



February 27, 2018

Catherine Horton  
Financial Reporting Council  
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125 London Wall,  
London  
EC2Y 5AS

Via Email: [codereview@frc.org.uk](mailto:codereview@frc.org.uk)

**Re: Consultation Paper on Proposed Revisions to the UK Corporate Governance Code**

Dear Ms. Horton,

We welcome the opportunity to respond to the consultation on the proposed revisions to the UK Corporate Governance Code.

British Columbia Investment Management Corporation (bcIMC) 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, 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 case, as we are not signatories to the UK Stewardship Code, we have focused our answers on selected questions specifically related to the proposed revisions to the UK Corporate Governance Code, broken down by individual section.

**Section 1 – Leadership and Purpose**

*Question 3:* Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

*bcIMC response:* bcIMC supports the view that companies benefit when the views of all stakeholders are taken into consideration, and that the board should establish a method for gathering the views of the company workforce. In our 2017 response to the UK Government's Green Paper on Corporate Governance Reform, we stated our preference for the use of stakeholder advisory panels as a way of strengthening the employee, customer and wider stakeholder voice. We believe that these panels are an efficient way for companies to gauge the pulse of key stakeholder groups, which can then inform reporting practices. While we believe the proposed methods for ensuring that the employee voice is heard in the boardroom (a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director) are sufficient to meet this aim, we would again state our preference for the use of a formal advisory panel. This being said, we recognize that a one-size-fits-all approach would not necessarily meet the needs of all companies, and therefore agree that individual companies should have the flexibility to those the mechanism that is right for them. However, we would also highlight our view that the board should regularly review the chosen arrangements, as well as those put in place to investigate concerns, to ensure that they continue to meet the needs of all stakeholders.

*Question 5:* Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?

*bcIMC response:* We agree that a 20 per cent vote against a resolution is significant, and we also see benefit in requiring companies to publish an update no later than six months after the vote in cases where a particular resolution has received a vote against at this level. Such an update should provide assurance to shareholders that the board is working to address the issue(s) in question. While we are reluctant to apply a specific bright line to define what is 'significant', we recognize the intention behind this revision and therefore see this as an appropriate level. In our experience, when a resolution receives 20 per cent of shareholder votes against, this is a strong enough signal in the majority of situations for a board to react. This being said, bcIMC believes that the most effective approach is for companies and shareholders to engage in an ongoing dialogue. Ultimately we see this approach as bringing the greatest benefit to both companies and shareholders, as it facilitates a better understanding of each others' views in a proactive manner, instead of the more reactive approach that comes with the shareholder vote.

## **Section 2 – Division of Responsibilities**

*Question 6:* Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years?

*bcIMC response:* bcIMC believes that a robust and comprehensive board evaluation process is fundamental in ensuring that the board is operating effectively. We also believe that the periodic use of an external firm to conduct the evaluation can be very beneficial to the overall effectiveness of the board. We see the external perspective that comes from this as a crucial check for boards, and believe it outweighs the potential cost. In our view, an independent board evaluation should be complimentary to internally-led evaluations, and we see the benefits of such

an approach applying to all companies. We therefore support the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years.

*Question 7:* Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

*bcIMC response:* bcIMC does not apply a bright line test linking independence to length of service. Furthermore, we do not apply individual board tenure limits. We believe that a more appropriate measure is the average tenure of the board. Our proxy voting guidelines state that, where average tenure of the board exceeds 10 years, we will consider voting against individual nominees on a case-by-case basis, considering the overall composition of the board, to encourage refreshment. Therefore we do not believe it is necessary to stop classifying a director as independent based on a nine year threshold.

*Question 8:* Do you agree that it is not necessary to provide for a maximum period of tenure?

*bcIMC response:* Please see our response to question 7 above.

### **Section 3 – Composition, Succession and Evaluation**

*Question 9:* Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?

*bcIMC response:* We believe the changes proposed in Section 3 of the revised Code, notably the encouragement of diversity across the entire workforce, will lead to more action being taken on this issue. bcIMC supports diversity in all of its forms, and we believe that an organization's senior leaders, particularly the board nomination committee, have a critical role to play in ensuring that a culture of diversity and inclusion permeates throughout. The expansion of the nomination committee's remit to include oversight of the development of a diverse pipeline of talent will serve to place greater emphasis on how this process is being managed at all levels of the organization, and the requirement to report back to shareholders on the actions that have been taken will provide the required level of accountability.

*Question 10:* Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350?

