



August 29, 2017

MSCI Equity Index Committee
7 World Trade Center
250 Greenwich Street
New York, NY
10007

Via Email: clientservice@msci.com

Re: Consultation on the Treatment of Non-Voting Shares in the MSCI Equity Indexes

Dear Members of the MSCI Equity Index Committee,

Thank you for the opportunity to provide feedback on MSCI's Consultation on the Treatment of Non-Voting Shares in the MSCI Equity Indexes.

About bcIMC

British Columbia Investment Management Corporation (bcIMC) is an asset manager with more than \$135 billion Canadian dollars in assets under management, one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 554,000 people in our Canadian province. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will provide strong and stable financial returns.

As a long-term investor, bcIMC relies on well-functioning capital markets. We see it as our responsibility to contribute to the overall stability of the financial system. As an active participant in the capital markets, we address systemic risks with the expectation that our efforts will lead to greater stability and integrity within the markets. We regularly engage with regulators and advocate for legal and regulatory changes to ensure that principles of good governance are integrated into the regulatory framework.

One Share, One Vote

bcIMC firmly believes in the "one share, one vote" principle. We believe that shareholders should have the right to vote in proportion to their economic ownership of the company. We don't believe that companies should have multiple classes of shares with unequal voting rights and privileges. Such shares entrench control and power in the hands of select shareholders. For this reason, we are very concerned about the NYSE's decision to permit Snap Inc. to IPO with a non-voting class of shares, exclusively. We worry that this structure will gain legitimacy among

other companies that are considering an IPO. We would strongly encourage MSCI to prohibit Snap Inc. and any other company that adopts a similar capital structure from its indexes.

Therefore, we are pleased to see MSCI's proposal to exclude all new non-voting shares from its indexes where the company level voting power¹ of listed shares is less than 25%, and to subject existing non-voting index constituents to a voting power threshold of 16.67%. We are supportive of these proposals, as a starting point, but we would encourage MSCI to consider excluding all new multi-class share structures from its indexes as well.

Other shareholders share our views on multi-class or dual-class shares. Furthermore, the CFA Institute endorses a one-share, one-vote standard stating that *“a structure that permits one group of shareowners disproportionate votes per share creates the potential for a minority shareowner to override the wishes of the majority of owners for personal interest”*.²

The main arguments and disadvantages of such structures supporting our position are as follows:

- Dual class share companies benefit from accessing public capital and maintaining control of the company while passing off the majority of the financial risk to minority shareholders.
- As the holders of the multiple voting shares (MVS) have the power to elect or replace board directors, DCS structures may result in a non-assertive board which does not represent the interest of minority shareholders;
- DCS structures can reduce the board's ability to hold management accountable on behalf of all shareholders and entrench underperforming management;
- Studies demonstrate that controlled companies that have unequal voting rights underperform over time. After having assessed performance and risks over a 10 year period, a study on controlled companies in the S&P 1500 conducted by the Investor Responsibility Research Center (IRRC) Institute in the United States in partnership with Institutional Shareholders Services (ISS) reached the conclusion that controlled companies underperformed with respect to total shareholder returns, revenue growth, return on equity, and dividend payout ratios.³
- Such structures can destroy shareholder value as it can allow for holders of MVS to divert cash flows, funds and/or assets from the DCS company for projects that do not benefit all shareholders or for the benefit of the controlling shareholders.

¹ Voting Power defined as voting rights of listed shares/voting rights of the company

² CFA Institute (2017) “Comment Letter on S&P Dow Jones Voting Rights Consultation” [On-line] <https://www.cfainstitute.org/Comment%20Letters/20170629.pdf>

³ Investor Responsibility Research Center (IRRC) Institute, and Institutional Shareholder Services (ISS) Inc (2016) “Controlled companies in the Standard & Poor's 1500: A Follow-up Review of Performance and Risk” [On-line] <https://irrcinstitute.org/wp-content/uploads/2016/03/Controlled-Companies-IRRCI-2015-FINAL-3-16-16.pdf>

Responses to consultation discussion points

1) *Should MSCI exclude companies with only non-voting listed shares, like Snap Inc.?*

Yes. bcIMC believes MSCI should categorically exclude companies that offer only non-voting shares. But, other measures are also needed to prevent the proliferation of structures that are only marginally better. For example, a company that issues a single voting share could be found to be in compliance with MSCI's requirements.

2) *Do you agree with excluding non-voting shares in cases where listed voting power is low? Is the proposed threshold of 25% for new constituents appropriate?*

bcIMC can support MSCI's proposal to exclude new non-voting shares in cases where listed voting power is low because this could address the concern we raised above. Additionally, we can also support the proposal to apply a 16.67% voting power threshold for existing constituents. However, the reason for our support is that this proposal is preferable to excluding only companies that exclusively offer non-voting shares. bcIMC's preference would actually be that MSCI excludes all new non-voting shares and all new multi-class shares from its indexes.

3) *Should securities with limited voting rights (e.g. right to vote is only limited to certain circumstances) be considered as voting shares?*

bcIMC is comfortable with counting shares with limited voting rights that belong to current index constituents, as voting shares. However, MSCI should not count any new shares that have such limitations as full voting shares.

4) *Is the suggested compliance period for existing constituents appropriate? Should MSCI retain securities if the company has announced plans to change the capital structure or to submit such change to shareholder vote? Should MSCI apply grandfathering for existing constituents (i.e., retain existing constituents)?*

MSCI has proposed a one-year compliance period. We think this timeframe is adequate, but we would also be comfortable with a three-year compliance period. It is also acceptable to us to retain existing constituents that have announced plans to make changes or to submit changes to a shareholder vote. bcIMC is mindful that because of practical reasons and potential impacts on trading activity, it may not be appropriate to retroactively exclude all non-voting share classes from MSCI indexes. For that reason, we believe it is acceptable to provide grandfathering provisions to existing constituents, but not indefinitely. Any grandfathering period should be subject to an end date, such as 5 years.

5) *Should all non-voting shares be considered as “non-equity” and excluded even if the company listed voting power is high? Currently, around 60 securities in the MSCI ACWI Index (index weight of 2.4%) have no voting rights.*

If an existing constituent passes the threshold test, it should be allowed to remain in the index. Eliminating all existing non-voting shares could cause disruption and impact trading activity. However, MSCI should not allow any new non-voting shares into its indexes.

6) *Should calculation of voting power exclude shares held by strategic investors (even if listed)?*

No, shares held by strategic investors should not be treated differently than other shares for the purpose of calculating voting power.

As we hope our answers make clear, we believe that index providers such as MSCI have an important role to play in promoting best corporate governance practices, preventing the erosion of shareholder rights and the subsequent deterioration in the quality of public equity markets. This role is particularly important when you consider the rise of passive investing on a global scale. As a significant portion of our own assets are invested in indexes, we have also provided comments to the S&P Dow Jones and the Hong Kong Exchange on the issue of unequal voting rights for investors. We are very pleased with the progress so far, particularly the far reaching decision taken by the S&P Dow Jones on this matter and we hope that MSCI will reach a similar conclusion.

Please feel free to reach out to our Manager for ESG Integration, Susan Golyak (susan.golyak@bcimc.com) as you consider these comments or if you require further clarification. I appreciate your time and consideration.

Regards,

A handwritten signature in blue ink, appearing to read 'Bryan Thomson', is positioned above the typed name.

Bryan Thomson
Senior Vice President, Public Equities