

January 29, 2021

Garvin Payne
International Corporate Governance Network
Saffron House
Ground Floor 6-10 Kirby Street
London, EC1N 8TS UK
Attn: Garvin.Payne@icgn.org

Dear Mr. Payne,

Re: ICGN Member Consultation Revisions to ICGN Global Governance Principles Invitation to Comment

We thank you for the opportunity to provide feedback on the Revisions to the ICGN Global Governance Principles (the 2021 Governance Principles).

CCGG's members are Canadian institutional investors that together manage approximately \$4.5 trillion in assets on behalf of pension fund contributors, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices, including the governance of environmental and social matters, at Canadian public companies and assists institutional investors in meeting their stewardship responsibilities. CCGG also works towards the improvement of the regulatory environment to best align the interests of boards and management with those of their investors and to increase the efficiency and effectiveness of the Canadian capital markets. A list of our members is attached to this submission.

General Comments

CCGG supports the proposed direction and substance of the revisions to the 2021 Governance Principles. In particular, we were pleased to see the following:

- **ESG integration:** The 2021 Governance Principles propose to weave expanded guidance throughout the principles, highlighting the board's role in oversight of the integration of environmental, social, and governance (ESG) matters into corporate governance expectations. Proposed revisions include updated guidance with respect to ESG integration into enhanced dialogues with shareholders (and other stakeholders), risk management,

corporate strategy, executive compensation, performance measurement and a new guidance on ESG data, standards, materiality and reporting. CCGG supports this approach¹.

- **Increased focus on integrating relevant stakeholder interests into governance while preserving the distinction between stakeholders and shareholders:** The 2021 Governance Principles do not amend the substance of *Principle 1: Board role and responsibilities*, which states “the board should act on an informed basis and in the best long-term interests of the company with good faith, care and loyalty, for the benefit of shareholders, while having regard to relevant stakeholders, including creditors”.

The proposed revisions do, however, provide new guidance with respect to clarifying that the board has a role in understanding and balancing “relevant” stakeholder interests. CCGG supports the approach taken by the ICGN on this issue because it continues to distinguish between shareholders and stakeholders while acknowledging that stakeholder interests are relevant to the long-term best interests of the company. Related to this, CCGG supports the inclusion of the new guidance to boards on their oversight of capital allocation, in particular with respect to the concept of developing and disclosing a framework that addresses appropriately balancing the interests of providers of capital including both shareholders and creditors to support long-term strategy.

- **Diversity:** The 2021 Governance Principles propose to expand guidance on diversity that ties both board and workforce diversity to inclusive decision-making, the company’s purpose and key stakeholders. The proposed revisions include specific recognition that a company’s reporting with respect to diversity should explain how diversity supports and is integrated into strategy, and how it informs corporate succession planning (both at the board level and throughout the company). The 2021 Governance Principles also incorporate a broad definition of diversity that includes individuals of different genders, ethnicities, social and economic backgrounds and personal attributes. While recognizing that diversity is a rapidly evolving conversation in the context of governance, CCGG has long advocated for a contextual approach to diversity that takes into account relevant stakeholders, notably that, to the extent practicable, a board should reflect the communities in which the corporation sells its good or services, which is consistent with the approach in the 2021 Governance Principles².
- **Quantum of remuneration and “societal norms”:** The 2021 Governance Principles propose to amend *Principle 6: Remuneration* to incorporate new criteria for assessing aggregate remuneration. The amended language provides that for boards “the level of quantum should be defensible relative to social norms” in addition to the existing criteria of balancing the appropriateness of remuneration with payments of dividends to shareholders and retention of capital for future investments. Additional new guidance as to what is meant by “societal

¹ CCGG advocates for the integration of environmental and social issues into governance at the board level. See the Canadian Coalition for Good Governance, *The Directors’ E&S Guidebook*, 2018 [online: <https://ccgg.ca/policies/>]

² Canadian Coalition for Good Governance, *Building High Performance Boards*, 2013, 2013 at p. 9 [online: <https://ccgg.ca/policies/>]

norms” is proposed which explains that the concept is rooted in concerns of income inequality and recognition that executive pay levels should take into consideration the pay level of the average company worker and the average median income of the company’s place of business. While CCGG has not formulated a public position on this to date, we view the guidance as helpful to boards, especially as it further informs new guidance with respect to understanding relevant stakeholder perspectives and capital allocation frameworks.

