



RBC Global
Asset Management®

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VIA E-MAIL: consultation-en-cours@lautorite.qc.ca, jstevenson@osc.gov.on.ca

September 20, 2012

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
Superintendent of Securities, Nunavut

c/o: Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal, Québec H4Z 1G3

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Dear Sir/Madame:

CSA Consultation Paper 25-401 – Potential Regulation of Proxy Advisory Firms

We are responding to the request for comments on the Canadian Securities Administrators' (the "CSA") Consultation Paper 25-401 – *Potential Regulation of Proxy Advisory Firms* (the "Consultation Paper") on behalf of RBC Global Asset Management Inc.

Our firm is an institutional investor with an aggregate equity portfolio of approximately \$60 billion. On an annual basis, we exercise more than 12,000 ballots with respect to approximately 1,500 shareholder meetings held by issuers around the globe.

We utilize the services of two major proxy advisory firms and therefore welcome the CSA's provision of a forum for discussion about how institutional investors use the services of proxy advisory firms and their impact on Canadian capital markets.

General Comments

Given the demands on institutional investors to exercise all votes on all issues, proxy advisory firms today deliver services that are essential to the capital markets, and at a relatively low cost.

As noted in the Consultation Paper, “proxy advisory firms play an important role in the capital markets by aggregating information, providing research expertise, setting default voting standards and facilitating investor participation in shareholder meetings”. In addition, they develop and maintain an up-to-date database of relevant corporate law and corporate governance standards in multiple jurisdictions.

We conduct ongoing due diligence and monitoring of our service providers, including our proxy advisory firms. In our view, the proxy advisory firms we engage strive to provide clear and accurate information in a timely manner, to maintain robust and reliable systems and to continually enhance and improve their processes and the services they provide to us. They are responsive to our needs and concerns.

With that as a starting point, we will respond to the CSA’s additional questions for institutional investors and give further comments in response to Question 1 of the Consultation Paper.

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.

In 2002, we retained a predecessor of Institutional Shareholder Services Inc. (“ISS”) to provide research and voting recommendations and vote execution and administration. In 2004, we retained ISS to provide its web-based proxy voting disclosure service for the RBC Funds. In 2005, we retained Glass, Lewis & Co. (“Glass, Lewis”) to provide research and voting recommendations. Each of these services continues today.

We have our own proxy voting guidelines reflecting corporate governance issues and other issues of concern to us and our clients. ISS and Glass, Lewis research and voting recommendations are only two sources of information on which our guidelines and voting decisions are based. On some issues, our guidelines are the same of those of ISS and Glass, Lewis. How we decide to exercise proxies frequently requires our case-by-case review of the unique circumstances of a particular issuer.

ISS exercises our funds’ and clients’ proxies in accordance with our guidelines or direct instructions. We monitor vote execution to ensure that ISS votes in accordance with our instructions.

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?

As a fund manager and portfolio manager, we have obligations to act in the best interests of our funds and clients. For most of the accounts we manage, we have the responsibility for deciding whether and how to exercise the proxies received by the funds. In general, we exercise proxies unless it is not in the best interests of our funds or clients to do so.

As stated above, ISS and Glass, Lewis, through their guidelines, research reports and voting recommendations, are only two sources of information on which our guidelines and voting decisions are based. We conduct our own due diligence of issuers and their corporate governance, we have our own views of good corporate governance and related social issues and we participate in the work of organizations such as the Canadian Coalition for Good Governance.

Question 20: Do institutional investors have the ability to require changes to proxy advisory firms’ practices without the need for regulatory intervention?

As clients of proxy advisory firms, we negotiate annual contracts for services. We cannot dictate which businesses service providers conduct, but we can withdraw our custom if we are not satisfied with a firm’s practices. In our view, ISS and Glass, Lewis have been responsive to the concerns identified in the Consultation Paper, and have frequently anticipated those concerns, in the ongoing improvement of their business practices. Competition has led to a change in practices without the need for regulatory intervention.

Question 21: *Assuming you share the concerns identified above, do lack of choice/competition or other market factors in the proxy advisory industry limit your ability to address those concerns directly such that regulatory intervention is warranted?*

We do not share the concerns identified in the Consultation Paper. Given the competition in the proxy advisory industry, the responsiveness of our particular service providers and the manner of our use of their service, we don't believe that any factor limits our ability to address the concerns such that regulatory intervention is warranted.

We are of the view that competition and industry inquiries have led proxy advisory firms to address the concerns and accordingly, none of the concerns justify regulatory intervention.

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?*

As stated above, we do not share these concerns. We are confident because we conduct our own due diligence and engagement with issuers, we have our own views and multiple sources of information about corporate governance standards and practices, and in those circumstances where votes will have direct impact on shareholder value, we investigate the issues ourselves on a case-by-case basis. Year after year, we have read and provided input on the voting policies and research we receive from ISS and Glass, Lewis. Most importantly, we have based our voting guidelines, and the votes on issues of greatest concern to us, on our own views.

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?*

We view the policy development processes of our proxy advisory firms as appropriate. As we have different views on a number of governance issues, ISS exercises our proxies in accordance with our customized proxy voting guidelines or instructions, and not based on its own guidelines. On many issues, we consider that the proxy voting guidelines of ISS and Glass, Lewis reflect currently-accepted views of good corporate governance. In the context of complex, controversial voting matters (including M&A transactions), we would generally rely upon our own due diligence and knowledge of the best interests of our funds and clients.

