

May 23, 2018

Ms. Maureen Jensen, Chair
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8

Dear Ms. Jensen:

Thank you for the opportunity to comment on the Ontario Securities Commission's (OSC) *2018-19 Draft Statement of Priorities*. We appreciate the accountability to issuers and investors inherent in sharing the OSC's draft plan, as well as the clear articulation of both priority areas and expected outcomes. We also appreciate the substantial work that goes into developing a set of manageable priorities in light of the many issues and concerns that fall within your mandate.

The Shareholder Association for Research and Education (SHARE) is a Canadian leader in responsible investment services, research and education for institutional investors. Since its creation in 2000, SHARE has carried out this mandate by providing active ownership services, including proxy voting and engagement, education, policy advocacy, and practical research on issues related to responsible investment and the promotion of a sustainable, inclusive and productive economy. Our clients include pension funds, mutual funds, foundations, endowments, faith-based organizations and asset managers across Canada with more than \$22 billion in assets under management.

We would like to offer the following comments and recommendations regarding the draft *Statement of Priorities*:

Targeted prospectus and continuous disclosure reviews

We support the OSC's focus on targeted compliance reviews especially for new and evolving business models as well as expansion of the exempt market. With the growth in fintech options and, for example, Initial Coin Offerings or other cryptocurrencies the boundaries of securities regulation are being tested. The OSC's attention to investor protection in these risk areas is warranted.

While the OSC has also been taking steps to work with fintech businesses and support innovation, including the development of a Fintech Advisory Committee and offering the LaunchPad forum, the exploration and guidance being offered in this sector must also be accompanied by strong enforcement when the rules are contravened or investor protection is threatened.

Women on Boards and in Executive Officer Positions

As the three-year review of the initial disclosure requirements set out in NI 58-101 regarding the representation of women on boards and executive officer positions of TSX-listed issuers continues, we believe the evidence to date supports a continued effort by the OSC to improve both the disclosure provided by issuers and the presence of women in leadership.

In particular we note that despite the leadership of some companies, disclosure related to the process by which increased diversity is being pursued by issuers is currently weak. This might be improved by requiring more pointed disclosures such as the number of women in the most recent candidate pool, the number of vacancies filled in the past year and the number of those vacancies filled by women, and whether there is a requirement in the board's nominating process that diverse candidates are always included in consideration for available board seats, for example.

There is also a continuing problem with disclosure by issuers of diversity in executive positions, largely because of significant variance in how an issuer defines "executive officer positions". This makes comparative analysis difficult. We have engaged with the board of directors of one issuer, for example, that reported more than five dozen women in its "executive officer" ranks in its proxy circular, yet there is not a single woman included in the "executive officer" section of its website. These discrepancies in definition make comparison more difficult for investors.

We propose, however, that rather than trying to define the term "executive officer" more strictly, which may be difficult across different issuer and management structures, the OSC consider following the practice in the UK in which companies are required to disclose the percentage of women and men at each quartile in the company's pay structure. Unlike the disclosure of women currently occupying executive positions, this kind of disclosure will also help identify if there is any pipeline in the lower ranks for women to reach the top positions and whether there is progress over time.

As a general rule we favour disclosure of gender pay gaps at companies over a certain threshold to assist in identifying potential mismatches in compensation practices that undermine talent development and retention, and contribute to gender inequality.

Beyond disclosure, we also propose that issuers be required to set a gender diversity target (defined in NI 58-101 as a "number or percentage, or a range of numbers or percentages, adopted by the issuer of women on the issuer's board or in executive officer positions of the issuer by a specific date"). We should be clear that this is not a quota, nor is the target fixed externally. Rather it is an indication of the company's own goal expressed as a number or percentage of women and men in leadership positions, and the year by which the company intends to reach that goal.

We will look forward to further iterations of the OSC's policies on gender diversity and thank you and your staff personally for the work you have done so far to elevate this concern within Canadian capital markets.

Promoting financial stability through effective oversight

We also commend the OSC and CSA for their effort to review the disclosure of risks and financial impacts associated with climate change, which we believe to be a systemic risk. We support the efforts to create mandatory disclosures related to the governance and oversight of climate-related risks and opportunities, and will fully engage on behalf of our clients to provide input into that process.

Through specific disclosure requirements, securities administrators have an opportunity to help market participants understand that climate change is a material issue and in so doing, could help, "to foster fair and efficient capital markets and confidence in capital markets", which is one of the purposes of the Securities Act of Ontario.

