



March 16, 2018

The Secretariat, Corporate Governance Council
c/o Markets Policy & Infrastructure Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

Via Email: MAS_MCP@mas.gov.sg

Response to the Consultation Paper on Recommendations of the Corporate Governance Council

Dear Sir or Madam,

We welcome the opportunity to respond to the Consultation Paper.

British Columbia Investment Management Corporation (BCI) 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, BCI 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.

As a starting point, BCI is broadly supportive of the Council's efforts to streamline and simplify the Corporate Governance Code in Singapore. We believe a focus on higher level principles and a move away from overly prescriptive guidelines will align Singapore with other markets, and allow the enhancement of corporate governance standards.

In this response, we have provided answers to selected questions from the consultation paper.

Rationalisation of Tests for Director Independence

Question 4: The Council seeks comments on its proposed approach to rationalise the tests of director independence as outlined in Paragraph 4.3.

BCI Response: We strongly support the shifting of the twelve requirements detailed in Annex E, Table 1, from the current Corporate Governance Code to the Singapore Exchange (SGX) Listing Rules. We believe that, by making these requirements mandatory under the Listing Rules, the Council has elevated their importance and created a baseline level of governance, to which companies would be required to adhere.

The above changes notwithstanding, we are disappointed to note that not all of the director independence tests have been moved to the Listing Rules, with three tests moving to the non-binding Practice Guidance for the Code. By making some tests mandatory and some non-binding, we believe this creates an unnecessary, and potentially problematic dichotomy, whereby directors meet the listing rules on independence, but not necessarily the additional tests under the Practice Guidance.

We are particularly concerned to note that a director, or an immediate family member, accepting any significant compensation from the company or any of its related corporations for the provision of services, for the current or immediate past financial year, other than compensation for board service, is a test that falls into the Practice Guidance.

BCI strongly believes that all of the tests for director independence should be included in the listing rules.

Shareholder Threshold

Question 5: The Council seeks comments on the recommendation to lower the shareholding threshold for assessing director independence from 10% to 5%, and the adequacy of a three-year transition period.

BCI Response: We see the lowering of the shareholding threshold for assessing director independence from 10% to 5% as a positive change. BCI believes that, for directors to be classed as independent, they should be free from any connection to the company or its management that may compromise their loyalty to shareholders. A director who is connected to a significant shareholder could face a conflict as their interests are weighed against the interests of all shareholders.

In addition, BCI does not have any concerns with a three year transition period to effect this change.

Nine-year Rule on Director Independence

Question 6: The Council seeks comments on the two options: (i) to incorporate the nine-year rule as a hard limit, or (ii) to subject Independent Directors who would like to serve more than nine

years to a two-tier vote – all shareholders and non-controlling shareholders. The Council also seeks views on the adequacy of a three-year transition period.

BCI Response: BCI's proxy voting guidelines do not currently include an independence threshold in terms of time served on the board. We do not believe that a director can be independent one day, and then non-independent the next, as would be the case with a hard limit. We believe independence erodes gradually over time, and therefore, while our proxy voting guidelines do not state a specific individual tenure limit for directors, we support the establishment of a maximum length of service as we believe that this is an effective way to regularly refresh the board. Additionally, we believe that term limits contribute to increased levels of board diversity.

Point ii refers to a two-tier vote on independent directors who would like to serve more than nine years, where there would be a separate for vote non-controlling shareholders, and director nominees would require majority support from both controlling and non-controlling shareholders in order to continue as independent directors. While we support this idea in principle, we believe that the two-tier approach should not simply come into play after nine years. We believe that independent directors, when first elected to the board, should gain majority support from both controlling and non-controlling shareholders, and therefore we would support this additional test being implemented from the outset.

We see strong benefits in requiring independent director approval by all shareholders, in a process similar to that used in the UK, as the impact of the controlling shareholder vote is neutralized. This is particularly significant in Singapore, given the proportion of SGX-listed companies with controlling shareholders; a point highlighted in the consultation paper.

In addition, BCI does not have any concerns with a three year transition period to effect this change.

Disclosure of Non-controlling Shareholders' Vote on Appointment of Independent Directors

Question 7: The Council seeks comments on the recommendation for companies to separately disclose non-controlling shareholders' votes on appointments and re-appointments of independent directors who serve less than nine years.

BCI Response: As we have stated in our answer to question 6, BCI supports a separate vote for non-controlling shareholders on the appointment and re-appointment of independent directors. We believe this would provide greater transparency regarding minority shareholder support levels for independent directors. If such an approach was not implemented for independent directors until the nine year tenure point had been reached, then we would strongly support the disclosure of non-controlling shareholder votes on appointment and re-appointment of independent directors. While we do not believe this would be as impactful as a carved-out non-controlling shareholder vote on independent directors before the nine year limit, we believe the increased transparency would highlight areas of minority shareholder concern, and lead to increased dialogue with company boards.

Question 8: The Council seeks views on any operational issues with the separate disclosure of non-controlling shareholders' votes on independent director appointments, and suggestions on how such issues could be addressed.

BCI Response: We do not believe the collection of this data would be overly burdensome for companies, and echo our points above that it would be beneficial for shareholders.

Board Composition – Baseline Requirements for at Least One-third Independent Directors

Question 9: The Council seeks comments on the recommendation to shift the baseline requirement for at least one-third of the board to comprise independent directors to the SGX Listing Rules.

