

CSA Staff Notice 54-303
Appendix A
Meeting Vote Reconciliation

1. What is Vote Reconciliation?

Vote reconciliation is the process by which proxy votes from registered holders and voting instructions from beneficial owners of shares are reconciled against the securities entitlements in the intermediated holding system. Vote reconciliation is implemented through the **proxy voting infrastructure** – the network of organizations, systems, legal rules and market practices that support the solicitation, collection, submission and tabulation of proxy votes for a shareholder meeting.

There are two distinct aspects of vote reconciliation.

The first aspect is where intermediaries reconcile and allocate voting entitlements to individual client accounts. We refer to this as **client account vote reconciliation**. Client account vote reconciliation involves the internal back-office systems of intermediaries and how they track and allocate vote entitlements for individual client accounts.

The second is where meeting tabulators reconcile proxy votes to intermediary vote entitlements, which we refer to as **meeting vote reconciliation**. Meeting vote reconciliation involves the systems and process that link depositories, intermediaries and meeting tabulators with one another in order for the following three things to occur:

1. Depositories and intermediaries provide vote entitlement information to meeting tabulators through omnibus proxies,
2. Meeting tabulators calculate Official Vote Entitlements for intermediaries, and
3. Meeting tabulators reconcile intermediary proxy votes to the Official Vote Entitlements.

2. The Three Phases of Meeting Vote Reconciliation

1. Depositories and intermediaries provide vote entitlement information to meeting tabulators through omnibus proxies

The first phase of meeting vote reconciliation is typically triggered several days after the record date for a meeting.

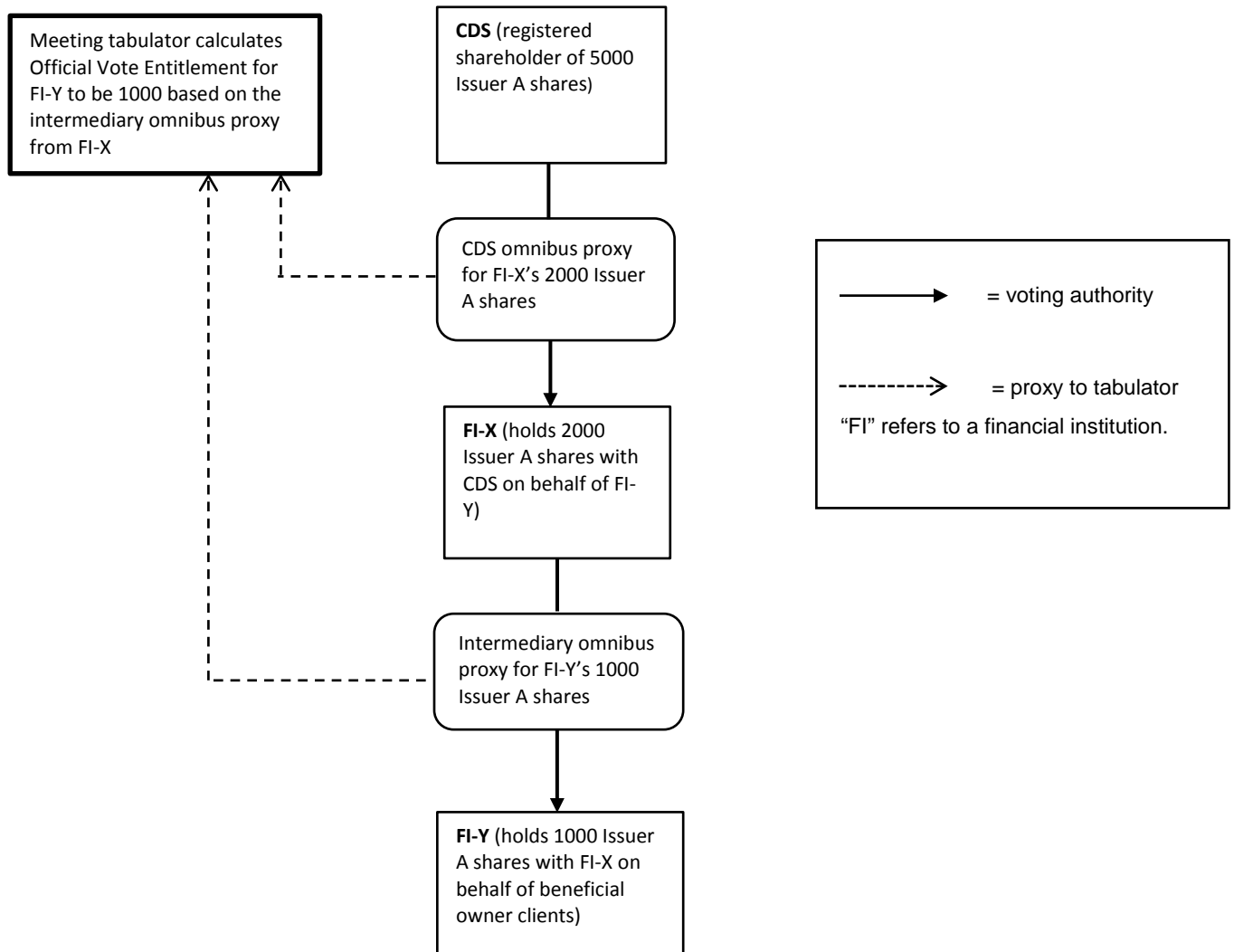
In functional or operational terms, each depository and intermediary at each tier of the intermediated holding system notifies the meeting tabulator of the vote entitlements that their intermediary clients are entitled to. This notification occurs through depositories and intermediaries sending **omnibus proxies** to meeting tabulators.

