



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

May 9, 2018

Robert Day,
Senior Specialist Business Planning
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
By email: rday@osc.gov.on.ca

Dear Mr. Day,

Re: Notice 11-780 – Statement of Priorities

Thank you for this opportunity to respond to the OSC's proposed 2018-2019 Statement of Priorities.

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 \$2 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.

We appreciate the OSC's articulation of its priorities for the coming year and the opportunity to provide commentary. We monitor both this Draft and final Notice annually, as well as the Report Card on the OSC's performance against the established priorities. The level of transparency and accountability evidenced by these publications is fully supported by PIAC.

We support the OSC's overarching priority areas of: investor protection; effective compliance; responsive regulation; financial stability through effective oversight; and being an innovative, accountable and efficient organization. We note that the OSC has set out an extensive and ambitious program of objectives and deliverables to align with each priority.

Previously, in commenting on the 2017-2018 Statement of Priorities we expressed broad support for the OSC's objective to identify opportunities to reduce the regulatory burden for issuers. We are pleased to see the publication of CSA Staff Notice 51-353 Update on CSA *Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* on which we commented in July 2017 on behalf of our members and are reviewing it with interest.

Corporate Governance and Gender Diversity

PIAC believes gender diversity is core to a well-functioning board. It supports greater long-term value for shareholders and companies, and also promotes effective governance, leadership development and enhanced corporate reputation. We note the issue of underrepresentation of women on the boards and in executive officer positions (WoB) has been referenced in the OSC's statements of priorities since 2014.

Although overall percentages for women on boards have improved for TSX issuers from 13.1% in 2013 to over 20% in 2017, the rate of change for percentages of women on public company boards in Canada remains low. In addition, considering only 35% of TSX issuers evaluated in a 2017 CSA study (*CSA 58-309 Staff Review of Women on Boards and in Executive Officer Positions*) have adopted a board gender diversity policy, while 11% have adopted targets, there remains significant room for progress. Although quality of disclosure for WoB was not the review's focus, the CSA study concluded disclosure was often boilerplate or vague. Clearly, many issuers are not fully engaged or cognizant of this issue's importance to regulators and shareholders.

We believe the current low proportion of women on boards does not reflect the extensive talent pool of women who have the required business acumen, experience and education to take on greater roles in organizational decision making. We note the earlier OSC priority to improve percentages of WoB has been downgraded to a "focus", yet the desired improvements have not materialized. PIAC encourages OSC leadership on this issue, lest it be perceived that improving the representation of women on boards and in executive officer positions is no longer considered important or urgent. Therefore, we suggest the OSC put the issue of gender diversity back on the agenda as a stand-alone priority in its own right.

Systemic Risk Oversight

PIAC commends the OSC for its intention to monitor risks and trends, improve market resilience, promote cybersecurity resilience, and reduce the potential risk of global systematic events. It is vital for financial system regulators to require companies to disclose their exposure to material economic, environmental and social risks. Furthermore, for climate-related risks, company disclosure should be in alignment with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

PIAC supports enhanced disclosure of environmental, social and governance factors by Canadian issuers and is encouraged by the OSC and CSA's efforts to engage market participants on this matter. Several PIAC members have responded to the TCFD Consultations, Phase I and Phase II, and recognize climate change as a systemic risk with financial implications for market participants. As such, we further encourage the OSC in its efforts to improve climate related financial disclosure.

Advisory Vote on Executive Compensation (“Say on Pay”)

In our response provided to both the 2016-17 and 2017-18 draft Statement of Priorities, we requested the OSC include mandatory Say on Pay for issuers and we repeat our request here.

The Say on Pay vote is an enormously useful tool for issuers and investors to assess shareholders' acceptance of the corporation's approach to executive compensation, and it offers an important means of communication between shareholders and issuers. We believe that Say on Pay aligns with the OSC's mandate to foster fair and efficient capital markets, and its desire to be a modern securities regulator. Globally, Say on Pay is recognized as a corporate governance best practice and Canadian investors should be able to benefit from this practice when investing domestically in Canadian issuers. However, Canada remains the only G7 country not to require that Say on Pay be on the ballot.

In offering shareholders the option of directly approving or disapproving executive compensation, Say on Pay provides a more precise and transparent mechanism for shareholders to communicate their views and concerns, as opposed to the less transparent option of withholding their votes for the election of directors who are members of the compensation committee. The overall level of shareholder support expressed through Say on Pay clearly communicates shareholder views, allowing boards of directors to respond more effectively and proactively to concerns. Say on Pay allows shareholders to form more informed views regarding executive compensation structure, its quantum, the circumstances under which payments will be made, and the rationale underpinning compensation structure.

We believe this important issue is fundamental to good corporate governance and are concerned it remains a less significant and urgent issue to the OSC. In alignment with the OSC's goals to be an effective and responsive securities regulator, to align with international best practice standards and to elevate investor confidence, we again request the OSC include mandatory Say on Pay for issuers in the 2018-2019 Statement of Priorities.

We further encourage the OSC take concrete steps towards implementing mandatory Say on Pay to level the playing field for all Canadian issuers, so Canadian shareholders may benefit from what is increasingly recognized globally as best corporate governance practice.

Thank you for the opportunity to respond to the proposed 2018-2019 Statement of Priorities.

Yours sincerely,

A handwritten signature in blue ink that reads "Brenda King". The signature is written in a cursive, flowing style.

Brenda King
Chair