



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

September 9, 2016

Financial Stability Board
Centralbahnplatz 2
CH-4002
Basel
Switzerland
Via E-mail: fsb@fsb.org

Dear Sir/Madam:

Re: FSB Peer Review on the OECD Principles of Corporate Governance ("the Principles")

This letter constitutes the Pension Investment Association of Canada's (PIAC) response to the request for feedback from the Financial Stability Board (FSB) on the implementation of the OECD Principles of Corporate Governance in the context of publicly listed financial institutions. PIAC welcomes this opportunity to comment further on how the Principles are being implemented across various markets as our members invest globally.

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 CAD1.5 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.

In responding to the Peer Review launched by the FSB, we are focusing our comments on the priorities identified within the Terms of Reference, covering Chapters V and VI. When we consider these chapters covering Disclosure & Transparency and Responsibilities of the Board, our overall observation would be that the Principles are inconsistently applied across markets and the FSB could play a valuable role in encouraging those with lower levels of implementation to improve current standards. More specific comments are provided below according to the relevant chapter.

Disclosure & Transparency

Various levels of disclosure exist across markets making the exercise of stewardship responsibilities challenging. When it comes to board members, the quality of information provided

to investors varies as does the definition of independence that is used. Investors must be able to assess the experience and qualifications of those who represent them on the Board and, too often, insufficient information is available to do so.

We would also welcome improvements to the disclosure of foreseeable risk factors. Too often, firms rely on boilerplate language in describing potential risk factors. This is true in many markets and not concentrated within a single region. It is critically important that investors are able to assess the material risks to a company, how these risks are being managed and how the board exercises its oversight responsibilities on risk management.

Variations in accounting standards, the reporting of information that falls outside those accounting standards (e.g. non-GAAP information) and the disclosure of non-financial information create challenges for international investors in understanding and comparing financial and non-financial information. It is our view that the Principles do not adequately define what 'high quality standards' are, leaving the interpretation up to each market and leading to less assurance for investors.

We would also agree with the Principles in stating that access to information can be burdensome despite being required by legislation. As investors the absence of a centralized repository for data means we must frequently engage in onerous data collection in order to find what is necessary. Examples of more efficient systems include SEDAR (System for Electronic Document Analysis and Retrieval) in Canada and EDGAR (Electronic Data Gathering, Analysis, and Retrieval) in the United States. These central repositories are extremely useful for investors and we would encourage broader adoption of similar systems.

Responsibilities of the Board

As this peer review is focused on the financial sector, the FSB should consider the reputational and financial damage that has resulted from investigations, fines and settlements in various markets. Financial firms have been subject to settlements in the billions of dollars over certain business practices; suggesting that boards must pay particular attention to setting the tone for adhering to high ethical standards as stated in the Principles. Recommendations from the FSB in terms of the board establishing high ethical standards as well as fulfilling their oversight role on risk management would be welcomed by investors.

In terms of assessing whether a Board possesses the right mix of skills and experience, we are encouraged that the Principles specifically mention gender diversity initiatives as something to consider. There is increasing global momentum behind improving gender diversity on boards and we have seen the benefit of mandatory disclosure rules in Canada, which may serve as a positive example in other jurisdictions. Notwithstanding this momentum, we would note that many markets are still not addressing the issue despite overwhelming evidence that greater diversity (gender and otherwise) improves business outcomes. The United States is noticeably silent in this area and uniform disclosure rules between the United States and Canada would be beneficial given the extent of cross-listing in these markets.

Also related to board composition, the Principles promote an active role for shareholders in the nomination and election of directors. However, this active involvement is often challenged by companies in some markets where this role is not clearly defined. For example, in the United States, shareholders have had to engage in an extensive, multi-year campaign to win the right to access the proxy with their own nominees. This still remains a function of a company's by-laws and is not supported by the regulatory regime. As long-term shareholders, we support balanced proxy access rules that are not onerous for companies but remain accessible for shareholders.

This active role in the election of directors is also hampered in those markets that do not provide for a majority voting standard. Many markets, including Canada, still function under a plurality voting standard under regulatory and/or legal instruments, which seriously undermines the election process and the accountability of directors to shareholders.

There is also much emphasis on independence within the Principles (Section E). Our experience shows that market approaches and adherence to high levels of independence are highly varied and an ongoing concern in particular markets. We would reiterate our earlier comments on clarifying the meaning of independence as well as the preference of most institutional investors to separate the roles of Chair and CEO.

Conclusion

We hope these comments are helpful as the FSB pursues the peer review and thank you again for this opportunity to comment. Please do not hesitate to contact Katharine Preston, Chair of the Investor Stewardship Committee (1-416-681-2944, kpreston@optrust.com), if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,



Lisa Jankov,
Chair