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VIA E-MAIL

June 13, 2014

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
The Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut
Superintendent of Securities, Yukon

Me. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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C.P. 246, Tour de la Bourse
Montréal, Quebec
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e-mail: consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario
M5H 3S8
e-mail: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

**Re: CSA Notice and Request for Comment – Proposed National Policy 25-201
Guidance for Proxy Advisory Firms (the “Proposed Policy”)**

Magna International Inc. (“Magna”) appreciates the opportunity to offer input on the subject of proxy advisory firms and is submitting this letter in response to the CSA’s Notice and Request for Comment related to the Proposed Policy.

Background of Magna

Magna is a leading global automotive supplier with 315 manufacturing operations and 82 product development, engineering and sales centres in 29 countries. We have over 128,000 employees focused on delivering superior value to our customers through innovative products and processes,

and World Class Manufacturing. Our product capabilities include producing body, chassis, interior, exterior, seating, powertrain, electronic, vision, closure and roof systems and modules, as well as complete vehicle engineering and contract manufacturing. Our Common Shares trade on the Toronto Stock Exchange (MG) and the New York Stock Exchange (MGA).

Summary of Magna's Submission

We commend the CSA for its initiative in addressing an issue which is of increasing importance in the public markets. However, we believe that the policy-based approach which underlies the Proposed Policy represents the mildest form of regulation possible in the circumstances and we have some concern that adoption of the Proposed Policy in its current form will not result in any incremental improvement with respect to those proxy advisor practices which are of greatest concern to issuers. Such an outcome would, in our view, represent a significant lost opportunity. To the extent that the CSA intends to retain the current approach, we believe that the Proposed Policy can be enhanced by supplementing its policy-based approach with a more prescriptive approach in a few specific areas discussed below.

Detailed Submission

General - CSA's Policy-Based Approach

As indicated above, we view the CSA's policy-based approach as being the mildest form of regulatory intervention on the issue of proxy advisory firms. This appears to be born out of the CSA's desire not to intervene in the workings of a commercial relationship between proxy advisors and their institutional investor clients – a relationship which both have told the CSA is not broken. However, unlike most commercial relationships, the impact of the proxy advisor/institutional investor relationship is felt most acutely by third parties – issuers and their directors – and there are matters of concern to issuers that are not likely to be sufficiently addressed absent a stronger form of regulatory intervention. Accordingly, we submit that the proposed policy-based approach needs to be supplemented with a more prescriptive approach targeted to address the following specific issues:

- **Accuracy of Voting Reports** – it is insufficient for proxy advisors to merely aim for factually accurate voting recommendations - they must ensure their clients of it. While we recognize that this can be difficult, both because of the high volume of proxies that need to be reviewed in a relatively condensed time frame and the informational asymmetry between issuers and proxy advisors (i.e. issuers necessarily have more direct knowledge of their governance, directors, disclosure, etc.), there are simple and effective ways to promote accuracy. We submit that the best way to do so is to afford issuers the advance opportunity to verify the facts on which the voting report is based. Alternatively, if a proxy advisor decides against issuer verification, we submit that it should assume full responsibility for the factual accuracy of the report through some form of certification similar to that provided by stock analysts in their research reports. Accordingly, we encourage the CSA to supplement the approach reflected in the Proposed Policy with a requirement that proxy advisors either: (i) provide a reasonable advance opportunity for issuers to verify the facts underlying the voting report; or (ii) certify the factual accuracy of the report.
- **Transparency of Voting Recommendations** – there is nothing in the Proposed Policy which would require proxy advisors to provide a copy of their final report to issuers. While this likely reflects the fact that the report represents the proprietary analysis prepared by a proxy advisor for its client, issuers and their directors are the ones that must deal with the most significant adverse consequences arising from such reports. Issuers are frequently told that they should focus on direct engagement with their institutional shareholders to present their views/analysis, including on items which may have been identified by a proxy advisor in its voting recommendation report. However, in order to do so most effectively, issuers should receive a copy of the final voting recommendation report relating to it,

promptly after issuance by the proxy advisor and at no cost to the issuer. Accordingly, we encourage the CSA to supplement the Proposed Policy with such a requirement.