*bcIMC response:* We support extending the Hampton-Alexander recommendation, which calls for FTSE 100 companies to have at least 33 per cent female representation on their boards by 2020, beyond the FTSE 350. bcIMC places significant value on diversity at both the board level and in senior management. In 2015, bcIMC 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, and we do not believe it is necessary to change this approach depending on factors such as the size of the company.

Mounting academic evidence illustrates that gender diversity contributes to robust decision-making and healthy debate, and results in improved company performance. Therefore we see significant benefit in applying the same standards to all companies, irrespective of size.

*Question 11:* What are your views on encouraging companies to report on levels of ethnicity in executive pipelines?

*bcIMC response:* As we have stated earlier in this consultation response, bcIMC supports diversity in all of its forms. While gender diversity has been the focus of many investors' attention, and will continue to be, we see it as the starting point of an evolution in the composition of corporate boards and senior leadership. Companies should strive to enhance the representation of all forms of diversity across the entire organization. We therefore support the reporting by companies on the levels of ethnicity in their executive pipelines. However, given the privacy implications of such disclosure, we believe that reporting should be voluntary. In addition to this, we support the disclosure of initiatives and policies that have been implemented in order to increase the levels of ethnicity in senior management roles.

#### **Section 4 – Remuneration**

*Question 14:* Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

*bcIMC response:* bcIMC believes that management remuneration is a critical aspect of a company's governance. Pay decisions are one of the most direct and visible ways for shareholders to assess the performance of the board of directors. Boards must strike a balance between compensation packages that are required to attract, retain and motivate qualified executives, on the one hand, and show moderation and restraint on the other. We therefore support the expanded remit for the remuneration committee, particularly as it pertains to encouraging a greater focus on the strategic rationale for executive pay levels. We believe remuneration committees should be expected to demonstrate to the wider workforce, as well as shareholders, how pay and incentives align across the company, and how decisions over executive pay are consistent with the company's wider pay policy.

With regard to achieving this, we would reference our answer to question 3 above, where we support the use of a formal workforce advisory panel to ensure that the employee voice is heard in the boardroom. We believe that this would be an efficient way for boards to both communicate the strategic rationale behind executive pay decisions, and also would provide a platform for employees to give feedback to the board. Overall we see such an approach as strengthening the board's oversight of executive compensation.

*Question 15:* Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

*bcIMC response:* While we recognize that an alignment between pay and performance requires the use of financial metrics in executive remuneration plans, we believe that a meaningful portion of executive remuneration should be also linked to the less traditional, but ever-increasingly important, metrics around sustainability. Where sustainability factors, such as climate change, are material risks to the business, we believe the management of these risks should be reflected in the executive compensation plan. Furthermore, the consultation paper highlights the critical importance of culture within an organization, and how the senior leaders ensure that this is communicated throughout. We believe that metrics around this, and areas such as human capital management/development, are fundamental to ensuring long-term sustainable performance. We recognize that, in practice, applying metrics and pre-defined targets to areas such as culture can be difficult, and therefore reliance would be placed on the board to make a more subjective assessment of executive performance in such situations (please see our answer to question 16 for our view on board discretion with respect to remuneration).

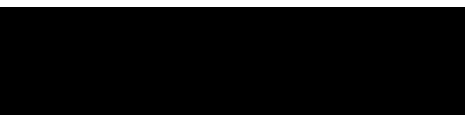
*Question 16:* Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

*bcIMC response:* As a starting point, we believe that board discretion plays a very important role in the overall approach to remuneration. We recognize that a purely formulaic approach can result in remuneration that may not be truly reflective of individual performance, or consistent with the shareholder experience, and so the ability of the board to use their discretion is fundamental in our view. Given the wider remit proposed in question 14 above, we believe boards will have a greater responsibility to ensure that executive compensation is not only aligned with company performance, but also consistent with pay practices across the company as a whole, and therefore we see this increased level of accountability as having a meaningful impact on remuneration deliberations.

To conclude, we would like to thank you for the opportunity to respond to this consultation. Since 1992, the UK Corporate Governance Code has been instrumental in raising the governance standards of UK companies, and has been the benchmark for many other countries since. We commend the Financial Reporting Council for their diligence in ensuring that the Code remains fit for purpose and continues to promote continuous improvement in governance practices in the UK.

Please feel free to reach out to our Senior Manager, ESG Integration, Jennifer Coulson ([jennifer.coulson@bcimc.com](mailto:jennifer.coulson@bcimc.com)) as you consider these comments or if you require further clarification. I appreciate your time and consideration.

Regards,

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Daniel Garant  
Senior Vice President, Public Markets