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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  
Nova Scotia Securities Commission  
Office of the Attorney General, Prince Edward Island  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Government of Yukon  
Registrar of Securities, Department of Justice, Government of the Northwest Territories  
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

***Attention:***

Me Anne-Marie Beaudoin, Corporate Secretary  
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**VIA EMAIL**

**Re: Request for Comment – Proposed Repeal and Replacement of NP 58-201  
*Corporate Governance Guidelines, NI58-101 Disclosure of Corporate Governance  
Practices, and NI 52-110 Audit Committees and Companion Policy 52-110CP Audit  
Committees (the “CSA Release”):***

By way of background, Hermes Fund Managers Limited is owned by the British Telecom Pension Scheme, the UK's largest. Hermes manages the portfolios of over 200 other clients including many major pension schemes. In total, Hermes manages approximately US\$55 billion. Hermes Equity Ownership Services (EOS) also advises non-investment clients on governance and corporate engagement matters in respect of about US\$73 billion of equities for clients based around the world.

Hermes was recently accepted as a member of the Canadian Coalition for Good Governance (CCGG) and participated on the CCGG committee responsible for drafting the CCGG comments on the CSA Release. Hermes supports the recommendations set out by the CCGG.

In addition, Hermes submits the following comments for consideration by the CSA. These represent our expectations for minimum standards for publicly traded corporations in the North American market:

**Independence**

Hermes believes that a board of directors should be able to demonstrate that a majority of their members are independent from management and the corporation. This standard is now the expectation of globally situated institutional investors investing in North American markets. Issuers that do not provide reassurance of board independence risk losing the confidence of investors and facing a higher cost of capital.

While evaluating director independence through the measurement of objective criteria can be helpful, Hermes recognizes that having directors who act with independence of mind within the boardroom is vital. We expect to be able to evaluate this through ongoing dialogue with board members and with enhanced qualitative disclosure about board dynamics and structure in annual filings.

**Shareholder Rights**

Hermes believes that any move by regulators away from the imposition of minimum standards for corporate governance should be done, if at all, where shareholders have the tools to enforce their own minimum standards, should they decide to do so. To this end, we believe Canadian regulations must require voting of director candidates individually and ensure votes cast by shareholders at annual meetings have an effect on the outcome of director elections.

Of particular concern in a principles-based governance regime are those listed corporations that are controlled not by a majority of equity, but through the use of dual classes of common shares. Most dual class capital structures employed in Canada entrench not only the founding entrepreneur, but also many generations of their issue. Although investors may opt to avoid purchasing shares with subordinate voting rights, securities regulators must ensure there is an adequate level of investor protection. The decision to adopt reasonable standards of corporate governance for a publicly-traded corporation should not be left to the sole discretion of a controlling shareholder with a small or even insignificant equity stake.

#### Shareholder Responsibilities

Hermes commends the CSA for expanding its principles beyond the scope of the current guidelines. In particular, we believe that Principle 9, “Engage effectively with shareholders” represents a timely initiative to bridge the communications gap that exists between shareholders and their elected representatives, corporate directors. Hermes believes that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

The issues addressed in the nine proposed Principles are important and address the key themes of corporate governance. However, we believe the market will need guidance, whether through a transparent and thorough continuous disclosure review process by regulators, in the form of certain minimum mandatory standards, or both. In any event, shareholders need better tools to effect change and foster dialogue between shareholders and their directors and reinforce accountability. Hermes strongly recommends that the CSA address these needs where appropriate within this and future regulatory initiatives.

Hermes is pleased to have the opportunity to add our voice to this important regulatory initiative.

Sincerely



William Mackenzie  
Senior Advisor  
Hermes Equity Ownership Services Ltd.