

## CSA Notice of Publication

### National Policy 25-201 *Guidance for Proxy Advisory Firms*

April 30, 2015

#### Introduction

The Canadian Securities Administrators (**CSA** or **we**) are adopting National Policy 25-201 *Guidance for Proxy Advisory Firms* (the **Policy**).

The text of the Policy is published with this notice and will also be available on websites of CSA jurisdictions, including:

[www.lautorite.qc.ca](http://www.lautorite.qc.ca)

[www.albertasecurities.com](http://www.albertasecurities.com)

[www.bcsc.bc.ca](http://www.bcsc.bc.ca)

[www.gov.ns.ca/nssc](http://www.gov.ns.ca/nssc)

[www.fcnb.ca](http://www.fcnb.ca)

[www.osc.gov.on.ca](http://www.osc.gov.on.ca)

[www.fcaa.sk.ca](http://www.fcaa.sk.ca)

[www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)

#### Substance and Purpose

The Policy provides guidance on recommended practices and disclosure for proxy advisory firms. The guidance contained in the Policy is intended to: (i) promote transparency in the processes leading to vote recommendations and the development of proxy voting guidelines; and (ii) foster understanding among market participants about the activities of proxy advisory firms.

The Policy addresses the following areas:

- identification, management and mitigation of actual or potential conflicts of interest;
- transparency and accuracy of vote recommendations;
- development of proxy voting guidelines;
- communications with clients, market participants, other stakeholders, the media and the public.

We suggest certain steps that proxy advisory firms may consider taking in relation to the services they provide to their clients and their activities. We also expect proxy advisory firms to publicly disclose their practices to promote transparency and understanding among market participants.

Although the Policy applies to all proxy advisory firms, the guidance contained in the Policy is not intended to be prescriptive. Instead, we encourage proxy advisory firms to consider this guidance in developing their own practices and disclosure.

## **Background**

On June 21, 2012, the CSA published for comment Consultation Paper 25-401 *Potential Regulation of Proxy Advisory Firms* (the **Consultation Paper**).

The purpose of the consultation was to provide a forum for discussion of certain concerns raised about the services provided by proxy advisory firms and the potential impact on Canadian capital markets. The consultation process also allowed the CSA to determine if, and how, it should address these concerns.

The Consultation Paper, along with other international initiatives,<sup>1</sup> brought a renewed focus on the activities of proxy advisory firms. In light of the comments received during the consultation and the recommendations arising from the international initiatives, the CSA concluded that guidance was an appropriate response under the circumstances.

On April 24, 2014, the CSA published for a 60-day comment period proposed National Policy 25-201 *Guidance for Proxy Advisory Firms*. We extended the comment period from June 23, 2014 to July 23, 2014, to give additional time to market participants to properly review the Policy and prepare comments.

## **Summary of Written Comments Received by the CSA**

During the last comment period, we received 58 comment letters from various market participants. We have reviewed the comments received and wish to thank all of the commenters for contributing to the consultation. The names of commenters are contained in Annex A of this notice and a summary of their comments, together with our responses, are contained in Annex B of this notice.

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<sup>1</sup> The initiatives reviewed by the CSA included the following:

- the French Autorité des marchés financiers issued *AMF Recommendation 2011-06 of 18 March, 2011 on Proxy voting advisory firms*;
- the Best Practice Principles Group published in March 2014 a set of *Best Practice Principles for Providers of Shareholder Voting Research & Analysis*;
- the U.S. Securities and Exchange Commission published on June 30, 2014 *Staff Legal Bulletin No. 20 (IM/CF) Proxy Voting: Proxy Voting Responsibilities of Investment Advisers and Availability of Exemptions from the Proxy Rules for Proxy Advisory Firms*.

## **Summary of Changes since Publication for Comment**

After considering the comments received, we have made some changes to the Policy that was published for comment. As these changes are not material, we are not republishing the Policy for a further comment period.

The following is a summary of the key changes that were made to the Policy.

