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February 17, 2017

Corporate Governance Reform Team
Department for Business, Energy & Industrial Strategy,
3rd Floor Spur 1
1 Victoria Street,
London
SW1H 0ET

Via email corporategovernance@beis.gov.uk

Dear Corporate Governance Reform Team:

Re: Corporate Governance Reform Green Paper ("The Green Paper")

British Columbia Investment Management Corporation (bcIMC) is an investment manager with over CAD$120 billion in assets under management, one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 500,000 people in our Canadian province, including university and college instructors, teachers, health care workers, firefighters, police officers, municipal and other public sector workers. 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.

Our interest in strong corporate governance standards in the United Kingdom (UK) stems from this market being one of our largest market exposures within our global equity allocation in public equities. bcIMC is also an advocate and practitioner of stewardship committing significant resources to the integration of environmental, social and governance factors into decision-making; engagement on these factors; and proxy voting activity conducted internally.

In our view the UK market has well developed standards including, but not limited to, the UK Corporate Governance Code together with the UK Stewardship Code; a one share, one vote standard; and, an established practice of constructive engagement between investors and companies. It is with pleasure we offer you comments on additional proposals put forth in the Green Paper.

Executive Pay

Shareholder Voting & Other Rights
Given that the most recent executive pay reforms were implemented in 2013, it is our view that further changes are somewhat premature. bcIMC is a proponent of advisory votes on compensation so we would be hesitant to increase the extent to which binding votes are used given that they can have unintended consequences and confuse the distinct role of investors and boards of directors. In our view advisory votes facilitate dialogue between investors and directors and, since UK companies must already put their remuneration policies to a binding vote every three years, a binding vote on other elements of pay is not necessary at this time.

For the above reason we prefer any changes to focus on Option (v) in the Green Paper with an emphasis on encouraging dialogue between companies and investors. More specificity on how companies should engage on remuneration would be helpful and would foster better understanding for both groups.

Shareholder Engagement on Pay
Based on our experience in Canada, institutional investors are generally exercising their proxy voting responsibilities, but there are several hurdles to overcome to engage the retail shareholder base in proxy voting. The Green Paper specifically states most investors are already complying with the UK Stewardship Code in terms of making their voting decisions public so we would prefer that the UK look to Option (iii) which would encourage retail shareholders to exercise their right to vote.

The Role of the Remuneration Committee
bcIMC sees an opportunity to strengthen the practices of engagement by Remuneration Committee members, especially proactive engagement. All too often, we experience companies reaching out just prior to the AGM looking to influence our vote rather than a more proactive approach that expresses a genuine interest in understanding our views as investors.

It also seems reasonable to us that Remuneration Chairs have some experience before assuming the Chair position for the reasons identified by the Executive Remuneration Working Group. For the reasons stated, we prefer Options (i) and (ii) to strengthen the role of the Remuneration Committee.

Transparency in Executive Pay
We can appreciate the concern over executive compensation and alignment with the broader workforce. However, pay ratios would not be our ideal approach to resolving this concern. In our view they are fraught with methodological challenges and would be difficult for us to utilize given the need to fully understand the nuances of each company's methodology as well as the related rationale for the ratio that is ultimately arrived at.

A more significant problem that we have observed within company decision-making processes relates to the reliance on compensation benchmarking and the associated drive towards above median pay levels. This appears to lead to a continuous cycle of ever-increasing compensation that does not necessarily relate to exceptional performance. Requiring companies to explain more about how they actually arrived at their pay decisions would go a long way and potentially lead to less reliance on benchmarking and ideally encourage the consideration of the broader economic environment.

Similarly, we note that the most recent letter from Blackrock to the UK's largest companies indicates their critical approach when companies provide pay increases that are out of line with the wider employee base. This letter also questions reliance on peer benchmarking as a way to justify large compensation increases illustrating that sophisticated institutional investors are more wary of some of the traditional approaches to compensation that must evolve to reflect different expectations.

For these reasons, we support Option (ii) in the Green Paper which calls for improved disclosure of bonus targets and performance measures. As investors, we need to see threshold, target and maximum performance targets in order to assess their strength and feel that because this is retrospective disclosure, the argument of being commercially sensitive is not justified.

Long Term Executive Pay Incentives
bcIMC does not feel that restricted share awards are a good alternative to performance-based long term incentive plans (LTIPs). In our view, restricted share awards are guaranteed forms of compensation as they vest according to a timetable only and reward tenure rather than achieving superior business results. It is also our view that investors have more confidence when management teams are aligned with shareholders for the long term and three year holding periods do not seem sufficient. bcIMC supports an extension beyond three years combined with share retention policies that allow for executives to build a sizeable holding in the company and encourage long term thinking.

Strengthening the employee, customer and wider stakeholder voice

bcIMC feels it is important to build on the existing requirements for companies in the UK as opposed to creating a new set of requirements. For this reason, we support options that are consistent with current reporting requirements under the UK Companies Act 2006 relating to environmental and employee matters. Many larger UK companies have been reporting on environmental and social matters for several years but may not necessarily be testing their materiality assumptions with key stakeholders. In our view stakeholder advisory panels are an effective means to test such assumptions and ensure that the board and management are clear about what the key risks are to a business and have the relevant data to oversee the management of those risks.

bcIMC has participated in stakeholder advisory panels and has found them to be quite useful and an efficient way for companies to gauge the pulse of key stakeholder groups which can then inform their reporting practices. This option provides sufficient flexibility for companies to adapt the approach for their business model and could be combined with the option of strengthening reporting requirements on stakeholder engagement. The other options presented in the Green Paper appear to be too prescriptive and potentially complicated to implement.

Corporate governance in large privately-held businesses

bcIMC invests our clients' assets across several asset classes and private equity is a key component of our strategy going forward. We do not feel it is appropriate to simply transfer public equity expectations onto private businesses with a completely different business model and set of accountabilities. For this reason, any efforts directed at privately-held companies should be done using a voluntary approach and generally directed at those companies with the largest impact on the broader economy in terms of number of employees.

However, it does seem reasonable to ensure that privately-held companies that materially breach their obligations, are held accountable for the sake of all impacted stakeholders such as shareholders, employees, pensioners, etc. This would help address the extreme examples recently highlighted in the press and the Green Paper while acknowledging that the majority of private businesses are responsible societal contributors.

Thank you for this opportunity to provide our views on the Green Paper. Please do not hesitate to contact Jennifer Coulson, Senior Manager, ESG Integration at jennifer.coulson@bcimc.com if you wish to discuss any aspect of this letter in further detail.

Regards,

Bryan Thomson
Senior Vice President, Public Equities