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TO:
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:
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FROM:
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DATE: 2012-08-14

RE: 2012-06-21 CSA Consultation Paper 25-401: Potential Regulation of Proxy Advisory Firms

Thank you for inviting comments on this important topic.

I am a financial economist specializing in the economics of systems for informing voters, especially corporate shareowner voters. My cv is online at linkedin.com/in/marklatham.

There are substantial problems with the current system of proxy advisory firms (PAFs), and some of these problems should be addressed by regulators. The advice currently given by PAFs is not as effective as it could be for helping us shareowners vote our stock.

Unfortunately, I think the approaches you have suggested in Paper 25-401 are not likely to be effective in solving these problems. I suggest below some other approaches that I think would be effective.

The quality of advice from PAFs is not as high as it could be, because they don't have a strong enough economic incentive to give better advice. That lack of incentive is partly due to a lack of competition in the market for proxy advice, but even more due to a lack of incentive for each shareowner to pay for advice.

Intelligent well-informed voting by one shareowner benefits all shareowners. Most shareowners own less than 5% each of a company's outstanding stock; most often, it's less than 1%. It's not in my self-interest to pay for benefits where over 99% of the benefits go to other people. So even though shareowners as a group would benefit from paying for better proxy advice, it's not in our interest to pay for it one investor at a time, which is how proxy advice is paid for now. This is explained in more detail in Section 3 of the article "Proxy Voting Brand Competition" (available free at votermedia.org/publications).

The most effective way to improve the quality of proxy advice is for a corporation's shareowners to pay for it as a group, from corporate funds which we shareowners own collectively. We have enough incentive to pay as a group, since it is for benefits we would receive as a group. All shareowners of the corporation would receive the advice of all advisors in the competition. The "Proxy Advisor Competition Proposal" (available free at votermedia.org/publications), recently submitted to Costco Wholesale Corporation, gives a specific outline for how it could work.

As explained in my Comments to the U.S. SEC on their Proxy Concept Release (available at www.sec.gov/comments/s7-14-10/s71410-52.pdf), Canadian Securities Administrators should (likewise in Canada) encourage and support the development of Client Directed Voting (CDV) for retail investors. This would raise the quality of information and voting by retail investors and by institutional investors. It would also encourage the adoption of collective payment for proxy advice as I recommended above.

As part of an initiative to create a CDV system, the Canadian Securities Administrators could cooperate to launch a national pilot program to pay for retail proxy voting advice. A competitive voting system is efficient enough that even as little as $1 million per year could produce substantial public benefit by improving the quality of retail investor voting. This could buy some original proxy research, help a few websites gather various available sources of advice, and build a quality reputation system. It would also demonstrate to investors the benefits of paying for proxy advice collectively, thus encouraging the adoption of such a system.

The economic incentives for PAFs that the above recommendations would create to better inform shareowners in order to get paid, would be more effective than trying to regulate the behaviour of PAFs without these economic incentives.

I hope this is helpful. Feel free to contact me with any questions.

Sincerely,
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