisory firms to properly manage their communications with clients, market participants, the media and the public to foster understanding of the activities of proxy advisory firms.
- (2) When issuing its vote recommendations, we expect proxy advisory firms to also communicate all of the following information to their clients in their reports:
 - (a) any actual or potential conflicts of interest arising from the vote recommendations;
 - (b) the approach or methodologies used, the factors considered and the weight of these factors in determining the vote recommendations;
 - (c) the identification of the information that is factual and the information that comes from analytical models and assumptions, and their reasons for the vote recommendations;
 - (d) a description of the extent to which proxy voting guidelines are used or applied when preparing vote recommendations and the reasons for any deviation from the proxy voting guidelines;
 - (e) where applicable, the nature and outcome of any dialogue or contact with an issuer in the preparation of the vote recommendations;
 - (f) any known or potential limitations or conditions in the research and analysis used to prepare the vote recommendations;
 - (g) a statement that the vote recommendations and the underlying research and analysis are intended solely as guidance to assist the clients in their decision making process.
- (3) We expect proxy advisory firms to post or describe on their website their policies and procedures regarding dialogue or contact with issuers when they prepare vote recommendations, including whether they provide drafts of reports to the issuers for review and comment before sending the final reports to their clients.
- (4) We expect proxy advisory firms to correct any factual error or inaccuracy found in a report and to duly inform their clients in a timely manner. We also encourage proxy

advisory firms to duly inform their clients of any report updates or revisions to reflect new publicly available information about an issuer in a timely manner.

(5) We encourage proxy advisory firms to establish, maintain and apply written policies and procedures governing their communications with clients, market participants, the media and the public, including in relation to the preparation or release of any vote recommendation.

(6) We encourage proxy advisory firms to establish a contact person to manage communications with clients, market participants, the media and the public, including any questions, concerns or complaints that the proxy advisory firm may receive.

(7) Where possible and without compromising the proprietary or commercially sensitive nature of information, we expect proxy advisory firms to post or describe on their website their policies and procedures governing their communications, including any related amendments.