

Good afternoon,

Please find below our submission to a 6<sup>th</sup> draft policy subject to consultation.

**Advance Notice Provisions (Canada)**

1. Yes. We consider that a period of no more than 65 days does not give investors enough time to make an informed decision and meet with the dissident and with management for example.
2. bcIMC does not see the need for additional disclosure beyond that required in a dissident proxy circular. However, if ISS decides this is acceptable, it is very reasonable to expect this information to be provided to those who will be exercising their vote.

We would appreciate if you could confirm the reception of our submission.

Anne-Marie

**Anne-Marie Gagnon** | Equity Analyst, Shareholder Engagement

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**From:** Gagnon, Anne-Marie

**Sent:** October-29-14 2:59 PM

**To:** 'policy@issgovernance.com'

**Subject:** ISS 2015 Benchmark Policy Consultation

**Importance:** High

Good afternoon,

On behalf of the British Columbia Investment Management Corporation (bcIMC) (comments provided by Anne-Marie Gagnon, Equity Analyst - Shareholder Engagement), please find below our comments to the specific questions associated with 5 of the 9 draft policies subject to consultation.

**Independent Chair Shareholder Proposal (U.S.)**

1. bcIMC always votes FOR resolutions to separate the board and management roles and to appoint an independent, non-executive director to the position of Chair. The split of the CEO and Chairman positions assists in establishing an appropriate balance of power between management and directors, increases accountability and helps ensure that the board serves to represent the interests of shareholders, not management. We would strongly encourage ISS to adopt such a policy as the role of the board is to oversee management on behalf of shareholders and a combined position is not conducive of best governance standards. Furthermore, even though we require the appointment of an Independent Lead Director with the appropriate set of responsibilities and powers to counterbalance for a non-independent Chair, we consider it is

only a second best option and should not be considered as a mitigating factor to having a combined position.

2. bclMC considers the recombination of CEO/chair roles, switching from an independent chair to a non-independent chair, or any other practice which results in a reduction of board independence and capacity of the board to effectively oversee management to represent a step back from governance best practice. We therefore attribute great weight to these actions and in all circumstance will withhold our votes from the appropriate nominating and/or governance committee chairs for allowing such a decline in the company's governance policies.
3. bclMC does not believe that financial performance should be considered for evaluating independent chair proposals as this is backward-looking and does address forward-looking governance and performance risks.

#### **Former CEO Cooling-off Period (Canada)**

1. As per our current guidelines, we believe that a former CEO will always be considered non-independent and therefore a cooling-off period is not applied.
2. But considering ISS's current and considered policies for determining that a former CEO becomes independent after a certain cooling period, it could be beneficial for ISS to look closely, in addition to other factors listed as part of the key changes under consideration, at board turnover (incl. number of directors still sitting on the board with whom the CEO served during its time in management).

#### **Equity Plan Scorecard (U.S.)**

1. Based on our current series of pass or fail tests, the factors we weight the most are 1) dilution (max 5% of outstanding shares), 2) expiry of share-based incentives (within 5yrs of the date they are awarded), 3) vesting (that do not vest immediately at grant date, and that vest after a minimum period or as specific performance goals are met, 4) burn rate (max. 1% of outstanding shares granted in a given year.

We agree that repricing, option reloading or board discretion to amend the plan without shareholder approval should automatically trigger a negative vote.

2. One possible consequence of a scorecard approach is that certain features are obscured by others. In addition, we do not agree with looking at dilution and burn rate on a relative basis. An expensive plan that translates into high dilution is expensive to current shareholders no matter the industry in which they operate. Looking at relative figures might accommodate an industry that might have actually relied too heavily on equity in the past. Finally, we would expect that ISS would provide clear disclosure of the scorecard methodology and assessment so that investors can still come up with their own vote recommendation based on provided information.

#### **Board Independence (Japan)**

1. In general, no matter the market we vote in, we look for a minimum of 50% board independence. But we recognize that there is a need to be more flexible and take market specific conditions into consideration. We consider that one third independence on Japanese

boards is a stretch but achievable objective over the medium term. We are currently voting against top executives if the board does not have at least 1 outsider director. We are supportive of ISS recommending voting against top executives should the board not have at least 2 outsiders (incl. one that is independent) starting in 2016; we are currently reviewing our voting policy options to be reflective of this guideline for 2015.

But it is worth noting that we currently vote against all insiders except for the President and Chairman as we apply the same policy as for any other markets where we do not support any insiders on the board except for the CEO/President and Chairman. Furthermore, we currently support all outsiders up for election no matter their independence status and the level of board independence as we want to support increase representation by outsiders.

2. We consider that it would be appropriate to set the above threshold to Nikkei 225 index considering the Nikkei 400 is already factoring in a board independence factor for membership.

#### **Factoring Capital Efficiency into Director Elections (Japan)**

1. As it is the first time ISS is considering factoring capital efficiency into director elections in Japan, we consider that starting with a 5% threshold and a five year measurement period is appropriate. We will start applying this policy for the next proxy voting season. But it is worth noting that the Japan Pension Fund Association (PFA) recommended back in 2007 voting against the reappointment of directors at companies with ROE below 8% for 3 straight years. Furthermore, this year's Ito Review report out of METI points to a minimum acceptable level of 8%. Considering the number of companies for which a negative vote recommendation would be generated, it is fair to start with this threshold and time period sending a strong message to issuers. The possibility to increase the threshold to 8% and/or shorten the measurement period could be assessed at a later stage.
2. Lawsuit and settlement could be another scenario that could warrant an exception, while looking at normalized ROEs would account for those onetime events. But considering that looking at normalized ROEs might be more challenging in terms of applying the policy, we consider that the 5 year measurement period would mitigate for those onetime events that would have a short term impact on capital efficiency.

We would appreciate if you could confirm the reception of our submission.

Regards,

Anne-Marie

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