Responses to Specific Questions

1. Subject to our comments above, we generally agree with the recommended practices in the Proposed Policy. We also offer the following specific comments:
 - **Conflicts of Interest** – While Subsection 2.1(6) of the Proposed Policy articulates the CSA’s expectation that proxy advisory firms disclose actual or potential conflicts of interest to their clients in a timely manner, there are different types of conflicts which may require different forms of disclosure and/or disclosure to others outside the proxy advisor-client relationship. While we agree that conflicts of interest which are issuer-specific should be disclosed in the voting recommendation report relating to an issuer (as proposed in Subsection 2.4(2) of the Proposed Policy), we submit that conflicts which are more general in nature should be publicly disclosed on the website of the proxy advisor, together with a discussion of the ways in which the proxy advisor seeks to mitigate the conflict. For example, where the conflict arises from the ownership of the proxy advisor by an institutional investor, we believe that the proxy advisor’s website disclosure should identify by name and position any directors, officers or employees of the institutional shareholder parent company who also serve in any capacity with the proxy advisor subsidiary, together with the ways in which conflicts arising from such service are managed. Accordingly, we encourage the CSA to revise Section 2.1 of the Proposed Policy to reflect the distinction between issuer-specific and general conflicts of interest and articulate expectations regarding publicly accessible disclosure of general conflicts of interest, as well as the ways in which such conflicts are mitigated.
 - **Transparency and Accuracy of Vote Recommendations** – We believe that the principles underlying Subsection 2.2(4) are fundamental to ensuring that institutional investors receive a high quality voting recommendation. For this reason, we submit that the language in Subsection 2.2(4) which merely “encourages” proxy advisors is insufficient and instead strongly recommend that the CSA articulate an “expectation” that proxy advisors “have the resources, knowledge and expertise required to prepare rigorous and credible vote recommendations”. We further recommend that the CSA consider articulating expectations around disclosure by proxy advisors (in each voting recommendation report) of: the expertise and qualifications of the proxy analyst responsible for such report; as well as the extent to which any research or other work on that report was outsourced by the proxy advisor to third parties, including disclosure of the steps taken to ensure that such outsourced work meets the standards and expectations in the Proposed Policy.
 - **Development of Proxy Voting Guidelines** – Consistent with the foregoing comments, we recommend that the CSA consider revising Subsection 2.3(3) such that it reflects an “expectation” that proxy advisors “ensure that they have the resources, knowledge and expertise required to develop and update appropriate proxy voting guidelines.” We further believe that Subsection 2.3(4) should be revised to reflect an “expectation” that proxy advisors explain the rationale for their proxy voting guidelines. In our view, any explanation of the rationale underlying any voting guideline should include a demonstrable link between the guideline and “good governance”. Where a guideline represents an arbitrary determination by the proxy advisor (for example, in the case of age limits, term limits, maximum number of boards, etc.), this should be clearly stated in the guideline.
2. While the Proposed Policy generally addresses the material issues with respect to the day-to-day workings of proxy advisors, we submit that two fundamental issues have not been addressed – proxy advisor accountability and institutional shareholder responsibilities in the proxy voting context. The latter of these is dealt with in our response to question 6.

Since the relationship between proxy advisors and their clients is a commercial relationship, proxy advisors would ordinarily be expected to be held accountable by their clients. However, it is not apparent that this is being done – proxy advisory firms' clients appear to be satisfied with proxy advisors generally and (unlike issuers and their directors) do not appear to be experiencing adverse consequences from the services provided. Given the concerns expressed by a number of commentators to the effect that proxy advisors' guidelines have effectively superceded securities regulators' governance initiatives, we submit that there should be some accountability over both the process for arriving at their guidelines and the guidelines themselves. In our view, the Proposed Policy will likely not enhance such accountability as there are no defined mechanisms to monitor and address instances where proxy advisors fall short of the expectations articulated in the Proposed Policy, nor are there any consequences to proxy advisors when they do fall short.

