



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

August 2, 2011

Directorate General Internal Market and Services/
Company Law, Corporate Governance and Financial Crime Unit
European Commission
SPA2 03/103, 1049
Brussels, Belgium
Email: markt-complaw@ec.europa.eu

**RE: Green Paper on the European Union Corporate Governance Framework
(the “Consultation”)**

This submission is made by the Pension Investment Association of Canada (“PIAC”) in reply to the request for comments by the European Union (“EU”) in its Consultation issued on April 5, 2011.

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 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 believes that good corporate governance is the effective oversight, direction and control of a corporation. When combined with an objective self-assessment process, good governance in companies enhances long-term shareholder value and increases confidence in capital markets. PIAC appreciates the European Commission's extensive work to improve corporate governance in the EU and in seeking public input through the Consultation. We have provided comments in respect of the questions or issues where we felt that our perspective might be helpful.

EU Corporate Governance Framework

We believe that maintaining a uniform regime consisting of limited mandated minimum requirements and corporate governance codes based on a ‘comply or explain’ model

strikes the best balance between flexibility, costs to companies and the needs of investors. With this model, there does not need to be a differentiated approach to corporate governance based on company size or listing.

However, the effectiveness of the 'comply or explain' approach is premised on companies providing sufficiently detailed explanations on their governance practices and any departures from governance codes. We support the introduction of more detailed requirements for the information to be published by companies on their governance practices and any departing from the recommendations of corporate governance codes. We also support authorizing monitoring bodies, such as securities regulators, to oversee the quality of disclosure and require the companies to complete the explanations where necessary.

Board of Directors

Separation of Chair and CEO

We agree that the board of directors has a vital part to play in the development of responsible companies and that the role of the chair has a critical impact on the board's functioning and success. We believe that the chair of the board and chief executive officer are separate roles with functions and primary duties that are very different. The chair is responsible for leading the board and ensuring it acts in the long-term best interests of the corporation and shareholders as it oversees management and the company's growth. The CEO is responsible for leading management, developing and implementing the company's business strategy and reporting to the board. These functions and duties should be held by two different individuals.

Board Composition

We agree that diversified expertise of members is key to an efficient and effective board. This includes a variety of professional backgrounds, different leadership experience and national or regional backgrounds. The board as a whole must have the necessary experience and qualifications to fulfill its duties. Companies should be required to provide detailed disclosure of the company's requirements for qualifications and standards for directors and of the business and professional credentials of each director as they relate to the effective oversight of the company's business and strategy. Companies should be encouraged to have a gender balance on their board, but not be required to meet any preset quota.

Availability and Time Commitment

While we agree that the role of directors has grown in complexity and importance, we are not in favour of mandating the maximum number of boards on which a director should sit. We believe the issue of director availability and time commitment can be addressed by encouraging boards to establish processes to regularly evaluate and improve the effectiveness of the board and its committees and the contribution of individual board and committee members.

Executive / Director Remuneration

Detailed disclosure of executive compensation for both executives and the non-executive directors should be mandated, including the remuneration policy, the annual remuneration report and individual remuneration. The remuneration policy and remuneration report should be put to a mandatory annual vote by shareholders the results of which are non-binding.

Risk Management

We believe that the board is responsible for setting the overall long-term direction of the company, which includes establishing the company's risk appetite. We agree that board should disclose to shareholders the board's assessment of key risks and what steps the company is taking to monitor and mitigate these risks.

We also believe that boards should be responsible for ensuring that the appropriate risk management arrangements are in place to identify, monitor and mitigate key risks. Measures that boards can take to fulfill this duty include establishing the right incentives and penalties for employees to discourage risk taking that is inconsistent with the company's risk appetite.

Shareholders

As noted above, PIAC believes that good corporate governance enhances long term shareholder value and is committed to improving the governance practices of the companies in which its members invest. The vehicles used by pension plans to improve corporate governance practices include the voting of their shares through the proxy voting process, participation in organizations that champion the implementation of more effective corporate governance (such as PIAC, the Canadian Coalition for Good Governance, and International Corporate Governance Network) and, in some cases, collaborative and direct engagement with companies.

Our members believe that proxy advisory firms are an efficient and cost effective way for institutional investors with a large number of investments to obtain research, analysis and vote processing to assist them with their proxy voting. Given that proxy advisors are accountable to their clients, who ultimately have control over the vote, we believe that additional regulation promoting greater transparency over their analytical methods is unnecessary.

We do feel that the practice of providing voting recommendations on matters put to a shareholder vote while also offering consulting services to the issuer on the same matters creates a potential conflict of interest for proxy advisory firms. To date, we are unaware of any evidence suggesting recommendations have been tainted as a result of providing both proxy advisory and consulting services. While we do not support introducing legislative measures restricting proxy advisors from providing consulting services to companies, we believe that specific disclosure regarding the presence of a potential conflict of interest should be required.

We appreciate this opportunity to comment on the Consultation. Please do not hesitate to contact Stephanie Lachance, Chair of the Corporate Governance Committee (1-514-925-5441; slachance@investpsp.ca), if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'miazga', with a stylized flourish extending to the right.

Barb Miazga
Chair