Pension Investment Association of Canada

Association canadienne des gestionnaires de caisses de retraite

January 27, 2017

Corporate Governance Reform Team
Department for Business, Energy & Industrial Strategy,
3rd Floor Spur 1,
1 Victoria Street,
London
SW1H 0ET
Via email corporategovernance@beis.gov.uk

Dear Corporate Governance Reform Team,

Re: Green Paper - Corporate Governance Reform

PIAC would like to extend its support to the UK Government's proposals outlined in the Green Paper issued on November 29, 2016 intended to strengthen the UK's corporate governance framework. We appreciate the opportunity to provide comments in connection with these proposals.

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over $1.5 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.

PIAC member funds are long-term institutional investors in the global equity markets. Through proxy voting our members promote better corporate governance and corporate responsibility with the objective of enhancing issuer performance and shareholder value. PIAC agrees with the comments made by the Prime Minister in her preamble to the Green Paper that good corporate governance is about having appropriate checks and balances within big business in order to strengthen decision making and accountability.

Responses to the Green Paper

We have focused our responses on Section 1 of the Green Paper addressing executive pay.

Question 1

We believe that UK Government should be mindful of unintended consequences that may result from strengthening shareholder powers in the form of additional binding votes on pay. For example, if binding votes apply only to certain components of pay, such as variable incentives, it may result in companies raising the level of out-of-scope elements, such as base salaries. Strengthening shareholder voting rights may also lead to a convergence towards a pay framework that is perceived by boards to increase the likelihood of a positive vote recommendation from proxy advisors rather than what may be most appropriate for the company's circumstances.

We support measures described under Option (v) as a method of encouraging greater dialogue between shareholders and boards on pay. In our view, votes on pay are most effective when they are part of an integrated engagement process. While voting is an efficient way to signal shareholder satisfaction with pay policies and decisions, we believe that engagement both before and after the shareholder meeting provides the opportunity for boards to receive direct and specific feedback on areas of concern to investors. We view engagement as an essential element of the process since there may be a range of views among shareholders who have opposed remuneration reports.

Question 2

We believe that individual investors play an important role in the market. According to Broadridge Financial Services, these shareholders vote at fewer than 30% of meetings, compared to over 90% for institutional shareholders[1] and we are therefore supportive of considering steps aimed at improving individual investor participation in shareholder meetings outlined under Option (iii).

Question 3

In our view, strengthening the requirement to take into account the views of shareholders will have a positive impact on the effectiveness of the remuneration committee. We support the introduction of more specific guidance in the Corporate Governance Code to encourage greater consultation between the remuneration committees and shareholders.

Question 4

We have concerns with the pay ratio reporting requirement proposed under Option (i). In our view, the ratio of CEO pay to median worker pay may lead to inappropriate comparisons and may not provide meaningful insights that would help investors hold boards to account for their remuneration decisions. In addition to the limited usefulness of this metric, the proposed pay ratio reporting will likely represent a significant financial burden for companies. In quantifying the costs of compliance for its own pay ratio disclosure rules, the US Securities and Exchange Commission projected that public

[1] http://media.broadridge.com/documents/Broadridge-ProxyPulse-3rd-Edition-2016.pdf

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companies will collectively spend US$1.3B in initial costs during the first year of reporting and more than US$520 million per year going forward.[2]

Question 5

We are supportive of strengthening disclosure for performance targets triggering annual bonuses and benefits as this would help shareholders better understand the company's pay policies and decisions. We recommend retaining current exemptions for information deemed commercially sensitive. Removing this exemption may result in compensation committees avoiding the use of performance metrics which are well aligned with value creation simply to avoid potential harm that would result from disclosing this information to competitors. However, we believe that requiring retroactive disclosure of all bonus targets would help promote greater compensation committee accountability. In our view, there is limited risk of competitive harm in disclosing performance targets related to results that have already been reported.

Question 6

We are supportive of plans that have reasonable vesting periods. While we feel that the duration of the holding period for share options awarded to executives should be three years at a minimum, we are not opposed to an extension. We feel that incentives should be linked to specific performance targets aligned with the Company's long-term strategic objectives. As a result, we are opposed to the use of restricted share awards as an alternative to LTIPs.

PIAC applauds the UK Government for being proactive in seeking comments at this time in order to maintain an up to date corporate governance framework. We trust that our responses have been helpful. Please do not hesitate to contact us if you have any further questions or concerns. We thank you for the attention to our letter and would be happy to discuss this matter further with you or answer any questions you may have. Please do not hesitate to contact Katharine Preston, Chair of the Investor Stewardship Committee (416-681-2944 or kpreston@optrust.com), for additional information.

Yours sincerely,

Kevin Fahey
Chair

[2] https://www.sec.gov/rules/final/2015/33-9877.pdf