3. We do not expect that the Proposed Policy will provide meaningful incremental disclosure or information to proxy advisory firms' clients, market participants (including issuers) or the public. There is a strong possibility that proxy advisors currently operating in the Canadian market will take the view that they already meet or exceed the expectations articulated in and/or underlying the Proposed Policy. Our view in this regard reflects the comments from proxy advisors and their clients to the CSA's Consultation Paper 25-401 *Potential Regulation of Proxy Advisory Firms* and is acknowledged in the Notice and Request for Comment accompanying the Proposed Policy which states, "[p]roxy advisory firms indicated that they have appropriate policies and procedures in place to address the concerns identified in the Consultation Paper."
4. We have no comments in response to this question.
5. Engagement between proxy advisors and issuers can only help ensure that institutional investors receive voting recommendations which are based on the best available information. However, we recognize that it would likely not be feasible for proxy advisors to engage with each and every issuer during the period between the preparation of voting recommendations and issuance of their report. In order to promote the goals sought to be achieved by engagement, we recommend that the CSA articulate an expectation that proxy advisors provide issuers with a draft voting recommendation report for review purposes. This would allow issuers an opportunity to identify, and enable proxy advisors to correct, factual errors in a voting recommendation report prior to the dissemination of the report. Additionally, matters that go beyond factual inaccuracies can at least be identified by issuers and raised in writing with proxy advisors in advance of the issuance of the report. We further recommend that the CSA articulate an expectation that proxy advisors engage with issuers in situations where any non-factual issues raised by the issuer could reasonably be material to the proxy advisor client's voting decision.

Separate from the CSA's specific question regarding engagement between proxy advisor and issuer, we recommend that the CSA consider encouraging proxy advisors to provide each issuer with a list of the institutions (including specific contacts at such institutions) to which the proxy advisor has issued its report. This would facilitate direct engagement between issuers and their institutional shareholders on any proxy voting report deficiencies which were not addressed by proxy advisors. While there currently is nothing preventing direct engagement between issuers and institutional shareholders, there is no direct way for issuers to determine which of their shareholders receive voting recommendation reports from each proxy advisor.

6. We are not convinced that the type of confirmation identified in the Notice and Request for Comment would make a material difference in situations where proxy advisor clients rely on the proxy advisor for automatic voting services. However, we submit that question 6 generally touches on a much more fundamental issue which is beyond the scope of the Proposed Policy – the responsibilities owed by institutional shareholders to their beneficiaries/clients, including the extent to which such institutions' share voting practices support or detract from realization of the best interests of such beneficiaries/clients.

There is a wide range of practice among institutions with respect to how they manage voting of their shares in investee companies, although we speculate that there (generally) is a correlation between size/resources of the institution and its location along this spectrum. We have met with representatives from a number of institutional shareholders that have dedicated significant resources to the proxy voting function and seek or encourage engagement with issuers. However, we have also observed a number of institutional shareholders which appear to have outsourced decision-making regarding proxy voting and appear to have little or no time or interest for engagement with issuers. (Needless to say, there are many institutions at various points in between these two extremes.)

Proxy advisors are ultimately no more than advisors, information agents and/or service providers to institutional shareholders, with the responsibility for voting decision-making resting with the institutions. To the extent that institutions have outsourced decision-making in respect of one of the fundamental rights represented by ownership of a company's shares, particularly where they have no easily identifiable mechanism by which issuers can facilitate engagement, we question whether such institutions have established appropriate structures to enable them to fulfil their fiduciary responsibilities to their beneficiaries/clients. While this issue may best be addressed outside of the securities regulatory context (e.g. an industry-led code of best/recommended practices), our point in raising it is to highlight our view that some of the issues underlying the Proposed Policy go well beyond proxy advisors.

* * *

We respectfully submit the comments in this letter for your consideration and would welcome an opportunity to discuss them with you should you wish to do so.

Regards,

A handwritten signature in black ink, appearing to read "B. Shakeel". The signature is fluid and cursive, with a period at the end.

Bassem A. Shakeel
Vice-President and Corporate Secretary