### ***Conflicts of interest***

Subsection 2.1(4) of the Policy was revised to provide that the board of directors of a proxy advisory firm or, if the proxy advisory firm does not have a board of directors, the executive management team or a designated committee of the proxy advisory firm, is generally expected to be responsible for overseeing the development of policies and procedures and code of conduct, the implementation of internal safeguards and controls and the effectiveness of those measures instituted to address actual or potential conflicts of interest. The revised responsibilities better reflect good corporate governance practices.

Subsection 2.1(6) was clarified to recommend that proxy advisory firms provide sufficient information to enable their clients to make an assessment about the independence and objectivity of the proxy advisory firms and the services, including any steps taken to address actual or potential conflicts of interest. This clarification is consistent with the recommendations arising from certain international initiatives.

### ***Transparency and accuracy of vote recommendations***

Subsection 2.2(5) was revised to recommend that proxy advisory firms generally describe on their websites the practices adopted with respect to the hiring, training and retaining of individuals to ensure that they have the appropriate experience, competencies, skills and knowledge to prepare vote recommendations. This information should assist market participants with evaluating the quality of the research and analysis that underlie vote recommendations.

### ***Development of proxy voting guidelines***

Paragraph 2.3(2)(c) was revised to recommend that proxy advisory firms take into account relevant characteristics of the issuers when developing proxy voting guidelines. For example, these characteristics may include the size, industry and governance structure of an issuer. This guidance is consistent with the approach used by proxy advisory firms when developing general corporate governance principles and tailoring the principles to consider the particular circumstances of the issuers, as appropriate.

Subsection 2.3(5) was revised to recommend that proxy advisory firms generally describe on their websites the practices adopted with respect to the hiring, training and retaining of individuals to ensure that they have the appropriate experience, competencies, skills and knowledge to develop proxy voting guidelines. This information should assist market participants with evaluating the quality of the research and analysis that underlie proxy voting guidelines.

***Communications with clients, market participants, other stakeholders, the media and the public***

Paragraph 2.4(2)(a) was removed to avoid repetition in the guidance. We recognize that subsection 2.1(6) would expect proxy advisory firms to disclose actual or potential conflicts of interest to their clients by appropriate means.

Paragraphs 2.4(2)(b) and (c) were revised to recommend that proxy advisory firms communicate to their clients in their reports how the relevant approaches or methodologies were applied and the sources of information used in preparing vote recommendations. This guidance recognizes that proxy advisory firms are communicating information in accordance with their clients' expectations.

**Remarks on the Policy**

We recognize that proxy advisory firms have demonstrated a willingness to respond to the concerns raised by market participants and have brought changes to some of their practices. We support initiatives taken by proxy advisory firms aimed at improving their practices, including initiatives that facilitate dialogue or contact with issuers to reduce the risk of factual errors or inaccuracies in vote recommendations.

We intend to continue monitoring market developments in the proxy advisory industry and other international initiatives to evaluate if the Policy addresses the Canadian marketplace's concerns.

**Contents of Annexes**

The following annexes form part of this notice:

- (a) Annex A, Names of Commenters;
- (b) Annex B, Summary of Comments and CSA Responses.

## Questions

Please refer your questions to any of the following:

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## Annex A

### Names of Commenters

1	John P. A. Budreski
2	Andrew Swarthout
3	Brad Farquhar
4	Bruno Kaiser
5	Dan Barnholden
6	David H. Laidley
7	David Regan
8	Doug Emsley
9	Gary Patterson
10	Jack Lee
11	Jeff Kennedy
12	Ken McDonald
13	Marcel DeGroot
14	Mary Ritchie
15	Suzan Fraser
16	Nolan Watson
17	Peter Aklerley
18	Philip L. Webster
19	Addenda Capital Inc.
20	Agrium Inc.
21	Alaris Royalty Corp.
22	Australian Institute of Company Directors
23	BlackRock, Inc.
24	Blake, Cassels & Graydon LLP
25	Bombardier Inc.
26	British Columbia Investment Management Corporation
27	Caisse de dépôt et placement du Québec
28	Canadian Advocacy Council for Canadian CFA Institute Societies
29	Coerente Capital Management
30	Canadian Coalition for Good Governance
31	Canadian Council of Chief Executives
32	Canadian Investor Relations Institute
33	Canadian Oil Sands Limited
34	Center for Capital Markets Competitiveness
35	CI Financial Corp.
36	Endeavour Silver Corp.
37	Enerplus Corporation
38	Glass, Lewis & Co.
39	Goldcorp Inc.

