SHAREHOLDER DEMOCRACY SUMMIT

KEYNOTE ADDRESS BY DAN CHORNOUS,
CHAIR OF THE BOARD,
CANADIAN COALITION FOR GOOD GOVERNANCE

INTRODUCTION

Good afternoon. I want to thank the Canadian Society of Corporate Secretaries (CSCS) for the invitation to address this inaugural Shareholder Democracy Summit. The CSCS is to be congratulated for this initiative, which pulls together important stakeholders in corporate governance and shows leadership in an area that needs it, and at a time when significant change is possible.

As many of you know, the Canadian Coalition for Good Governance (CCGG) is a Coalition of most of Canada's largest institutional investors. We formed in 2003 with a mandate to:

- Promote good governance practices in Canadian public companies to best align the interests of boards and management with those of their shareholders, and

- Improve Canada's regulatory framework to strengthen the efficiency and effectiveness of the Canadian capital markets.

Our members invest in the capital markets on behalf of millions of Canadians, many of whom will rely on the returns from those investments to fund their retirement years. We currently have 48 members managing nearly $2 trillion on behalf of Canadian investors.

Issues relating to shareholder democracy and the shareholder voting process are at the heart of many of CCGG's goals, so we are delighted to participate in this Summit. We hope that your discussions today and tomorrow will identify concrete steps that can be taken to improve the reliability of the shareholder-voting process and, more generally, the impact of shareholder votes.

My remarks today will touch on three areas:

- First, I'll highlight some of CCGG's priorities, particularly those that relate to shareholder voting. While doing so, I'll discuss the progress we've made advancing those priorities, as well as the work that still needs to be done – and there is plenty of it.

- Second, I will discuss the legal and regulatory environment and why we believe we have an historic opportunity to effect meaningful reforms in corporate governance, and

- Finally, I'll briefly discuss the reform of the shareholder-voting process and the role we hope this Summit can play in that regard.

CCGG'S PRIORITIES

Majority Voting

Implementing majority voting for all Canadian public companies is one of CCGG's most important priorities.

Those in this room are probably aware that, under our "plurality" system of shareholder voting, shareholders voting by proxy can only vote "for" a director or "withhold" their support. "Withhold" votes are not counted. It's possible in this country for a director to be elected with only a single "for" vote – and vote that may be their own - while all other votes are withheld. That means the vote is removed from the count.

People unfamiliar with this process are often shocked to learn that this is how directors are elected to many boards in Canada. To the best of our knowledge, only Canada and the U.S. use the plurality system to elect directors, and the roots of it are sketchy. Many of you are so involved with the process that this general lack of knowledge may come as a surprise. Yet I have spent over 30 years investing in U.S. and Canadian common shares and, until this was revealed to me through my involvement with CCGG over the past half decade, I simply assumed a vote – "for" or "against" - represented essentially the same expression in corporate governance as it does elsewhere in our society. Perhaps that link is so obvious that it goes unquestioned, and "withholds" continue to find their way to the trash can.

CCGG believes that all directors should be elected to the board only if they have the support of a majority of their shareholders. Since 2006, the Coalition has been urging companies to adopt its Majority Voting Policy, which creates a "workaround" the current law by providing that any directors who do not receive a majority of votes in their favour – counted as more than one-half of all votes cast - should resign. For those of you opposed to this workaround, I challenge you to explain to our clients – the large and small investors that fund Canada's corporations – why this is not entirely appropriate and consistent with their understanding of how we express a view through a fair voting process.

In 2003 when CCGG was first formed, no Canadian companies had adopted majority voting policies. Currently, 57% of the members of the S&P/TSX Composite have adopted majority voting, representing 81% of the Index by market capitalization. Although this represents great progress, the rate of adoption seems to have slowed and resistance still exists.

Last year, CCGG ramped up our level of engagement with companies in the S&P/TSX 60 that had yet to adopt majority voting, letting them know that our members would be prepared to file shareholder proposals requesting the policy be put in place. This initiative was very successful, with most companies we met ultimately agreeing to adopt majority voting.

Unfortunately, not all companies respond to our quiet lobbying. Two of our members did have to file a shareholder proposal with one company, European Goldfields. We were very pleased when the proposal passed with strong support from the company's shareholders. European Goldfields has since confirmed that it would adopt a majority-voting policy in CCGG's recommended form. Our members intend to continue initiating shareholder proposals where necessary in order to fulfill our goal of universal adoption of majority-voting policies for public companies in Canada.

I would like to say a few words about controlled corporations, which play an important role in the Canadian market. This month, CCGG released new guidance entitled "Governance Differences of Controlled Corporations." In this, we highlight some of the legitimate governance differences for companies where effective control exists with a single shareholder through ownership of a significant portion of a corporation's common shares - as opposed to control gained through dual-class share structures.

