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British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

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<u>Response to the CSA Consultation Paper 51-404 on Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers</u>

Dear Sir or Madam,

We welcome the opportunity to respond to the Consultation Paper 51-404 on Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers.

British Columbia Investment Management Corporation (bcIMC) is an asset manager with more than $135 billion Canadian dollars in assets under management, making it one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 554,000 people in our 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.

In this response, bcIMC will focus on the consultation paper's section on semi-annual reporting (2.3 (c)). While we generally support the CSA's objective in reducing the regulatory burden on non-investment fund reporting issuers while preserving investor protection and efficient capital markets, we are concerned that 2.3 (c) on semi-annual reporting could be inconsistent with that objective and elaborate on our concerns below.

2.3 (c) Consultation questions and bcIMC responses:

23. What are the benefits of quarterly reporting for reporting issuers? What are the potential problems, concerns or burdens associated with quarterly reporting?

> <u>bcIMC response:</u>
>
> The core benefits of quarterly reporting for reporting issuers is in providing their investors with timely disclosure of key data required for ongoing investment analysis, as well as the confidence-building such transparency provides for investors, suppliers and regulators.
>
> Specifically, investment analysis requires frequent financial and operational disclosures as they enable systematic and timely tracking of emerging trends in a company's operations. Without a quarterly pace, nuanced trend analysis of, for example, seasonal effects in a business becomes difficult. Quarterly public reporting provides transparency and puts all investors on equal footing.
>
> We acknowledge that one commonly cited problem, especially for smaller issuers, is the cost of maintaining and providing quarterly reporting; however, we believe that such a cost is the price for access to the capital markets.
>
> Another problem associated with quarterly reporting is the belief that senior management has become fixated on short-term results, harming long-term performance. While we see evidence that this is happening, we ultimately believe that reducing the frequency to

semi-annual is not what we would consider to be long-term and is unlikely to shift the focus of management to where it needs to be: balancing short-term demands with long-term value creation over multiple years, while providing adequate investor protection.

A more direct driver of short-termism that the CSA could examine is quarterly earnings guidance. We believe this guidance could be eliminated or, at least, reduced to annually, reducing the burden on issuers. In other words, we require quarterly information on financial and operational performance to input into our valuation models, and we find earnings guidance, which is voluntary, largely unnecessary. If quarterly earnings guidance is consuming senior management time and corporate resources, as well as driving excessive short-termism, then its elimination could provide practical solutions to these issues.

As we would not want management focus to swing exclusively to the long-term, we also see an opportunity for the CSA to provide a feedback mechanism between investors and issuers on whether their compensation plans are appropriately balancing the short- and long-term.

By analyzing compensation practices and engaging with issuers, we have learned how compensation plans have become powerful tools in steering management's focus. Therefore, we believe annual investor feedback on an issuer's executive compensation plan provides a concrete and effective mechanism to ensure compensation is designed to balance management's focus between addressing short-term demands and providing long-term value creation. Hence, we strongly encourage the adoption of annual advisory votes on executive compensation for non-venture issuers modeled on those used in many capital markets around the world.

We believe that the reporting burden that issuers experience could be reduced by clear guidance from the regulator that reminds issuers to focus their efforts and place emphasis on reporting data related to financial performance and operations. The lengthy narratives currently included in quarterly reporting is often boilerplate and is not necessary; issuers should focus on telling investors what has changed over the reporting period.

24. Should semi-annual reporting be an option provided to reporting issuers and if so under what circumstances? Should this option be limited to smaller reporting issuers?

<u>bcIMC response:</u>

Semi-annual reporting could be an option, but we would prefer establishing if such reporting has shifted focus to the long-term in other markets before adopting such practices in Canada. If there is such evidence, it would likely depend on the sector and size of the company. Theoretically, we believe larger companies in more stable sectors could report less frequently if the guidance and rules on reporting material changes between reporting periods is made more robust; however, smaller reporting issuers,in less stable sectors, need to sustain quarterly reporting to maintain confidence among investors. We are concerned that a move to semi-annual reporting could compromise transparency in the market as well as potentially create an information deficit for average investors.

The numerous examples of material reporting failures provided in the British Columbia Securities Commission's publication, *2012 Mining Report* (BCSC, January 2013), and its review of mining technical disclosures, reinforces the need for smaller issuers to improve reporting. Given that BC mining companies represent significant portions of the TSX and TSX Venture Exchange, we believe a qualitative improvement in disclosures should be the primary focus as this would increase confidence levels among investors and attract more capital to those smaller issuers. Conversely, reducing the degree of transparency provided by them would increase uncertainty and risk levels even further, negatively impacting the accuracy of our valuations, possibly leading to more frequent fraud events and reducing capital flows to those issuers. Additionally, we note that the reviews the CSA conducts are under the Continuous Disclosure Program consistently reveal the quality issues in current reporting.

25. Would semi-annual reporting provide sufficiently frequent disclosure to investors and analysts who may prefer to receive more timely information?

bcIMC response:

Semi-annual reporting would not provide sufficiently frequent disclosure except in the cases outlined above. Generally, we believe regular and consistent disclosure is critical for investors to analyze and track ongoing changes in an issuer's financial and operational performance. We also believe that sustaining this tempo of information disclosure will provide the transparency capital markets require to function efficiently and protect investors.

26. Similar to venture issuers, should non-venture issuers have the option to replace interim MD&A with quarterly highlights?

bcIMC response:

We believe that non-venture issuers should not be given the option to adopt quarterly highlights unless they are large issuers operating in very stable sectors. This is another example of where guidance from the regulator could be useful in advising issuers on where to apply their efforts when preparing the MD&A. Again, we would suggest that issuers could be advised to focus on describing material information rather than relying on the statements. This includes key business drivers, outlook, strategy and any material changes to the company's business activities and plans.

In summary, we believe the regulatory approach in Canada could be optimized to benefit issuers and protect investors by:

- improving the quality of disclosures and retaining the quarterly frequency,
- eliminating quarterly earnings guidance or reducing it to annually, and
- adopting mandatory advisory votes on executive compensation.

We further believe that mandatory requirements for an advisory vote on executive compensation and a clawback policy for non-venture issuers could be achieved without any additional disclosures and would level the playing field, making Canada's capital markets more competitive, attracting more capital and protecting investors.

We greatly appreciate the opportunity to respond to this consultation and sincerely hope that our comments will assist you in your review.

Please feel free to reach out to our Senior Manager for ESG Integration, Jennifer Coulson (jennifer.coulson@bcimc.com) as you consider these comments or if you require further clarification.

Regards,

Bryan Thomson
Senior Vice President, Public Equities