



August 16, 2012

BY EMAIL

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
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RE: Consultation Paper 25-401: *Potential Regulation of Proxy Advisory Firms*

Thank you for the opportunity to provide comments to the Canadian Securities Administrators ("CSA") in response to Consultation Paper 25-401: *Potential Regulation of Proxy Advisory Firms* released on June 21, 2012 (the "Consultation Paper").

The CPP Investment Board ("CPPIB") is a professional investment management organization based in Toronto. Our purpose is to invest the assets of the Canada Pension Plan in a way that maximizes returns without undue risk of loss. CPPIB holds shares in 2,600 companies globally, of which roughly 700 are Canadian Companies. At its fiscal year end on March 31, 2012, the CPPIB's holdings amounted to more than \$160 billion, with more than \$81 billion in public equities, including \$14 billion in Canadian public equities.

We provide the following comments where we believe our perspective as an institutional investor may be helpful. Unless otherwise stated, our comments reflect our experiences with Institutional Shareholder Services Inc. ("ISS"), who we have retained as our primary proxy advisory firm. For ease of review, we have organized our comments by reference to the headings set out in the Consultation Paper.

General

We disagree with the suggestion that the concerns identified in the Consultation Paper have an adverse impact on the integrity of the markets warranting regulatory intervention. On the contrary, we believe that proxy advisory firms benefit the market by providing clients with an

efficient and cost effective way to obtain proxy voting research, analysis and vote processing services, thereby assisting institutional investors fulfill their active ownership responsibilities.

We are satisfied that ISS is managing potential conflicts from providing voting recommendations to investors and consulting services to issuers on the very same matter appropriately based on our review of their policies and procedures. To date, we are unaware of any evidence suggesting that vote recommendations have been tainted as a result of providing consulting services to issuers. In fact, we have had discussions with numerous issuers to discuss negative vote recommendations from ISS who have indicated that they were clients of ISS consulting services. We disagree that proxy advisory firms should be required to disclose specific conflicts in their reports to client as this may compromise the Chinese walls that currently separate the consulting and proxy research business lines.

In our experience, proxy advisory firms are generally very responsive to addressing concerns relating to the accuracy of their research and willing to amend research reports upon being notified of errors by clients or issuers. We believe that in most instances, the “inaccuracies” perceived by issuers in research reports reflect differences in opinion or analysis rather than factual errors.

Finally, we disagree with the notion that proxy advisory firms act as “standard-setters” with respect to corporate governance standards. The voting policies applied by proxy advisory firms are the result of a extensive consultation process involving investors, corporate issuers and other industry constituents. In our view, the resulting voting policies from this process accurately reflect the evolving views and preferences of market participants, particularly those of institutional investors, who have a legitimate role in shaping the governance standards of the companies in which they invest. It is important to note that CPPIB, as well as many other clients, have customized voting policies to reflect our views on corporate governance and that that we retain the ultimate voting decision for each resolution at company meetings.

Additional Questions for Institutional Investors

Question #18: To what extent and in what ways do you rely on the services provided by proxy advisory firms? Please be as specific as possible.

ISS provides CPPIB with proxy research, customized vote recommendations based on our internal voting guidelines, vote processing and vote disclosure services. In addition, we also use Glass Lewis as an alternate source of proxy research and recommendations for certain meetings to better inform our proxy voting decisions.

Question #19. How do you view your duty to vote and how do the vote recommendations of proxy advisory firms play a part in your decision-making process?

CPPIB believes that proxy voting is an fundamental component of the corporate governance process and we take our responsibility to exercise our votes very seriously. We use our best efforts to exercise our voting rights in all cases.

Consistent with the importance we place on proxy voting, we do not abdicate our voting decisions to proxy advisors. The research and customized recommendations provided by ISS are a starting point in our decision-making process. In considering how to vote on proposals, we may also conduct independent research and consult with our investment teams. CPPIB reviews every

recommendation provided by our proxy advisors, and if we disagree with the recommendation, our vote is changed.

Question #20. *Do institutional investors have the ability to require changes to proxy advisory firms' practices without the need for regulatory intervention?*

As is the case with the vast majority of professional services organizations, we believe that proxy advisory firms are typically responsive to the wishes of their clients. In our experience, the input we provide to our proxy advisor through policy consultations and informal channels have a meaningful impact on the practices employed by ISS. In the event that we disagree with ISS' practices used for arriving at general vote recommendations, CPPIB's preferences are reflected in our customized voting recommendations.

Question #22. *Given the above-noted concerns regarding the overall quality and lack of transparency underlying the vote recommendations of proxy advisory firms, what measures do you take and, overall, how do you gain assurance that such recommendations are reliable for your voting purposes?*

Given the importance we place on proxy voting as part of our engagement program, we engage in a number of activities to ensure that the customized vote recommendations provided by ISS are reliable for our voting purposes. We review every vote recommendation and will change votes if our voting policies have been misapplied by our proxy advisory firm. To constantly improve the quality of the vote recommendations, we provide continuous feedback to the analyst at ISS responsible for applying our custom vote policy and provide our views on emerging governance topics prior to the start of each proxy voting season.

Question #23. *Do you view the policy development process and resulting proxy voting guidelines of proxy advisory firms as appropriate and reflective of your governance preferences and views? Would input from issuers further benefit or potentially hinder such process?*

In our view, the policy development process undertaken by ISS results in proxy voting guidelines that are generally reflective of our views and preferences. It is important to note that while we are in agreement with many of the guidelines established by ISS as a result of our input into policy consultations, we may disagree on certain issues. In these instances, our votes are made in accordance with our internally developed voting guidelines.

It is our understanding that ISS' policy development process involves input from a variety of market constituents, including corporate issuers. We believe that the current process incorporates the appropriate level of input from issuers at this time.

Thank you again for this opportunity to comment on the Consultation. Should you have any questions, please contact Michael Ma at 416-874-5147 or mma@cppib.ca.

Yours sincerely



Michael Ma