40	Hansell LLP
41	High Liner Foods
42	Imperial Oil Limited
43	Institute of Corporate Directors
44	Institute of Governance for Private and Public Organisations
45	ISS
46	Magna International Inc.
47	Manifest Information Services Ltd & The Manifest Voting Agency Ltd
48	Mercer
49	NEI Investments
50	Norton Rose Fulbright Canada LLP
51	Pension Investment Association of Canada
52	Placements Montrusco Bolton Inc.
53	Power Corporation of Canada
54	Public Sector Pension Investment Board
55	Shareholder Association for Research and Education
56	Shareholder Communications Coalition
57	Shorecrest Group Ltd.
58	Trinidad Drilling Ltd.

**Annex B**

**Summary of Comments and CSA Responses**

<b>Commenters</b>	<b>Summary of Comments</b>	<b>CSA Responses</b>
<b>Issuers and issuer-related associations</b>	<p>The Policy targets the right concerns, but guidance setting out recommended practices and disclosure is not an appropriate approach. Proxy advisory firms should be regulated, subject to a comply or explain framework or at least be required to meet standards in certain key areas.</p>	<p>Based on the comments received from other commenters and our analysis of the concerns raised, we continue to believe that guidance is the appropriate approach in the circumstances. In our view, this approach represents a sufficient and meaningful response to address the different perspectives of the respective market participant groups.</p> <p>The Policy recognizes the private contractual relationship between proxy advisory firms and their clients. The recommended practices and disclosure provide institutional investors or other clients with a framework for evaluating the services provided to them by proxy advisory firms.</p> <p>This approach is supported by our belief that proxy advisory firms will voluntarily adopt our suggested practices and disclosure. Proxy advisory firms have recently demonstrated a willingness to respond to concerns by voluntarily making changes to some of their processes.</p> <p>We also believe that the Policy is consistent with the recommendations arising from the current international initiatives. We note that no</p>

Commenters	Summary of Comments	CSA Responses
		jurisdiction has adopted rules for proxy advisory firms at this time.
	<p>The recommended practices and disclosure will not promote meaningful changes since proxy advisory firms have already implemented most of the recommendations.</p>	<p>We recognize that proxy advisory firms have already implemented most of the recommendations. However, the recommended practices and disclosure will in our view</p> <ul style="list-style-type: none"> <li>• promote transparency in the processes leading to a vote recommendation and the development of proxy voting guidelines, and</li> <li>• foster understanding among market participants about the activities of proxy advisory firms.</li> </ul> <p>We believe that this approach has the benefit of conveying some measure of accountability for proxy advisory firms. It has the added benefit of setting minimum standards for proxy advisory firms and potential new entrants in the industry.</p> <p>The current international initiatives appear to be accelerating changes in disclosure practices. We anticipate that proxy advisory firms will continue to evaluate their practices and make other changes to enhance transparency.</p>
	<p>The CSA should monitor compliance with the recommended practices and disclosure after their adoption to determine if the policy</p>	<p>We intend to continue monitoring market developments in the proxy advisory industry to evaluate if the Policy addresses the Canadian marketplace's</p>

Commenters	Summary of Comments	CSA Responses
	objectives have been achieved.	concerns. We will also monitor other international initiatives that are bringing a renewed focus on the activities of proxy advisory firms.
	To avoid conflicts of interest, a proxy advisory firm should not be allowed to provide vote recommendations to an investor client on corporate governance matters of an issuer to whom the firm provided consulting services.	<p>We have decided not to adopt prescriptive measures regarding the activities of proxy advisory firms. We encourage proxy advisory firms to consider the recommendations in developing and implementing their own practices.</p> <p>There is general agreement amongst market participants of the potential for conflicts of interest in the proxy advisory industry, including those related to the business model or the ownership structure of a proxy advisory firm.</p> <p>We do not believe that it is the responsibility of the CSA to recommend a specific business model for proxy advisory firms. We expect proxy advisory firms to identify, manage and disclose actual or potential conflicts of interest. This approach is in line with the approach adopted for designated rating agencies in Canada.</p>
	The CSA should set out minimal qualifications, experience and training standards for analysts preparing vote recommendations.	We encourage proxy advisory firms to have the resources, knowledge and expertise required to prepare rigorous and credible vote recommendations. This includes hiring, training and retaining individuals that have the particular experience, competencies, skills and knowledge to perform their

