



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

December 11, 2020

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 11-791 – Statement of Priorities

Thank you for giving PIAC the opportunity to respond to the OSC's proposed 2021-2022 Statement of Priorities.

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

We appreciate the OSC sharing its priorities for the coming year and providing the opportunity to comment. We monitor this Draft and final Notice annually, as well as the Report Card on the OSC's performance against its priorities. The transparency and accountability in these publications is fully supported by PIAC.

We support the OSC's priorities of promoting confidence in Ontario's capital markets, reducing regulatory burden, facilitating financial innovation and strengthening the OSC's organizational foundation. We note once again that the OSC has set out an extensive and ambitious program of objectives and deliverables to align with each priority. In particular we are encouraged to see that fostering diversity and inclusion at the OSC is listed as a priority. We offer the following comments for your consideration.

Systemic Risk Oversight

PIAC commends the OSC for continuing to monitor financial stability risks and trends, improve market resilience, and reduce the potential risk of global systematic events. As stated in our response to the last two draft Statements of Priorities, financial system regulators should require companies to disclose their exposure to material economic, environmental and social risks, including climate change, in alignment with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

PIAC is encouraged by the OSC and CSA's efforts to engage market participants on this matter but is disappointed to see limited progress. PIAC recommends the OSC include information on such risks in its investor education outreach program.

We are disappointed to again see no priorities related to issuers and their corporate governance performance, reporting and disclosures of environmental, social and governance (ESG) risks, say-on-pay, and diversity.

Environmental, Social and Governance Reporting and Disclosure

While we support burden reduction and continue to monitor the OSC's progress on its ongoing initiatives in this area, it should not be advanced at the expense of other investor protections which the Commission previously established as priorities but has not yet completed. We refer specifically to corporate governance, ESG risk disclosure and gender diversity, themes we commented on previously. We do not see sufficient improvements in these areas, neither in regulatory guidance nor issuer behaviour, yet they continue to be pressing issues for PIAC members. The CEOs of Canada's eight largest pension plans recently (on November 25, 2020) released a statement communicating the need for better and more consistent ESG disclosure from issuers. Additionally, the federal government has indicated its commitment to ESG concerns through measures such as Bill C-12 (Canadian Net-Zero Emissions Accountability Act). Therefore, we believe that the Commission should not have abandoned these ESG-related priorities and urge that they be reinstated in the work plan. In regulating ESG disclosure, the OSC could reduce the burden to issuers given the many disparate disclosure frameworks that exist. The OSC should therefore develop concise regulations for ESG disclosure.

Diversity

We note that the Ontario Capital Markets Modernization Taskforce proposed amending securities legislation to require TSX-listed companies to set targets, and annually provide data in relation to the representation of women, and black people, indigenous people, and people of colour (BIPOC), on boards and in executive officer positions. PIAC believes that the OSC should include as one of its priority's greater inclusion of BIPOC individuals on boards and within executive roles of issuers.

Gender diversity on boards and in executive officer positions was a priority in 2018 when the Commission committed to review related disclosure requirements. The OSC also identified it as a priority beginning in 2014. On behalf of shareholders and investors, PIAC believes the Commission should provide direction to issuers regarding its expectations for transparency regarding issuers' practices to achieve gender equality in upper management and governance. Although there has been improvement in issuer board gender diversity in the last several years, it is not yet at a point where we believe it can be dismissed as a priority. We reiterate our comments on the last two Statements of Priorities that the current low proportion of women on boards and in executive positions ignores the extensive talent pool of women with the required business acumen, experience and education to assume senior roles within organizations. Accordingly, we suggest the OSC reintroduce gender diversity as a priority.

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

In our responses to the last two draft Statements of Priorities, we requested the OSC include mandatory Say on Pay for issuers which we reiterate again here.

The Say on Pay vote is an enormously useful tool for issuers and investors to assess shareholders' acceptance of a corporation's approach to executive compensation, and it offers an important means of communication between shareholders and issuers. We believe 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 corporate governance best practice and Canadian investors should be able to benefit from this practice when investing in Canadian issuers. Although Say on Pay was contemplated in recent amendments to the Canada Business Corporations Act (CBCA), it is still unclear what the scope of those requirements might be or when they will be implemented. Canada remains the only G7 country without a comprehensive requirement for Say on Pay on the ballot.

In offering shareholders the option to directly approve or disapprove executive compensation, Say on Pay provides a precise and transparent mechanism for shareholders to communicate their views and concerns, as opposed to the less transparent option of withholding votes for the election of directors who are members of the compensation committee. The 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 facilitates informed views regarding executive compensation structure, its quantum, the circumstances under which payments will be made, and the rationale underpinning compensation structure.

PAIC is disappointed this important issue, which is fundamental to good corporate governance, remains a less significant and less urgent issue to the OSC. To support the OSC's goals to be an effective and responsive securities regulator, to align with international best practice standards and the anticipated CBCA amendments, and to elevate investor confidence, PIAC again respectfully requests the OSC include mandatory Say on Pay for issuers in the 2021-2022 Statement of Priorities.

Thank you for the opportunity to respond to the proposed 2021-2022 Statement of Priorities.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'S. Fréchet', with a long horizontal stroke extending to the left.

Simon Fréchet
Chair