In legal terms, the depository or intermediary who is the registered holder or who itself holds a proxy executes the omnibus proxy to give its clients authority to vote the number of shares in the client’s account as at the record date and sends the executed omnibus proxy to the meeting tabulator.

The two main types of omnibus proxies used in Canada are:

- **depository omnibus proxies** that depositories use to allocate vote entitlements/give voting authority to client intermediaries that are depository participants, and
- **intermediary omnibus proxies** that custodians and investment dealers use to allocate vote entitlements/give voting authority to client intermediaries.

Figure 1: Allocation of vote entitlements through omnibus proxies



This chain of cascading omnibus proxies is intended to allow the intermediary that is closest to the beneficial owner to submit proxy votes directly to the meeting tabulator on behalf of beneficial owner clients. This intermediary will submit proxy votes to the meeting tabulator for all its beneficial owner clients that have submitted voting instructions on an aggregate basis, i.e. the meeting tabulator generally has no insight into:

- the identities of an intermediary's beneficial owner clients,
- how many vote entitlements a specific beneficial owner client has in its account with the intermediary, or
- how a particular beneficial owner client voted.

The exception is where a reporting issuer conducts a NOBO solicitation directly. If a reporting issuer conducts a direct NOBO solicitation, the intermediary will also allocate vote entitlements to management of a reporting issuer through a **NOBO omnibus proxy**. In legal terms, the intermediary executes an omnibus proxy that gives management authority to vote the number of shares that are in the intermediary's NOBO client accounts upon receipt of voting instructions. In that case, the meeting tabulator will know:

- the identities of an intermediary's NOBO clients,
- how many vote entitlements the NOBO client has in its account with the intermediary, and
- how the NOBO client voted.

In practice, most intermediaries provide data to Broadridge about their intermediary clients that Broadridge will use to generate and send intermediary omnibus proxies¹ to the meeting tabulator. Broadridge will also receive voting instructions from beneficial owners² on behalf of its intermediary clients and submit proxy votes to the meeting tabulator.

2. Meeting tabulators calculate Official Vote Entitlements for intermediaries

The second phase of meeting vote reconciliation involves the meeting tabulator establishing the vote entitlement for an intermediary. As noted above, depositories and intermediaries will send to meeting tabulators depository omnibus proxies and intermediary omnibus proxies that allocate vote entitlements to their intermediary clients. The meeting tabulator will use the vote entitlement information in these documents³ to establish the Official Vote Entitlement for each intermediary.

Where the issuer chooses to do a NOBO solicitation, intermediaries (through Broadridge) will also send the meeting tabulator a NOBO omnibus proxy that the tabulator will use to establish the Official Vote Entitlement for NOBOs.

The Official Vote Entitlement for an Intermediary is therefore:

[Vote entitlements allocated to the intermediary in the depository omnibus proxies received by the tabulator]

plus

¹ And if applicable, NOBO omnibus proxies.

² If an issuer conducts a direct NOBO solicitation, Broadridge will only receive voting instructions from OBOs on behalf of its intermediary clients to submit proxy votes to the meeting tabulator. NOBOs will be submitting voting instructions directly to management of the issuer.

³ The meeting tabulator will also refer to the list of registered holders to determine the Official Vote Entitlements. However, the vast majority of the shares are held in the intermediated holding system.

[Vote entitlements allocated to the intermediary in any intermediary omnibus proxy received by the tabulator]

minus

[Vote entitlements the intermediary allocates to another intermediary through an intermediary omnibus proxy received by the tabulator]

minus

[If the issuer is conducting a direct NOBO solicitation, vote entitlements the intermediary allocates to issuer management in respect of the intermediary's NOBO accounts through a NOBO omnibus proxy received by the tabulator].

