

**Canadian Coalition for
GOOD GOVERNANCE**
THE VOICE OF THE SHAREHOLDER

May 28, 2014

Mr. Robert Day
Senior Specialist, Business Planning
Ontario Securities Commission
20 Queen Street West
Suite 2200, Box 55
Toronto, Ontario
M5H 3S8
rday@osc.gov.on.ca

Dear Mr. Day,

**Re: Ontario Securities Commission (“OSC”) Draft 2014-2015 Statement of
Priorities**

We thank you for the opportunity to provide you with our comments on the OSC’s draft 2014-2015 Statement of Priorities.

CCGG’s members are Canadian institutional investors that together manage over \$2 trillion in assets on behalf of pension fund contributors, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices in Canadian public companies, as well as the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders and to promote the efficiency and effectiveness of the Canadian capital markets. A list of our members is attached to this submission.

General

CCGG represents “the voice of the shareholder” and believes that it is vitally important that this perspective be reflected in regulatory endeavours, along with those of other stakeholders in the capital markets such as issuers and directors. CCGG is pleased to see that of the twelve priorities identified in the 2014-2015 Statement of Priorities as important areas where the OSC intends to focus its resources and actions, three of them deal with issues of significant importance to CCGG’s institutional shareholder members: corporate governance, shareholder democracy and the creation of a unified securities regulator.

Shareholder Democracy - Reform of the Proxy Voting System

We are pleased to see that the OSC is taking a leadership role in addressing systemic problems in the proxy voting system and that this continues to be a priority for the OSC for 2014-2015. The proposed publication of a progress report in 2014 with preliminary recommendations is a welcomed next step. We continue to encourage the OSC to work with other regulators and market participants to address the systemic problems with our proxy voting system. The OSC's work last year in engaging with stakeholders on this important issue was a valuable exercise.

Corporate Governance – Women on Boards

We support the OSC's continued focus on increasing gender diversity and encourage the OSC to publish proposed rules requiring disclosure about the number of women on boards and in executive management positions this year. While cognizant of the OSC's desire to avoid undue regulatory burdens on business, disclosure requirements which would increase transparency and hopefully lead to change are called for in light of the persistence of the lack of gender diversity on boards and in senior management. This information is of interest and value to investors.

We also encourage the OSC to focus on broader diversity issues beyond gender in the future, as we set out in our September 2013 response to the OSC's Consultation Paper on *Disclosure Requirements regarding Women on Boards and in Senior Management* and our April 2014 submission on the OSC's proposed regulatory amendments on the same topic¹.

Systemic Risk to Financial Markets – Co-operative Capital Markets Regulator

CCGG supports the OSC's intention to work with the Ontario, B.C. and Federal governments to support the creation of a Co-operative Capital Markets regulator.

Additional Shareholder Democracy Issues

We are happy to see that the draft Statement of Priorities focuses on several issues of concern to shareholders. We also would encourage the OSC to consider the following additional shareholder democracy issues in its priorities for 2014-2015:

- (i) *Majority Voting* – The new rules on majority voting which apply to TSX listed issuers also should be made to apply to the approximately 2100 issuers listed on the TSX-V. There is no reason to exclude the shareholders of smaller companies from this fundamental right. We also believe that the OSC should support the enactment of a statutory majority voting standard so that majority voting becomes the law and is not just a stock

¹ http://www.ccg.ca/site/ccgg/assets/pdf/submission_to_osc_staff_consultation_paper_58-g_women_on_boards_and_in_senior_management.pdf;
http://www.ccg.ca/site/ccgg/assets/pdf/submission_to_osc_april_16_2014_re_disclosure_gating_women_on_boards_and_in_senior_mgmt..pdf

exchange listing requirement, as we noted in our submission to Industry Canada on amending the CBCA.²

- (ii) *Access to the Proxy* – Even if the proxy voting system is fixed and we have majority voting for the election of directors, Canada still is missing a fundamental right for shareholders to have a meaningful say in which persons are put forward as director nominees. Current provisions under corporate statutes that permit shareholders to propose nominees are onerous and prohibitively expensive. As we noted in our submission to Industry Canada on amending the CBCA, other countries offer variations on proxy access as a matter of course.

We recommend that the OSC adopt rules that permit a significant shareholder to nominate directors in proxy materials on an equal footing with management nominees. We support the view that 3% of shareholders, who should be permitted to aggregate their holdings, should be able to nominate directors, without the need for any holding period, subject to a maximum such as 25% to distinguish proxy access from a change of control or board overthrow.