Commenters	Summary of Comments	CSA Responses
		<p>duties in the ordinary course of business.</p> <p>We do not believe that it is the responsibility of the CSA to recommend specific standards in this area. However, market participants could benefit from learning more about the steps taken by proxy advisory firms to ensure that they hire, train and retain qualified individuals.</p> <p>Accordingly, we added guidance in the Policy recommending that proxy advisory firms provide on their websites a general description of the practices adopted to ensure that they hire, train and retain individuals that have the appropriate qualifications to perform their duties.</p>
	<p>Proxy advisory firms should be required to provide draft research reports to issuers for review to avoid inaccuracies and include the issuers' comments prior to sending the final reports to clients.</p>	<p>We expect proxy advisory firms to disclose their policies and procedures regarding dialogue with issuers, shareholder proponents and other stakeholders when they prepare vote recommendations. We also expect proxy advisory firms to include the nature and outcome of such dialogue in their reports.</p> <p>The purpose of such dialogue is to promote the accuracy of vote recommendations. We expect proxy advisory firms to have measures in place, such as policies and procedures and internal safeguards and controls, to ensure the accuracy of vote recommendations. We believe that those measures will be</p>

Commenters	Summary of Comments	CSA Responses
		adequate in ensuring that vote recommendations are accurate. However, to the extent that proxy advisory firms decided to implement such dialogue as a means to further ensure the accuracy of vote recommendations, the CSA will support those initiatives.
<b>Investors and investor-related associations</b>	<p>While a regulatory response to address any perceived concerns with respect to proxy advisory firms is not necessary, the guidance setting out recommended practices and disclosure is an appropriate approach since it is not intended to be prescriptive.</p>	<p>We acknowledge that proxy advisory firms play an important role in the proxy voting process. Certain market participants continue to raise concerns about the services provided by proxy advisory firms. We also note that other international initiatives have brought a renewed focus on the activities of proxy advisory firms.</p> <p>Therefore, we are of the view that a CSA response is warranted. We believe that guidance on recommended practices and disclosure will promote transparency in the industry and foster understanding among market participants.</p>
	<p>The recommended practices and disclosure will not promote meaningful changes since proxy advisory firms have already implemented most of the recommendations.</p>	<p>See response to issuers and issuer-related associations above.</p>
	<p>The <i>Best Practice Principles for Providers of Shareholder Voting Research &amp; Analysis</i> already address the issues outlined in the Policy.</p>	<p>We recognize that the <i>Best Practice Principles for Providers of Shareholder Voting Research &amp; Analysis</i> and the Policy address similar issues. However, this international initiative has been developed by industry members. We believe that a CSA</p>

Commenters	Summary of Comments	CSA Responses
		<p>response has the benefit of communicating our position to proxy advisory firms and other market participants.</p> <p>The Policy also recommends that proxy advisory firms take into account Canadian market or regulatory conditions when determining vote recommendations and developing proxy voting guidelines.</p>
	<p>The CSA should not encourage proxy advisory firms to engage with issuers when they prepare vote recommendations.</p>	<p>See response to issuers and issuer-related associations above.</p>
<p><b>Proxy advisory firms</b></p>	<p>Proxy advisory firms generally agree with the purpose and guidance set out in the Policy. They confirm having appropriate policies and procedures in place to address conflicts of interest, transparency, policy development and communications matters. They are committed to provide high quality and objective services to their clients in a consultative and comprehensive manner. They do not believe that their activities should be regulated and support the use of guidance.</p>	<p>We thank the commenters for their comments.</p>

## **NATIONAL POLICY 25-201 GUIDANCE FOR PROXY ADVISORY FIRMS**

### **PART 1 PURPOSE AND APPLICATION**

#### **1.1 Purpose of this Policy**

The Canadian Securities Administrators (CSA or we) recognize that proxy voting is an important method by which shareholders can effect governance and communicate preferences about an issuer's management and stewardship. Issuers rely on shareholder voting to elect directors and to approve other corporate governance matters or certain corporate transactions. Proxy voting is therefore fundamental to, and enhances the quality and integrity of, our public capital markets.