There is no process in place for intermediaries to see and verify their Official Vote Entitlement for a meeting. Instead, Broadridge offers an Over-Reporting Prevention Service that generates a Broadridge-Calculated Vote Entitlement. This number is intended to be an indicator of the Official Vote Entitlement. It is calculated using information Broadridge obtains from depository data feeds and data in its system provided by intermediaries and that is used to generate intermediary omnibus proxies.⁴

The Broadridge-Calculated Vote Entitlement for an intermediary is therefore:

[Vote entitlements allocated to the intermediary in the depository data feeds received by Broadridge]

plus

[Vote entitlements allocated to the intermediary based on information that intermediaries have provided to Broadridge's system that is used to generate intermediary omnibus proxies]

minus

[Vote entitlements the intermediary allocates to another intermediary by providing information to Broadridge's system that is used to generate intermediary omnibus proxies]

minus

[If the issuer is conducting a direct NOBO solicitation, vote entitlements the intermediary allocates to issuer management by providing NOBO account information to Broadridge's system]

Over-reporting occurs if the vote entitlement an intermediary calculates for itself is greater than the Official Vote Entitlement, i.e. Intermediary-calculated vote entitlement > Official Vote Entitlement.

⁴ And if applicable, NOBO omnibus proxies.

3. Meeting tabulators reconcile intermediary proxy votes to the Official Vote Entitlements

The third phase of meeting vote reconciliation occurs when meeting tabulators review proxy votes submitted by each intermediary and reconciles the intermediary’s proxy votes to the intermediary’s Official Vote Entitlement.

Over-voting occurs if the number of proxy votes an intermediary submits is greater than the Official Vote Entitlement, i.e. Intermediary proxy votes > Official Vote Entitlement.

There is no process in place for intermediaries to find out:

- whether a meeting tabulator has identified an over-vote for an intermediary, or
- whether a meeting tabulator has accepted, rejected or pro-rated an intermediary’s proxy votes.

Instead, if an intermediary subscribes to Broadridge’s Over-Reporting Prevention Service, the Over-Reporting Prevention Service will pend voting instructions if the number of proxy votes submitted by the subscribing intermediary through the Broadridge system exceeds the Broadridge-Calculated Vote Entitlement and require that the intermediary make adjustments to avoid exceeding the Broadridge-Calculated Vote Entitlement.

3. The Key Players and Their Roles in Meeting Vote Reconciliation

The following chart summarizes the key players and their role in vote reconciliation.

Key Players in Vote Reconciliation

<u>Key Players</u>	<u>Role in Meeting Vote Reconciliation</u>
Depositories (CDS and DTC)	<ul style="list-style-type: none"> • allocate vote entitlements to intermediary participants through depository omnibus proxies • send the depository omnibus proxies to the meeting tabulator or issuer • provide data feeds to Broadridge that are used to calculate the Broadridge-Calculated Vote Entitlement
Intermediaries	<ul style="list-style-type: none"> • provide client intermediary information to Broadridge to generate intermediary omnibus proxies that allocate vote entitlements to their client intermediaries (e.g. clearing broker allocates vote entitlements to correspondent broker) • if applicable, provide NOBO data to Broadridge to generate the NOBO list and the NOBO omnibus proxy <p>Note: A widely-held reporting issuer would typically have several hundred intermediaries submitting proxy votes.</p>
Broadridge (for clients who have retained its services)	<ul style="list-style-type: none"> • assists intermediaries in various aspects of proxy voting including solicitation of voting instructions from beneficial owners and submitting proxy votes for intermediaries to tabulators • offers Over-Reporting Prevention Service that: <ul style="list-style-type: none"> ○ generates the Broadridge-Calculated Vote Entitlement for each subscribing intermediary to assist them with managing the risk of over-reporting ○ pends subscribing intermediary voting instructions that exceed the Broadridge-Calculated Vote Entitlement to assist them with managing the risk of over-voting

<u>Key Players</u>	<u>Role in Meeting Vote Reconciliation</u>
	<ul style="list-style-type: none"> • generates and sends to the meeting tabulator intermediary omnibus proxies based on information provided by intermediaries • if applicable, generates and sends to the meeting tabulator the NOBO omnibus proxy and NOBO list based on information provided by intermediaries
Meeting tabulator	<ul style="list-style-type: none"> • establishes the Official Vote Entitlement for an intermediary using the depository omnibus proxies and intermediary omnibus proxies (and if applicable, the NOBO omnibus proxy) it has received • tabulates proxy votes received from each intermediary and accepts, rejects or pro-rates votes depending on whether the number of votes is supported by or exceeds the Official Vote Entitlement for that intermediary