



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

September 29, 2017

Director
Financial Institutions Division
Financial Sector Policy Branch
Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa ON K1A 0G5

Email: fin.legislativereview-examenlegislatif.fin@canada.ca

Dear Sir/Madam,

Re: Review of the Federal Financial Sector Framework

The purpose of this letter is to respond to the consultation document released on August 11, 2017 on the Review of the Federal Financial Sector Framework (the “Consultation”) released by the Department of Finance Canada.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over \$1.8 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.

Corporate Governance

PIAC applauds the Department of Finance Canada for considering corporate governance updates to the federal financial institutions statutes which would align with proposed changes to the *Canada Business Corporations Act* introduced in Bill C-25. We believe that the amendments proposed in Bill C-25 represent a significant enhancement in corporate governance practices and are relevant to supporting the safety and soundness of the financial system.

Promoting Diversity on Boards

In our view, corporate decision-making benefits from diversity of thought which in turn leads to improved direction, leadership, growth and performance. Gender diversity on boards and senior executive positions tends to improve an organization's risk culture, as well as its ability to innovate, attract, retain and cultivate talent amidst changing demographics and unpredictable markets.

PIAC supports the implementation of a "comply or explain" model in order to promote greater corporate accountability for board diversity, which should in turn have a positive impact in increasing the number of women on boards and in senior management of federally regulated financial institutions.

Strengthening Shareholder Democracy in the Election of Directors

PIAC believes that providing shareholders with a meaningful voice in both the nomination and election of directors is a fundamental principle of good corporate governance and board accountability. PIAC strongly endorses amending federal financial institution statutes to limit each director's term to the company's subsequent annual meeting, requiring individual elections for each director candidate and providing for a "true majority voting" system of electing directors. We believe that these requirements will strengthen the corporate governance of financial institutions by holding directors accountable for their performance and ensuring that members of the board have the full confidence of shareholders.

In our view, shareholders should also have the right to propose their own director candidates for inclusion in a company's proxy materials on equal footing with management's nominees, subject to reasonable limitations ("proxy access"). We urge the Department of Finance Canada to amend federal statutes to provide shareholders with proxy access to enhance director accountability and the ability to initiate change if the board fails to improve poor governance or financial performance.

Distributing Meeting Materials

PIAC strongly supports amendments permitting the use of "notice and access" for all federally regulated financial institutions. We believe that this approach will reduce costs for financial institutions and provide shareholders with access to essential meeting materials in an efficient manner.

Unclaimed Balances

We would also like to comment on the question of unclaimed balances in the pension context, given your interest in modernizing the administration of the current program for unclaimed bank deposits. PIAC supports the expansion of the federal unclaimed balance program to include balances held by federally-regulated pension plans for members that cannot be located.

Having beneficiaries that cannot be located imposes a significant administrative burden on plan administrators. This can be particularly problematic in the case of (i) plan wind-ups where sponsors are unable to fully discharge all liabilities and therefore the regulators are unable to provide final approvals of the windup and (ii) where the missing member reaches age 71 and the plan administrator is unable to comply with the *Income*

Tax Act (Canada) requirement to commence pension benefits no later than the end of the year in which the member reaches age 71. Moreover, with the increasing move to DC pension plans among large corporations, we believe that the potential for individuals to leave small balances unclaimed with former employers is likely to increase over time.

The Canadian Association of Pension Supervisory Authorities has acknowledged the administrative difficulties of un-locatable members and has struck a working group to examine this issue. PIAC is a strong proponent of harmonization and is supportive of the federal government anchoring a national program which would be accessible by not only federally-regulated pension plans but also by pension plans regulated by the individual provinces. A single custodian on a national level would likely reduce administrative costs and result in higher service levels for plan administrators and for persons seeking to claim pension balances.

We would be pleased to discuss these issues with you at your convenience.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Kevin Fahey". The signature is written in black ink and is positioned above the printed name and title.

Kevin Fahey
Chair