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Consultation on the Canada Business Corporations Act

We are pleased to submit our comments regarding the proposed amendments to the Canada Business Corporations Act (CBCA). Royal London Asset Management (RLAM) is the asset management arm of the Royal London Group, the United Kingdom's largest mutual insurance company. We manage approximately £72 billion in assets on behalf of the Group and a wide range of external institutional and wholesale clients. While our focus has traditionally been on corporate governance in the UK market, we hold shares in several dozen large Canadian companies and have an interest in ensuring Canadian companies implement high standards of corporate governance. We believe good corporate governance is fundamental to company performance and welcome the opportunity to comment on the proposed changes to the CBCA.

Below we outline our response to the consultation. In general, we view the statutory corporate governance requirements in Canada to be lagging behind similar requirements in the UK. We are pleased that the consultation addresses several issues that are long overdue for review (and that are common practice in the UK), such as majority voting, annual director elections and voting on a poll. We do not intend to provide a comprehensive response to each issue, but want to use this as an opportunity to signal our support for corporate governance reform in Canada.

Executive Compensation

We support mandatory 'say on pay' for large-cap companies in Canada and urge Industry Canada to amend the CBCA accordingly. Exemptions for small-cap companies should be provided. We are generally satisfied with the level of compensation disclosure in Canada.

Voting

We believe that the CBCA should require all voting to be conducted on a poll, and for all companies to report the results of the vote publicly within 48 hours. We also urge the CBCA to require directors to be elected individually (rather than by a slate) and on an annual basis (rather than every three years). This is important, as it allows shareholders to register their discontent with a single director, such as the chair of the compensation committee, without having to withhold or vote against the slate as a whole. We are concerned that voting against a slate or voting against a director only every three years, may send mixed messages to the board.

Good thinking. **Well applied.**

We also believe the current plurality voting system is not fit for purpose, as it is essential for shareholders to have a meaningful say in director elections. The CBCA should require majority voting for directors. Directors that do not receive a majority vote in support of their re-election should be considered unelected. We note that some companies have adopted a voting system whereby a candidate that does not receive majority support must submit his or her resignation and the board may choose not to accept it. We do not consider this sufficient, and urge the CBCA to adopt true majority voting. We also note that in the UK, the adoption of majority voting has not led to what is described as "failed elections" where no director receives a majority and the quorum is not reached. We do not think there is a credible risk of "failed elections" in Canada should majority voting be adopted. In the UK, the majority voting standard has required directors to engage productively with their shareholders should a director be close to losing a vote. This promotes better investor stewardship and improved communication with companies, which we view as a valuable contribution to corporate governance.

Shareholder and Board Communication

We are supportive of efforts to make shareholder meetings more accessible by allowing electronic access, but we would object to companies holding online-only meetings. It is essential that shareholders have the ability to attend and speak at the AGM, should they feel it necessary. We are also supportive of distribution of documents in electronic format, but emphasise that such distribution should also be posted on SEDAR and publicly announced through news releases to ensure all shareholders have equal access. Companies should not rely on their websites as the only means of distributing information to shareholders.

Changes to the CBCA to make it easier for shareholders to nominate directors to the board would be welcomed. We recommend that the CBCA amend the rules for shareholder proposals and to set the deadline for submitting resolutions as the anniversary date of the last AGM. This will simplify the process and harmonise the CBCA requirements with those of provincial jurisdictions. Finally, a word limit of 1,000 words for shareholder proposals is considered more appropriate than the current 500 word limit.

Board Accountability

In the UK, it is widely considered best practice for the roles of Chairman and CEO to be separate. We view this as an important corporate governance principle and will routinely vote against directors in Canada if they hold both the position of Chairman and CEO. In our view, the role of the Chairman is to run the board and provide oversight of executive management. The role of the CEO is to manage the daily operations of the business. As such, the roles are fundamentally different and should be separate. We do not accept the argument that a Lead Director or Senior Independent Director can play this role. We believe leadership of the board needs to be in the hands of an independent Chairman. In limited circumstances we would support a director that held both positions of CEO and Chairman, but only if this was on an interim basis and the board had a clear plan for appointing an independent Chair.

In the UK, shareholders vote annually on resolutions granting the board authority to issue shares. We routinely approve such authorities if the sum of the share issue is up to one-third (33%) of the issued share capital provided that shareholders have pre-emption rights. We will support share issues without pre-emption rights up to 5% of issued share capital. As such, we believe the current proposal to allow for up to 25% dilution (without pre-emption rights) to be too high and would recommend a lower limit. However, we do support the proposal that shareholders should vote on dilutive transactions.

Finally, we strongly urge Industry Canada to amend the CBCA to require companies to disclose information regarding the environmental and social impact of their operations. We view the management of environmental and social issues as a proxy for the quality of operational management in general. These issues can also have a material impact on the balance sheet, or on a company's reputation. Meaningful disclosure of the board's assessment of these issues and their relevance (both opportunities and risks) to the company's ongoing operations would be welcomed by RLAM.

Corporate Transparency, Bribery and Corruption

We are supportive of efforts by the Government to comply with international actions to curb tax evasion, and would welcome more transparency regarding the beneficial ownership of Canadian corporations.

We view the role of the auditor to be essential, both for maintaining shareholder and public trust in corporate financial reporting and for combatting corruption. The CBCA should eliminate any exemptions and require all companies to appoint an independent auditor and provide shareholders with an annual vote on the auditor's appointment. We further urge Industry Canada to implement rules regarding audit firm tenure. In the UK, some companies have enjoyed an 80 year relationship with their auditor. We are of the opinion that such long audit firm tenure is not in the interests of shareholders and does not provide for robust peer review of corporate accounting and financial statements. RLAM has suggested companies voluntarily adopt a policy to rotate their audit firm at least every fifteen years. We would encourage Industry Canada to adopt similar requirements to help combat corruption and fraud, and to ensure financial reporting is routinely scrutinised by independent parties.

Board Diversity

RLAM is an investor supporter of the 30% Club in the UK, a voluntary initiative of company chairman dedicated to improving the gender balance on UK boards. We are supportive of "comply or explain" requirements for companies to outline their approach to diversity, including gender diversity. We do not see this as a peripheral issue, but as fundamental to ensuring companies are positioned to succeed in the future. We would support changes to the CBCA to require companies to disclose the board's approach to gender diversity, whether it has set targets for improving diversity, and whether and how it will achieve those targets. In addition, we would like to see companies disclose the number of women on the board, in the workforce, and in senior management. We acknowledge to the recent work by the Ontario Securities Commission in this regard.

Corporate Social Responsibility

As we described above, we are supportive of amendments to the CBCA that would require companies to be more proactive in managing environmental and social issues and to improve disclosure to shareholders.

If you have any further questions concerning our views on our response above, please don't hesitate to contact me.

Yours sincerely,



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