We acknowledge that proxy advisory firms play an important role in the proxy voting process by providing services that facilitate investor participation in the voting process such as analyzing proxy materials and providing vote recommendations. Some proxy advisory firms also provide other types of services to issuers, including consulting services on corporate governance matters.

The purpose of this Policy is to set out recommended practices for proxy advisory firms in relation to the services they provide to their clients and their activities. This Policy provides guidance to proxy advisory firms designed to

- (a) promote transparency in the processes leading to a vote recommendation and the development of proxy voting guidelines, and
- (b) foster understanding among market participants about the activities of proxy advisory firms.

The guidance addresses conflicts of interest, the determination of vote recommendations, the development of proxy voting guidelines and communications with clients, market participants, other stakeholders, the media and the public.

The guidance in this Policy is not intended to be prescriptive or exhaustive.

The CSA encourage proxy advisory firms to consider this guidance in developing and implementing practices that are tailored to their structure and activities.

## **1.2 Application**

This Policy is designed to assist all firms that provide proxy advisory services. Proxy advisory services include any of the following:

- (a) analyzing the matters put to a vote at a shareholders' meeting;
- (b) making vote recommendations;
- (c) developing proxy voting guidelines.

Although some proxy advisory firms may provide other types of services, this Policy addresses processes that lead to vote recommendations and proxy voting guidelines determined or developed by proxy advisory firms.

## **PART 2 GUIDANCE**

### **2.1 Conflicts of interest**

(1) Effective identification, management and mitigation of actual or potential conflicts of interest are essential in ensuring the ability of the proxy advisory firm to offer independent and objective services to a client.

(2) An actual or potential conflict of interest arises where the interests of a proxy advisory firm are or may be perceived to be inconsistent with, or diverge from, those of a client. An actual or potential conflict might also arise between the interests of one group of clients and another. By way of example, an actual or potential conflict of interest arises in any of the following circumstances:

- (a) a proxy advisory firm provides vote recommendations to an investor client on corporate governance matters of an issuer to which the proxy advisory firm provided consulting services;
- (b) an investor client of a proxy advisory firm submits a shareholder proposal to be put to a vote at a shareholders' meeting that could be the subject of a favourable vote recommendation by the proxy advisory firm;
- (c) a proxy advisory firm is owned, in whole or in part, by an investor client who invests in issuers in relation to which the proxy advisory firm is or has been mandated to make vote recommendations.

(3) Proxy advisory firms may address actual or potential conflicts of interest by implementing appropriate practices. Proxy advisory firms may consider taking the following steps to address actual or potential conflicts of interest:

- (a) establishing, maintaining and applying written policies and procedures designed to identify, manage and mitigate actual or potential conflicts of interest that could influence their research and analysis, vote recommendations or proxy voting guidelines;
- (b) designing and implementing internal safeguards and controls designed to monitor the effectiveness of the policies and procedures, including organizational structures, lines of reporting and information barriers, to mitigate actual or potential conflicts of interest;
- (c) establishing, maintaining and complying with a code of conduct that sets standards of behaviour and practices for the proxy advisory firm, including individuals acting on its behalf;
- (d) obtaining affirmation of the code of conduct from all individuals acting on their behalf upon hiring and on an annual basis thereafter and providing related training on a regular basis;
- (e) evaluating the effectiveness of their policies and procedures, internal safeguards and controls and code of conduct on a regular basis to ensure that they remain appropriate and effective.