Issuers are invited to have input on the policy development processes of our proxy advisory firms, but most importantly, issuers have input on proxy advisory firm recommendations and shareholder votes through the information issuers disclose to all shareholders. The clarity and completeness of that information can lessen any tendency to impose one-size-fits-all voting policies in inappropriate circumstances and helps to eliminate inaccuracies.

We would welcome issuers' input on voting recommendations where the research and analysis contains an inaccuracy, but it could hinder the objectivity of proxy advisory firms if issuers attempted to influence them to change their voting recommendations outside the policy development process, in the run-up to a shareholders meeting.

We ask all proxy advisory firms to recognize that they are asking the financial industry to rely upon their information and advice. Accuracy is critical. Although the circumstances would be rare, there is the potential for an unintended outcome on a material vote if the information on which a voting recommendation is based is inaccurate. Therefore, dialogue with all parties is very important. As a best practice, proxy advisory firms should take whatever steps are practical to ensure that information is accurate and any factual errors are corrected promptly.

Specific Requests for Comment

Question 1: *Do you agree, or disagree, with each of the concerns identified in the Consultation Paper, namely: (i) potential conflicts of interest, (ii) perceived lack of transparency, (iii) potential inaccuracies and limited engagement with issuers, (iv) potentially inappropriate influence on corporate governance practices, and (v) the extent of reliance by institutional investors on the advice of such firms? Please explain and, if you disagree, please provide specific reasons for your position.*

(i) *Potential Conflicts of Interest*

We agree that proxy advisory firms, like any other service provider, can have conflicts of interest. It is incumbent on institutional investors to judge the quality of the services or information provided to them. Identification of conflicts of interest is a part of that process.

In our view, ISS and Glass, Lewis acknowledge, manage and provide us with sufficient disclosure concerning potential conflicts of interest such that regulatory intervention is not warranted.

We encourage all proxy advisory firms to provide as much transparency as possible about the extent of their relationships and how they manage their conflicts. We note that client relationships with issuers are not the only source of potential conflicts.

(ii) *Perceived Lack of Transparency*

We do not perceive any lack of transparency about how the two firms arrive at their vote recommendations. Their voting policies are made public and they invite input on their views. The bases of their recommendations with respect to a particular issuer and meeting are disclosed to us in the reports for which we subscribe. We have the expertise to fully assess the quality of their information.

(iii) *Potential Inaccuracies and Limited Engagement with Issuers*

We are satisfied that issuers have the ability to provide input into the firms' proxy voting guidelines. It must be acknowledged that many differences between issuers and proxy advisory firms (among others) are not based on inaccuracies in reports but on differing views of best practices in corporate governance.

In our experience, proxy advisory firms take care not to publish inaccurate information and take steps to notify their clients promptly if they become aware of an inaccuracy or new information. Issuers have sufficient opportunity to explain the facts about their corporate governance and their views of proxy issues in their own disclosure documents. Issuers and their agents regularly engage with institutional shareholders in advance of shareholder meetings and have every opportunity to discover inaccuracies and correct them. To our knowledge, ISS does provide issuers with the opportunity to comment on its research reports.

(iv) *Potentially Inappropriate Influence on Corporate Governance Practices*

We do not consider that proxy advisory firms have potentially inappropriate influence on corporate governance practices. There are demands on institutional investors to exercise all votes on all issues regardless of the potential impact of those issues on shareholder value. A corporate governance industry has grown, and continues to grow, fuelled by those demands. Even though there is no conclusive research to prove that one corporate governance standard is better than another in all cases, some consistent views have been developed by shareholders, interest groups, regulators and academics about what should constitute good governance. It is not surprising then that those views inform the voting policies of proxy advisory firms and their clients and lead to large numbers of shares being voted in the same manner as the proxy advisory firms recommend.

(v) *Extent of Reliance by Institutional Investors on Proxy Advisory Firms*

Institutional investors have regulatory obligations to act in the best interests of their clients. For the many ballot issues that require less than a case-by-case review and decision, that obligation is met most simply by retaining the services of a reputable proxy advisory firm.

If institutional investors were not able to rely to a large extent on proxy advisory firms, then there would be a significant increase in the cost of investment management, and the depth, breadth and quality of information available to most institutional investors would be lessened.

We consider that the role of proxy advisory firms in cataloguing leading global governance standards, updating them as they evolve, and efficiently re-packaging them for the use of their institutional investor clients has a valuable and positive influence on corporate governance practices. It is important to recognize that even if regulation could further limit reliance on proxy advisory firms, there would be no decrease in the influence of the corporate governance industry on corporate governance practices and on how institutional investors vote.

Our views on the issues raised in Questions 2 through 17 are generally addressed above. We are of the view that a securities regulatory response is not warranted and would increase costs unnecessarily.

Thank you for giving us the opportunity to submit comments on these issues.

Sincerely,

"Jason Milne"

Jason Milne
Manager, ESG Policy & Research

"Nancy E. Church"

Nancy E. Church
Senior Manager, Business Policy & Governance