We believe that the final recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) are the best starting point for considering disclosure obligations. The TCFD recommendations provide a clear and logical framework for CSA to adopt with strong backing from the global financial community. We expect these recommendations to be highly influential and to help to streamline and harmonize regulatory and voluntary frameworks around the world.

While the CSA's report included a commitment to consider new disclosure requirements regarding corporate governance in relation to risks, including climate change-related risks, and risk oversight and management, we are concerned that too narrow a focus, especially as relates to the issuer's understanding of materiality, may make these disclosures insufficient to address concerns about systemic risks related to climate change. For example, because the resilience of environmental, social and financial systems as a whole is necessary for investors to generate sustainable long-term returns, information about a company's contribution to (or mitigation of) climate change (such as the company's carbon efficiency measured by its Scope 1 and Scope 2 greenhouse gas emissions), even if not "material", is an important consideration for long-horizon investors.

Similarly, the transition to a low carbon economy may entail a transformation in the employment structures of certain sectors. Social inclusion and the creation of decent work opportunities are relevant to a company's successful management of transition risks, but they are also critical to the structure, growth and stability of the economy in which those firms (and investors) operate. Accordingly, we recommend that consideration of a just transition, including workforce retraining and redeployment, social dialogue and pension protection, if applicable, be addressed in the organization's disclosures on processes for managing climate-related risks and in disclosures related to the resilience of the organization's strategy. As we

have recommended that those disclosures be required on a “comply or explain” basis, the issuer may determine the applicability of these data for their company reporting.

We are eager to provide more comprehensive feedback on the issue of climate change related disclosures to the OSC and its staff, and look forward to the opportunity to do so.

We have previously noted that growing income inequality also has the capacity to negatively affect capital markets and the economy as a whole in ways that are not attributable to a single asset or investment. The implications of income inequality on capital markets may be reflected in terms of economic growth or stagnation, business opportunities and tax policies that may affect markets. While these impacts are still being analyzed, capital markets regulators and participants may contribute to addressing inequality and maintaining healthy markets through their decision-making.

For regulators, there may be opportunities in expanding disclosures by issuers as has been done recently in the UK (where new pay transparency regulations require companies with more than 250 employees to report on gender pay gaps across employment groups beginning this year and publish this information on their websites), in Australia (where companies with more than 100 employees are required to conduct annual gender gap salary audits and report results to a federal agency since 2012) and in the USA (where the SEC requires a public company to disclose the ratio of the compensation of its chief executive officer (CEO) to the median compensation of its employees). In Ontario, the government’s new *Pay Transparency Act* will, once fully implemented, require larger and medium-sized employers to publicly post data on compensation gaps based on gender and other diversity characteristics,

Some of these are developments within corporate law rather than securities regulation, but all bear consideration amongst a range of policy tools to increase investor awareness of the potential impacts of inequality on workforce recruitment, development and retention as well as long-term portfolio impacts of growing inequality.

We recommend again that OSC staff be instructed to study international securities and corporate law developments related to income inequality (including gender pay gap rules) to determine which, if any, are relevant to Canadian markets.

Mandatory annual shareholder advisory vote on executive compensation

This year SHARE, alongside other large institutional investors, engaged with issuers that do not have annual shareholder advisory votes on executive compensation (“Say on Pay”). In some instances our clients filed shareholder proposals in order to impress upon boards the need for this practice. Those proposals and discussions have resulted in eight more Canadian issuers agreeing to hold Say on Pay votes, however there is a continued reluctance from some issuers to adopt the practice.

Therefore, we once again propose that the Ontario Securities Commission take the lead in developing a new regulation requiring issuers to institute an annual shareholder advisory vote on executive compensation. Specifically, we ask that consultation on a new rule be included in the OSC's Final 2018-19 Statement of Priorities.

Innovation, accountability and efficiency

Although the current SEDAR system allows filings in XML format for XBRL filings and XLSX format for certain exempt market filings, the vast majority of filings are in PDF format and unsearchable. While this was decided earlier to balance the needs of issuers and the public, it is our view that technological changes (since the decision to use PDF formats was made) should allow for efficient disclosures by issuers in machine-readable and consistent formats that make usage of the information easier for investors. We urge the OSC to review the SEDAR system in light of technological advances and, if appropriate, revise National Instrument 13-101 and the SEDAR Filer Manual to make data more easily accessible for investors.

Thank you once again for the opportunity to review and comment on the OSC's draft Statement of Priorities. If you have any questions or would like to discuss these proposals further, please feel free to contact me at any time. I can be reached at 416-306-6453 or by email at kthomas@share.ca.

Sincerely,



Kevin Thomas
Director of Shareholder Engagement
Shareholder Association for Research & Education