BCI Response: While we support the shifting of the one third board independence requirement from the Code to the Listing Rules, and therefore placing a minimum requirement on listed companies in Singapore, we believe the board independence requirements should be higher. The board must be able to exert authority over management's recommendations and to objectively evaluate company and executive performance. To be able to effectively perform these duties, the board must be comprised of members who are independent of management and accountable to shareholders, and we do not see one third as a significant enough portion of the board fulfil this. Therefore, BCI's voting policy is to vote against all non-independent nominees (except the CEO), where the proposed board (or shareholder elected portion of the board) will not be comprised of at least two-thirds independent directors.

Revised Provision for Majority Independent Directors where Chairman Not Independent

Question 10: The Council seeks comments on the recommendation for a majority of the board to comprise independent directors, if the Chairman of the board is not independent.

BCI Response: While we see the proposed revision as a positive change to the status quo, and therefore take a supportive stance, we echo the sentiments in our answer to question 9, where we express our support for at least two thirds board independence. In addition to this, we believe that the board chair should always be an independent, non-executive director. A board's ability to exercise independent judgement of management is weakened if the person that leads the board is not independent of management. While we recognise that the intent of this revision is to provide increased safeguards to minority shareholders, we believe the Council could also achieve this by implementing higher board independence standards for SGX listed companies.

New Provision for Majority Directors with no Management and Business Relationships

Question 11: The Council seeks comments on the recommendation for a majority of the board to comprise directors with no management or business relationships.

BCI Response: Please see our responses to questions 9 and 10.

Board Diversity

Question 12: The Council seeks comments on the recommendations for companies to disclose their board diversity policy and progress made in achieving the board diversity policy (including any objectives set by the companies).

BCI Response: BCI places significant value on diversity at both the board level and in senior management. Over the last few years, growing academic evidence has illustrated that gender diversity contributes to robust decision-making and healthy debate, and results in improved company performance. Therefore, in 2015, BCI updated its proxy voting guidelines to address the issue of gender diversity, holding chairs of the Nomination Committee accountable for a lack of diversity on the board if there is not at least one female nominee or a clear policy to address this gap. This policy is applied consistently across our investee companies.

In addition, BCI is an investor member of the 30% Club Canada. The 30% Club was launched in the UK in 2010 with the original goal of reaching a minimum 30% of women on FTSE-100 boards by the end of 2015. Since then, local 30% Clubs have been launched around the world, and the goal has been expanded to include management as well as the board. As an investor member, we recognise our responsibility as stewards of the investments that we make on behalf of our clients and the role that we have to play in improving the gender balance on boards and executive teams. We regularly engage with investee companies on their approach to diversity and the steps they are taking to improve this throughout their organization.

We therefore strongly support the Council's recommendations to enhance the current Code provision for companies to disclose their board diversity policy and progress made in achieving this. We see this as a meaningful step towards enhancing board diversity levels in Singapore.

Remuneration

Question 13: The Council seeks comments on the recommendations for companies to disclose:

- a) the relationship between remuneration and value creation; and
- b) the names and remuneration of employees who are substantial shareholders or immediate family of substantial shareholders, where such remuneration exceeds S\$100,000 during the year (revised from S\$50,000), in bands no wider than S\$100,000 (revised from S\$50,000).

BCI Response: BCI believes that management remuneration is a critical aspect of a company's governance. Pay decisions are one of the most visible ways for shareholders to assess the performance of the boards of directors. Boards should seek to align the interests of management with the interests of shareholders through remuneration arrangements that are linked to the achievement of long-term company success and do not incentivise excessive risk taking. We strongly support the philosophy of pay for performance, and therefore we agree with the proposed revisions to the Code, whereby companies would be required to provide meaningful disclosure on the alignment between management remuneration and the company's long-term objectives, business strategy and performance.

However, we are disappointed to note that the Council did not recommend the introduction of a say-on-pay regime in Singapore. A say-on-pay vote is an excellent communication mechanism for shareholders regarding a company's remuneration practices. It allows company boards and management to better understand the views of shareholders and to proactively address any shareholder concerns before they become acute. It can also reduce negative vote results for directors, as shareholders with compensation concerns can more appropriately express their views with an annual say-on-pay vote, rather than voting against members of the remuneration committee.

While we recognise the Council's view that the primary responsibility to ensure that remuneration policies are equitable and incentivise the right behaviour rests with the board, we believe it is important to stress that having a say-on-pay vote in Singapore is not in conflict with the board's responsibilities around remuneration. Indeed, as we have pointed out above, such a vote on remuneration can enhance the lines of communication between directors and shareholders. We therefore urge the Council to give further consideration to the implementation of a say-on-pay vote in Singapore.

Stakeholder Engagement

Question 14: The Council seeks comments on the new Principle and Provisions relating to stakeholder engagement, and whether there will be practical challenges in implementing them.

BCI Response: We strongly support the Council's introduction of a new principle for companies to consider and balance the needs and interests of material stakeholders. We believe that companies should endeavour to engage actively with stakeholders. Not only will these relationships lead to meaningful dialogue between the board, management, politicians, bureaucrats, regulators, unions, consumer groups, environmental groups, local community groups and other stakeholders, but this cooperation is more likely to create sustainable economies.

While balancing the needs of a large group of stakeholders is likely to lead to challenges, we believe that the adoption of a transparent stakeholder engagement policy, where early and ongoing engagement are key areas of focus, will ultimately lead to reduced levels of risk in this regard.

To conclude, we would like to thank you for the opportunity to respond to this consultation. We are encouraged by the Council's efforts to streamline and simplify the Corporate Governance Code in Singapore.

Please feel free to reach out to our Senior Manager, ESG Integration, Jennifer Coulson (jennifer.coulson@BCI.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 that reads "Daniel Garant". The signature is fluid and cursive, with the first name "Daniel" being more prominent than the last name "Garant".

Daniel Garant
Senior Vice President, Public Markets