



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

April 17, 2019

The Honorable Jay Clayton  
Chairman  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20540-1090

Via email: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Dear Chairman Clayton:

**Re: Comments on the SEC Roundtable on Proxy Process – Proxy Advisory Firms**

We are writing to provide input to the U.S. Securities and Exchange Commission (“SEC” or the “Commission”) Roundtable on Proxy Process.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over \$2 trillion in assets on behalf of millions of Canadians. PIAC’s mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC’s positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

We appreciate the SEC’s interest and engagement with respect to their consideration of updates to current rules related to shareholder and proxy advisors. The integrity of the U.S. proxy process is critical to effective public company governance, and we welcome the Commission’s recognition that certain elements of the process may need to be reformed. It is PIAC’s view that these reforms involve the proxy voting infrastructure and that the SEC should not make changes to current ownership requirements or resubmission thresholds for shareholder proposals or impose additional regulations for proxy advisory firms.

We are pleased to present further comments on the role of proxy advisory firms. Proxy voting is a critical means by which shareholders hold corporate executives and boards to account and is a hallmark of shareholder ownership and accountability. PIAC's members represent Canadian pension funds that invest globally, with significant exposure to the U.S. capital markets, hence our interest to weigh in on this issue.

### **Proxy advisory firms are a critical component of the proxy voting system**

Proxy advisory firms provide institutional shareholders with important third party research and analysis in respect of corporate governance practices of issuers, along with voting recommendations. They also offer voting infrastructure to their clients to efficiently execute votes electronically, based on their client's proxy voting guidelines or voting instructions. Some firms also provide consulting services to public companies.

Many PIAC members and other institutional investors voluntarily contract with proxy advisory firms to obtain cost-effective independent research to help inform their proxy voting and engagement decisions, as well as to execute votes based on their own proxy voting guidelines.

Proxy advisory firms are used in different ways and are relied upon to varying degrees by investors in their decision-making voting processes. Some investors have their own in-house proxy voting and stewardship functions that use the research from one or more proxy advisory firms as an input into their investment stewardship process. Others may rely more heavily on, or even defer to, the recommendations of proxy advisors when deciding how to vote. As a result, we recognize that proxy advisors may influence the voting outcomes of management and shareholder proposals.

Ultimately, the responsibility for the appropriate use of proxy advisory firms rests with investors, who are the users of their research and services. We certainly do not believe that using these services constitute an abdication of a fund's responsibility for its voting decisions, as some have argued.

To that effect, we would like to draw attention to guidance issued by the SEC in 2014, in Staff Legal Bulletin No. 20 (SLB 20), reaffirming that investment advisors have an ongoing duty to maintain oversight of proxy research firms and other third-party voting agents. Importantly, that duty includes:

*“[A]scertain[ing], among other things, whether the proxy advisory firm has the capacity and competency to adequately analyze proxy issues. In this regard, investment advisers could consider, among other things: the adequacy and quality of the proxy advisory firm's staffing and personnel; the robustness of its policies and procedures regarding its ability to (i) ensure that its proxy voting recommendations are based on current and accurate information and (ii) identify and address any*

*conflicts of interest and any other considerations that the investment adviser believes would be appropriate in considering the nature and quality of the services provided by the proxy advisory firm.”*

We are unaware of any compelling evidence indicating that the guidance is not being followed. Furthermore, proxy advisors typically address standard proxy advisor conflicts of interest through disclosure and ethical walls.

### **Increased regulation could lead to unnecessary additional costs**

Proxy advisory firms have recently attracted the attention of policy makers. For example, there have been calls for the SEC to mandate proxy advisory firms to: i) provide issuers with greater opportunity to comment and review vote recommendations; and ii) collect and distribute issuers' responses to proxy advisory firms' recommendations.

Pension funds expect to receive independent, objective, and accurate information from proxy advisory firms, on a timely basis. We believe issuers should not influence the content of the reports, other than to correct factual errors, which leading proxy advisory firms already allow issuers to do. Issuers do have channels to communicate their views on matters put forward for a vote, most notably through proxy materials. They can also voice their objections to proxy advisory firm reports through supplemental proxy filings or direct communication with shareholders. Given already compressed proxy voting timelines, we are wary of changes that would most certainly reduce time we can allocate to our voting analysis and decisions and increase logistical complexity.

By providing cost-efficient, quality independent research, analysis and informed proxy voting advice, proxy advisory firms allow large institutional shareholders to efficiently manage proxy voting for thousands of companies in their investment portfolios. More regulation of proxy research firms could increase costs for pension plans, with no clear benefits. Furthermore, higher regulatory costs risk reducing competition among an already limited number of proxy research firms in the U.S. market and impose new barriers for entry. Ultimately, higher regulatory costs will have the unintended consequence of increasing industry concentration, with no clear benefits.

Pension funds that choose to purchase these services are sophisticated investors and consumers who are fully capable of making prudent choices based on free-market principles. To our knowledge, pension funds and other investors are not requesting more regulation of proxy research firms.

To conclude, while proxy advisory firms play an important role in the U.S. proxy voting system, we do not believe additional regulation is required as it could lead to additional costs borne by pension funds and institutional investors, without any clear benefits. Excessive regulation of proxy research firms could ultimately impair the ability of institutional investors to promote good corporate governance and accountability.

We very much value the SEC's interest in making the U.S. proxy voting process more efficient and reliable. The Commission's efforts should focus on areas within the process that need reform such as the proxy voting infrastructure and therefore, further regulating proxy advisory firms should not be a priority.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Allen', written in a cursive style.

Deanne Allen  
Chair