We also recommend that the OSC adopt rules that would require the use of a ‘universal proxy’ in all contested director elections. All director nominees in this situation should be included on the same proxy ballot whether nominated by management or by dissidents so that shareholders are able to freely choose the combination of nominees they wish to support, just as they are able to do if they attend the shareholder meeting in person.

- (iii) *Say on Pay* – As we noted in our submission to Industry Canada mentioned above, Canada is becoming an outlier among developed nations in not having a mandatory say on pay vote that allows shareholders to voice their views on the appropriateness of an issuer’s executive compensation practices. Say on pay has been mandated in the U.S., the U.K. and many European countries. While the number of issuers voluntarily adopting annual say on pay advisory votes in Canada continues to grow, only 3% of all Canadian public companies listed on the TSX or TSX-V have say on pay votes. In order that Canadian shareholders benefit from what is recognized globally to be an important means of communicating with issuers and boards, and in order to level the playing field for all issuers, the OSC should make an annual advisory say on pay vote mandatory for all TSX and TSX-V listed issuers.

- (iv) *Defensive Tactics* - The Canadian Securities Administrators’ (CSA) 2013 proposals on shareholders rights plans and the Autorite des marches financiers’ 2013 consultation paper on takeover bid defensive tactics have not yet resulted in any regulatory reform. We urge the OSC to ensure that the rights of shareholders are fully protected in any final rules. In what has become a polarized and political issue, we hope that the OSC

²http://admin.yourwebdepartment.com/site/ccgg/assets/pdf/Submission_to_Industry_Canada_May_14,_2014_re_~onsultation_Paper_on_the_CBCA_Final_signed.pdf

does not lose sight of the fundamental principle that the right of shareholders to sell their shares should not be stopped by boards of directors.

- (v) *Early Warning System* – We express the same hope with respect to any regulatory reform resulting from the CSA's 2013 consultation on the Early Warning System, namely, that the Canadian shareholders' unique perspective be addressed when considering the appropriate early warning threshold.

We thank you again for the opportunity to provide you with our comments. Please feel free to contact our Executive Director, Stephen Erlichman (416.847.0524 or serlichman@ccgg.ca) or our Director of Policy Development, Catherine McCall (416-868-3582 or cmccall@ccgg.ca) if you would like to discuss this matter further or if we can be of any assistance.

Yours very truly,

A handwritten signature in blue ink, appearing to read "D. E. Chornous".

Daniel E. Chornous, CFA
Chair of the Board
Canadian Coalition for Good Governance

CCGG MEMBERS

Alberta Investment Management Corporation (AIMCo)
Alberta Teachers' Retirement Fund Board
Aurion Capital Management Inc.
BlackRock Asset Management Canada Limited
BMO Harris Investment Management Inc.
BNY Mellon Asset Management Canada Ltd.
British Columbia Investment Management Corporation (bcIMC)
Burgundy Asset Management Ltd.
Canada Pension Plan Investment Board (CPPIB)
Canada Post Corporation Registered Pension Plan
CIBC Global Asset Management
Colleges of Applied Arts and Technology Pension Plan (CAAT)
Connor, Clark & Lunn Investment Management
Desjardins Global Asset Management
Franklin Templeton Investments Corp.
GCIC Ltd.
Greystone Managed Investments Inc.
Healthcare of Ontario Pension Plan (HOOPP)
Industrial Alliance Investment Management Inc.
Jarislowsky Fraser Limited
Leith Wheeler Investment Counsel Ltd.
Lincluden Investment Management
Mackenzie Financial Corporation
Manulife Asset Management
NAV Canada (Pension Plan)
New Brunswick Investment Management Corporation (NBIMC)
Northwest & Ethical Investments L.P. (NEI Investments)
Nova Scotia Pension Agency
Ontario Municipal Employees Retirement Board (OMERS)
Ontario Pension Board
Ontario Teachers' Pension Plan (Teachers')
OPSEU Pension Trust
PCJ Investment Counsel Ltd.
Public Sector Pension Investment Board (PSP Investments)
RBC Global Asset Management Inc.
Russell Investments Canada Limited
Sionna Investment Managers Inc.
Société de transport de Montréal - Régime de Retraite, Pension Funds
Standard Life Investments Inc.
State Street Global Advisors, Ltd. (SSgA)
TD Asset Management Inc.
Teachers' Retirement Allowance Fund
The United Church of Canada (Pension Board)
UBC Investment Management Trust Inc.
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