(4) The board of directors of a proxy advisory firm or, if the proxy advisory firm does not have a board of directors, the executive management team or a designated committee of the proxy advisory firm, is generally expected to be responsible for overseeing:

- (a) the development of written policies and procedures and a code of conduct designed to address actual or potential conflicts of interest;
- (b) the implementation of internal safeguards and controls to identify, manage and mitigate actual or potential conflicts of interest;
- (c) the effectiveness of the policies and procedures, code of conduct and internal safeguards and controls instituted to ensure that actual or potential conflicts of interest are identified, managed and mitigated, as appropriate.

(5) To assist with addressing actual or potential conflicts of interest, proxy advisory firms may wish to consider designating an appropriately qualified person (or a committee of appropriately qualified persons) who would be responsible for, among other things:

- (a) monitoring and assessing compliance by the proxy advisory firm, and individuals acting on its behalf, with its policies and procedures and code of conduct;
- (b) assessing the appropriateness of the internal safeguards and controls adopted by the proxy advisory firm and monitoring the identification, management and mitigation of conflicts of interest;
- (c) periodically reporting on his or her activities to the board of directors of the proxy advisory firm or, if the proxy advisory firm does not have a board of directors, the executive management team or designated committee of the proxy advisory firm.

(6) We expect proxy advisory firms to disclose to their clients, in a timely manner, actual or potential conflicts of interest. We expect proxy advisory firms to provide sufficient information to enable clients to understand the nature and scope of the conflict so as to make an assessment about the independence and objectivity of the proxy advisory firms and the services, including any steps taken to address the conflict.

(7) Where possible and without compromising the proprietary or commercially sensitive nature of such information, we expect proxy advisory firms to post or describe on their websites their policies and procedures, internal safeguards and controls, code of conduct and compliance program respecting actual or potential conflicts of interest, including any related amendments.

## **2.2 Transparency and accuracy of vote recommendations**

(1) It is important for market participants to understand how proxy advisory firms arrive at a specific vote recommendation and to assess the quality of the research and analysis behind such a recommendation. Proxy advisory firms can facilitate this by ensuring that vote recommendations are determined in a transparent manner and that the information underlying those recommendations is accurate.

(2) We expect proxy advisory firms to ensure that:

- (a) vote recommendations are determined in a consistent manner in accordance with the proxy voting guidelines of the proxy advisory firm or the proxy voting guidelines of the clients;

- (b) vote recommendations are determined based on up-to-date publicly available information about the issuer;
  - (c) vote recommendations are prepared in accordance with approaches or methodologies aimed at, among other things, reducing the risk of factual errors or inaccuracies.
- (3) Proxy advisory firms may consider taking the following steps when determining vote recommendations:
- (a) establishing, maintaining and applying written policies and procedures describing the approaches or methodologies used to prepare vote recommendations, such as research, information and data gathering, benchmarks, sources of information from third parties, local market or regulatory conditions, criteria, analytical models and assumptions, and the relative weight of these elements in preparing vote recommendations;
  - (b) designing and implementing internal safeguards and controls to increase the accuracy and reliability of the information and data used in the preparation of vote recommendations. We encourage proxy advisory firms to have in place a quality assurance process to review vote recommendations before they are provided to clients, including verifying the accuracy of information and data used and reviewing the research and analysis performed by individuals acting on their behalf;
  - (c) evaluating the effectiveness of their policies and procedures as well as internal safeguards and controls on a regular basis to ensure that they remain appropriate and effective.
- (4) We encourage proxy advisory firms to have the resources, knowledge and expertise required to prepare rigorous and credible vote recommendations. This includes hiring, training and retaining individuals that have the particular experience, competencies, skills and knowledge to perform their duties on behalf of the proxy advisory firm in the ordinary course of business.
- (5) Where possible and without compromising the proprietary or commercially sensitive nature of such information, we expect proxy advisory firms to post or describe on their websites their policies and procedures and internal safeguards and controls applicable to the preparation of vote recommendations, including any related amendments. We also encourage proxy advisory firms to generally describe on their websites the practices adopted with respect to hiring, training

and retaining individuals to ensure that they have the appropriate experience, competencies, skills and knowledge to prepare the vote recommendations.

