

## Corporate Securities Law

April 25, 2014

### Canadian Securities Administrators Publish Proposed National Policy to Regulate Proxy Advisory Firms

The Canadian Securities Administrators (CSA) published for comment a policy governing the activities of proxy advisory firms which provide voting advisory and corporate governance consulting services to institutional investors. National Policy 25-201 *Guidance for Proxy Advisory Firms* is primarily oriented to address concerns expressed relating to (i) potential conflicts of interest, and (ii) the transparency and accuracy of voting recommendations and proxy voting guidelines developed by proxy advisory firms. The comment period on the proposed policy ends June 23, 2014.

The proposed policy is consistent with the themes outlined in, and is responsive to feedback received from market participants in response to, the CSA's June, 2012 Consultation Paper 25-401 *Potential Regulation of Proxy Advisory Firms*.<sup>1</sup>

The CSA has proposed a policy-based approach, consisting of guidance for proxy advisory firms on recommended practices. This is consistent with other initiatives in the U.S. and Europe. The guidance contained in the proposed policy can be summarized as follows:

- *Conflicts of Interest.* Proxy advisory firms would be expected to identify, manage and mitigate actual or potential conflicts of interest by establishing policies and procedures, internal safeguards and a code of conduct.

- *Transparency and Accuracy of Vote Recommendations.* To enhance disclosure of the processes leading to voting recommendations, proxy advisory firms would be expected to implement appropriate practices to promote transparency and accuracy of voting recommendations by disclosing, where appropriate, policies and procedures and describing the methodologies used to develop voting recommendations.
- *Development of Proxy Voting Guidelines.* Proxy advisory firms would be encouraged to engage with their clients, market participants and the public by disclosing, where appropriate, the policies and procedures describing the process followed in developing proxy voting guidelines.
- *Communications with Clients, Market Participants, the Media and the Public.* Proxy advisory firms would be expected to publicly disclose their approach to any dialogue or contact with issuers and to disclose, where appropriate, their policies and procedures governing their communications with clients, market participants, the media and the public.
- *Corporate Governance Practices.* In response to concerns that proxy advisory firms are significantly influential in compelling issuers to adopt particular corporate governance standards, proxy advisory firms would be encouraged to consult with issuers.

The CSA state that the proposed policy would promote transparency in the development of proxy voting guidelines and in the activities of proxy advisory firms.

Please contact any member of our Corporate Securities Group to discuss the implications of these proposed changes.

---

<sup>1</sup> Refer to our September 20, 2013 Client Update, "Canadian Securities Administrators to Regulate Proxy Advisory Firms" for a discussion of the Consultation Paper.