

CSA Notice of publication National Policy 25-201 *Guidance for Proxy Advisory Firms*

April 30, 2015

Introduction

The Canadian Securities Administrators (**CSA** or **we**) are adopting National Policy 25-201 *Guidance for Proxy Advisory Firms* (the **Policy**).

The text of the Policy is published with this notice and will also be available on websites of CSA jurisdictions, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
www.gov.ns.ca/nssc
www.fcnb.ca
www.osc.gov.on.ca
www.fcaa.sk.ca
www.msc.gov.mb.ca

Substance and Purpose

The Policy provides guidance on recommended practices and disclosure for proxy advisory firms. The guidance contained in the Policy is intended to: (i) promote transparency in the processes leading to vote recommendations and the development of proxy voting guidelines; and (ii) foster understanding among market participants about the activities of proxy advisory firms.

The Policy addresses the following areas:

- identification, management and mitigation of actual or potential conflicts of interest;
- transparency and accuracy of vote recommendations;
- development of proxy voting guidelines;
- communications with clients, market participants, other stakeholders, the media and the public.

We suggest certain steps that proxy advisory firms may consider taking in relation to the services they provide to their clients and their activities. We also expect proxy advisory firms to publicly disclose their practices to promote transparency and understanding among market participants.

Although the Policy applies to all proxy advisory firms, the guidance contained in the Policy is not intended to be prescriptive. Instead, we encourage proxy advisory firms to consider this guidance in developing their own practices and disclosure.

Background

On June 21, 2012, the CSA published for comment Consultation Paper 25-401 *Potential Regulation of Proxy Advisory Firms* (the **Consultation Paper**).

The purpose of the consultation was to provide a forum for discussion of certain concerns raised about the services provided by proxy advisory firms and the potential impact on Canadian capital markets. The consultation process also allowed the CSA to determine if, and how, it should address these concerns.

The Consultation Paper, along with other international initiatives,¹ brought a renewed focus on the activities of proxy advisory firms. In light of the comments received during the consultation and the recommendations arising from the international initiatives, the CSA concluded that guidance was an appropriate response under the circumstances.

On April 24, 2014, the CSA published for a 60-day comment period proposed National Policy 25-201 *Guidance for Proxy Advisory Firms*. We extended the comment period from June 23, 2014 to July 23, 2014, to give additional time to market participants to properly review the Policy and prepare comments.

Summary of Written Comments Received by the CSA

During the last comment period, we received 58 comment letters from various market participants. We have reviewed the comments received and wish to thank all of the commenters for contributing to the consultation. The names of commenters are contained

¹ The initiatives reviewed by the CSA included the following:

- the French Autorité des marchés financiers issued *AMF Recommendation 2011-06 of 18 March, 2011 on Proxy voting advisory firms*;
- the Best Practice Principles Group published in March 2014 a set of *Best Practice Principles for Providers of Shareholder Voting Research & Analysis*;
- the U.S. Securities and Exchange Commission published on June 30, 2014 *Staff Legal Bulletin No. 20 (IM/CF) Proxy Voting: Proxy Voting Responsibilities of Investment Advisers and Availability of Exemptions from the Proxy Rules for Proxy Advisory Firms*.

in Annex A of this notice and a summary of their comments, together with our responses, are contained in Annex B of this notice.

Summary of Changes since Publication for Comment

After considering the comments received, we have made some changes to the Policy that was published for comment. As these changes are not material, we are not republishing the Policy for a further comment period.

The following is a summary of the key changes that were made to the Policy.

Conflicts of interest

Subsection 2.1(4) of the Policy was revised to provide that the board of directors of a proxy advisory firm or, if the proxy advisory firm does not have a board of directors, the executive management team or a designated committee of the proxy advisory firm, is generally expected to be responsible for overseeing the development of policies and procedures and code of conduct, the implementation of internal safeguards and controls and the effectiveness of those measures instituted to address actual or potential conflicts of interest. The revised responsibilities better reflect good corporate governance practices.

Subsection 2.1(6) was clarified to recommend that proxy advisory firms provide sufficient information to enable their clients to make an assessment about the independence and objectivity of the proxy advisory firms and the services, including any steps taken to address actual or potential conflicts of interest. This clarification is consistent with the recommendations arising from certain international initiatives.

Transparency and accuracy of vote recommendations

Subsection 2.2(5) was revised to recommend that proxy advisory firms generally describe on their websites the practices adopted with respect to the hiring, training and retaining of individuals to ensure that they have the appropriate experience, competencies, skills and knowledge to prepare vote recommendations. This information should assist market participants with evaluating the quality of the research and analysis that underlie vote recommendations.

Development of proxy voting guidelines

Paragraph 2.3(2)(c) was revised to recommend that proxy advisory firms take into account relevant characteristics of the issuers when developing proxy voting guidelines. For example, these characteristics may include the size, industry and governance structure of an issuer. This guidance is consistent with the approach used by proxy advisory firms when developing general corporate governance principles and tailoring the principles to consider the particular circumstances of the issuers, as appropriate.

Subsection 2.3(5) was revised to recommend that proxy advisory firms generally describe on their websites the practices adopted with respect to the hiring, training and retaining of individuals to ensure that they have the appropriate experience, competencies, skills and knowledge to develop proxy voting guidelines. This information should assist market participants with evaluating the quality of the research and analysis that underlie proxy voting guidelines.

Communications with clients, market participants, other stakeholders, the media and the public

Paragraph 2.4(2)(a) was removed to avoid repetition in the guidance. We recognize that subsection 2.1(6) would expect proxy advisory firms to disclose actual or potential conflicts of interest to their clients by appropriate means.

Paragraphs 2.4(2)(b) and (c) were revised to recommend that proxy advisory firms communicate to their clients in their reports how the relevant approaches or methodologies were applied and the sources of information used in preparing vote recommendations. This guidance recognizes that proxy advisory firms are communicating information in accordance with their clients' expectations.

Remarks on the Policy

We recognize that proxy advisory firms have demonstrated a willingness to respond to the concerns raised by market participants and have brought changes to some of their practices. We support initiatives taken by proxy advisory firms aimed at improving their practices, including initiatives that facilitate dialogue or contact with issuers to reduce the risk of factual errors or inaccuracies in vote recommendations.

We intend to continue monitoring market developments in the proxy advisory industry and other international initiatives to evaluate if the Policy addresses the Canadian marketplace's concerns.

Contents of Annexes

The following annexes form part of this notice:

- (a) Annex A, Names of Commenters;
- (b) Annex B, Summary of Comments and CSA Responses.

Questions

Please refer your questions to any of the following:

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