

Submission to Ontario Securities Commission

From: Rodney Smith
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Attn.: John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
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RE: OSC STAFF NOTICE 54-701
REGULATORY DEVELOPMENTS REGARDING SHAREHOLDER DEMOCRACY
ISSUES

This will provide you with my comments which I hope will assist you with your review of shareholder democracy.

I am a small private investor. I have invested in the stock market in Canada for about 35 years. For the last 25 years I have done so without the help of investment advisors. I am a retired lawyer.

Your task is described as a review of protections for shareholders' rights and corporate governance and a formal review of democracy in corporate governance in Ontario.

You have set about your job by looking at slate voting and majority voting for uncontested director elections, mandated shareholder advisory votes on executive compensation and effectiveness of proxy voting system.

I believe you are barking up the wrong tree. What is worse, if you develop rules in these areas to address what you consider defects in shareholder democracy, you will be lulled into thinking you have addressed the problem.

In my view, the problem is that senior management and boards are very close. The corporation is run in their collective interest. For a host of reasons so called independent board members are no solution. They give a suggestion of independence without the reality. I think the presence of independent directors, even a majority of them, lulls people into thinking the problem has been partially solved.

In your review, I suggest you consider that shareholder democracy and shareholders' rights should be considered to include the right to have the interests of senior management and directors aligned with their own.

The only way shareholders (small, minority or institutional) receive some reasonable measure of protection is where the interests of senior management, the board and shareholders are aligned. The interests of senior management and boards with options or virtual shares (often call deferred share units) are not aligned with shareholders because options and virtual shares carry no downside risk.

The solution is to require a major part of the salary/bonus of senior management to be paid in shares of the company that cannot be sold while the executive remains with the company. Senior management today receive such astronomical salaries that they do not need even half of them to live on.

As for directors, they are along for a nice ride. They are supposed to govern the company in the interests of shareholders, but they often are beholden to senior management for their board positions while, at the same time, they are responsible for senior management compensation policies. Directors should be required to acquire and maintain substantial shareholdings in the corporation. The required shareholdings of board members should be large enough to ensure their financial interests both to the upside and downside are aligned with shareholders in general.

I hope these comments will be of some assistance to you. I have made the alignment of board and senior management interests to my own an important criterion in my own investing. I want the board and senior management to have skins in the game. I think the investing public would be well served if this could be required in some fashion.

Respectfully submitted

Rodney Smith