- **Shareholder meetings and voting:** The 2021 Governance Principles introduce a new stand-alone principle, *Principle 10: Shareholder meetings and voting*. Principle 10 incorporates and updates prior guidance on shareholder meetings which is appropriate and needed given the rapid adoption of virtual shareholder meetings that occurred as a result of the Covid-19 pandemic. CCGG supports the ICGN’s position that hybrid meetings which permit in-person or electronic attendance, voting and interaction between all participants are preferred and that entirely virtual meetings should be discouraged if they cannot replicate this experience for all participants.

Specific Comments

In addition to the above general comments, we have the following observations of a more technical nature:

- Principle 1: Board role and responsibilities:

Guidance 1.1 Responsibilities:

- (a) Recommend that the language of this guidance clarify that boards have a role in establishing the company’s purpose, values and strategy (not just disclosing it). This is consistent with establishing the board’s oversight responsibility to the company. Defining a corporation’s purpose should not be within the purview of management alone. This is consistent with the approach taken by the UK Corporate Governance Code³.
- (b) Recommend that the language of this guidance be revised to encourage the board to not only *instil* high standards of business ethics, corporate conduct, culture and integrity throughout the company, but also to *demonstrate* these values and behaviours at the board level.

Consider clarifying this guidance to provide context with respect to what is meant by “the governance of sustainability in the company”. It is not clear how this is integrated with or distinct from other references within the draft with respect to oversight of environmental, social and governance matters.

³ Financial Reporting Council, *The UK Corporate Governance Code*, 2018, see Principle 1 Board Leadership and Company Purpose, Principle 1(B) [online: [2018-UK-Corporate-Governance-Code-FINAL.PDF \(frc.org.uk\)](https://www.frc.org.uk/~/media/2018-UK-Corporate-Governance-Code-FINAL.PDF)]

Conclusion

We thank you again for the opportunity to provide you with our comments. Please feel free to contact our Executive Director, Catherine McCall, at cmccall@ccgg.ca or our Director of Policy Development, Sarah Neville, at sneville@ccgg.ca if you would like to discuss the matters in this letter further or if we can be of any assistance.

Yours truly,

A handwritten signature in blue ink, appearing to read 'M. Moffat', with a stylized flourish at the end.

Marcia Moffat
Chair, Canadian Coalition for Good Governance

CCGG MEMBERS 2021

- Alberta Investment Management Corporation (AIMCo)
- Alberta Teachers' Retirement Fund (ATRF)
- Archdiocese of Toronto
- BlackRock Asset Management Canada Limited
- BMO Global Asset Management Inc.
- Burgundy Asset Management Ltd.
- Caisse de dépôt et placement du Québec
- Canada Pension Plan Investment Board (CPPIB)
- Canada Post Corporation Registered Pension Plan
- CIBC Asset Management Inc.
- Colleges of Applied Arts and Technology Pension Plan (CAAT)
- Connor, Clark & Lunn Investment Management Ltd.
- Desjardins Global Asset Management
- Fiera Capital Corporation
- Forthlane Partners Inc.
- Fondation Lucie et André Chagnon
- Franklin Templeton Investments Corp.
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- Healthcare of Ontario Pension Plan (HOOPP)
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- Industrial Alliance Investment Management Inc.
- Jarislowsky Fraser Limited
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- Lincluden Investment Management Limited
- Manulife Investment Management Limited
- NAV Canada Pension Plan
- Northwest & Ethical Investments L.P. (NEI Investments)
- Ontario Municipal Employee Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- PCJ Investment Counsel Ltd.
- Pension Plan of the United Church of Canada Pension Fund
- Public Sector Pension Investment Board (PSP Investments)
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- Régimes de retraite de la Société de transport de Montréal (STM)
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- Scotia Global Asset Management
- Sionna Investment Managers Inc.
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- State Street Global Advisors, Ltd. (SSgA)
- Summerhill Capital Management Inc.
- TD Asset Management Inc.
- Teachers' Pension Plan Corporation of Newfoundland and Labrador
- Teachers' Retirement Allowances Fund
- UBC Investment Management Trust Inc.
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