### **2.3 Development of proxy voting guidelines**

(1) It is good practice for proxy advisory firms to ensure that their proxy voting guidelines, which may have an influence on corporate governance practices of issuers, are developed in a consultative and comprehensive manner. This promotes a clearer and more complete understanding of the proxy voting guidelines and their underlying rationale and enables market participants to evaluate the applicability of the proxy voting guidelines to the corporate governance practices of issuers.

(2) Proxy advisory firms may consider taking the following steps when developing proxy voting guidelines:

- (a) establishing, maintaining and applying written policies and procedures describing the process followed in developing and updating proxy voting guidelines, such as identification of standards and practices, policy formulation and approval, implementation and evaluation of proxy voting guidelines;
- (b) regularly consulting with and considering the preferences and views of their clients, market participants and other stakeholders on corporate governance issues and on their proxy voting guidelines;
- (c) taking into account local market or regulatory conditions and other relevant characteristics of the issuers which may include, for example, size, industry and governance structure.

(3) We encourage proxy advisory firms to ensure that they have the resources, knowledge and expertise required to develop and update appropriate proxy voting guidelines. This includes hiring, training and retaining individuals that have the particular experience, competencies, skills and knowledge to perform their duties on behalf of the proxy advisory firm in the ordinary course of business.

(4) Without compromising the proprietary or commercially sensitive nature of such information, we expect proxy advisory firms to post on their websites their proxy voting guidelines and any updates to them. We encourage proxy advisory firms to explain the rationale for their proxy voting guidelines and to provide any other relevant information which could contribute to understanding the reasons behind the proxy voting guidelines and any updates to them.

(5) Where possible and without compromising the proprietary or commercially sensitive nature of such information, we expect proxy advisory firms to post or describe on their websites their policies and procedures and consultations applicable to the development and update of proxy voting guidelines, including any related amendments. We also encourage proxy advisory firms to generally describe on their websites the practices adopted with respect to hiring, training and retaining individuals to ensure that they have the appropriate experience, competencies, skills and knowledge to develop and update the proxy voting guidelines.

#### **2.4 Communications with clients, market participants, other stakeholders, the media and the public**

(1) It is good practice for proxy advisory firms to properly manage their communications with clients, market participants, other stakeholders, the media and the public to foster understanding of the activities of proxy advisory firms.

(2) When issuing their vote recommendations, we expect proxy advisory firms to communicate the following information to their clients in their reports:

- (a) how the relevant approaches or methodologies were used or applied in determining the vote recommendations;
- (b) the sources of information used in preparing the vote recommendations;
- (c) a description of the extent to which proxy voting guidelines were used or applied when preparing vote recommendations and the reasons for any deviation from the proxy voting guidelines;
- (d) where applicable, the nature and outcome of dialogue or contact with the issuer, shareholder proponents or other stakeholders in the preparation of the vote recommendations;
- (e) the limitations or conditions in the research and analysis used to prepare the vote recommendations;
- (f) a statement that the vote recommendations and the underlying research and analysis are intended solely as guidance to assist the clients in their decision making process.

(3) We expect proxy advisory firms to post or describe on their websites their policies and procedures regarding dialogue or contact with issuers, shareholder proponents and other

stakeholders when they prepare vote recommendations, including whether they provide drafts of reports to issuers for review and comment before sending the final reports to their clients.

(4) We expect proxy advisory firms to correct any factual errors or inaccuracies found in a report and to duly inform their clients in a timely manner. We also encourage proxy advisory firms to duly inform their clients of any report updates or revisions to reflect new publicly available information about an issuer in a timely manner.

(5) We encourage proxy advisory firms to establish, maintain and apply written policies and procedures governing their communications with clients, market participants, other stakeholders, the media and the public, including in relation to the preparation or release of any vote recommendation.

(6) We encourage proxy advisory firms to establish a contact person to manage communications with clients, market participants, other stakeholders, the media and the public, including any questions, concerns or complaints that the proxy advisory firm may receive.

(7) Where possible and without compromising the proprietary or commercially sensitive nature of such information, we expect proxy advisory firms to post or describe on their websites their policies and procedures governing their communications, including any related amendments.

**April 30, 2015**