In that guidance, we acknowledge that if a shareholder controls over 50% of the equity, adopting our majority voting policy is unlikely to ever lead to the resignation of a director. As a result, we are not pressing equity-controlled corporations to adopt our majority voting policy. We do ask, however, that the company publicly and immediately commit to adopting a majority-voting policy if the controlling shareholder ever ceases to control at least 50% of the common shares of the corporation.

Individual Director Elections

CCGG also believes that it is important for shareholders to be able to vote for each director individually rather than for a slate of all directors. Individual director elections are essential if a company has adopted a majority-voting policy. Individual vote results also give important feedback to governance and nominating committees of boards. In 2003, 86% of Index issuers used slate voting, but that practice has been reduced to 17%. As a result, 83% of Index issuers currently have individual director elections, representing 95% of the Index by market capitalization.

Annual Director Elections

Shareholders should also be allowed to vote for directors on an annual basis, with no staggered terms. In CCGG's view, staggered boards reduce accountability to shareholders and can impede the ability of shareholders to make needed changes to the board, since not all directors come up for re-election each year. Although most Index issuers have stopped the practice, CCGG believes it should be eliminated entirely.

Detailed Disclosure of Vote Results

Our members also believe that all companies should promptly and publicly disclose the detailed vote results of all matters listed on the proxy, including director elections, irrespective of how the vote was conducted. A public report by a company that only states whether a matter was passed or defeated does not give shareholders any information through which they can assess the level of shareholder support for directors or any other matter listed on the proxy, nor can shareholders ascertain any clear changes or trends in levels of support.

In addition, companies are currently not under any obligation to confirm to shareholders voting by proxy that their votes have been received and tabulated. This lack of confirmation, when coupled with the fact that the vote results are not reported, makes it virtually impossible for shareholders to know whether their votes have been counted.

CCGG has been urging companies to provide detailed vote results as a matter of best practice. Many companies do, but about 28% of Index constituents still do not, and that number would likely be higher if smaller, non-Index, companies were included.

Say on Pay

CCGG regards annual "Say on Pay" shareholder advisory votes as an important part of an ongoing, integrated engagement process between shareholders and boards. Our members don't intend this process to replace the need for expert support of compensation planning, nor do we wish to remove the board's "ownership" of decisions made in this regard. "Say on Pay" simply gives shareholders an opportunity to express their satisfaction with the board's approach to executive compensation and encourages boards to engage with their shareholders. In Canada, "Say on Pay" provides feedback to boards that the minimum expectation of shareholders for linking the interests of the firm's management to those of its owners has been achieved, or not.

'Say on Pay' has expanded rapidly in Canada since 2009 when the first group of companies adopted it. Currently, approximately 80 Canadian companies of all different sizes and industry sectors have voluntarily adopted "Say on Pay," with all of them using the CCGG recommended form of resolution. We will continue to urge all Canadian public companies to adopt 'Say on Pay' going forward.

Proxy Access Has Moved Firmly Within Our Radar

CCGG also believes that significant, long-term shareholders should have the ability to nominate their own candidates for election to a board and have those nominees included in management's information circular, commonly known as "proxy access." Those candidates would still have to be elected by all of the shareholders, and their fiduciary duty to the corporation as a whole would remain. Proxy access is high on our agenda, along with other proposed ways to create additional rights for long-term shareholders.

THE LEGAL & REGULATORY ENVIRONMENT

While we are prepared to tackle reform on a company-by-company basis, CCGG has also been pursuing numerous avenues to change the law to make all of these reforms mandatory for all Canadian public companies.

We believe we are at a time where significant change is possible in Canadian corporate governance standards, and that this won't last indefinitely. The Canada Business Corporations Act is currently under statutory review. At the same time, the national instruments under the proposed National Securities Act - which we hope the Supreme Court will find to be constitutional - are currently being drafted. We believe this presents an historic opportunity to create a comprehensive "best-in-class" corporate and securities-law regime that removes the existing overlap and inconsistencies between corporate and securities laws, which have been a source of inefficiencies and a barrier to reform for many years. Perhaps more importantly, it presents an opportunity to ensure that basic shareholder-democracy norms, such as the ones I have discussed today, are enshrined in law to bring Canadian corporate-governance standards in line with international norms. Indeed, the climate is conducive to achieving substantial and lasting change. Around the world, faith in our institutions has been challenged by a fairly regular drip of high-profile corporate excess or failure, low shareholder returns and periods of stunning volatility in our capital markets. I don't mean to suggest that this is all because of flaws in corporate governance, but improvement in this regard will clearly contribute to the rebuilding of confidence in our markets and highlight a renewed commitment to fairness.

Pending any decision on the National Regulator, we applaud the OSC for putting shareholder democracy on its agenda by issuing a Notice on "Regulatory Developments regarding Shareholder Democracy Issues." Although the Notice was very preliminary, we urge the OSC to be prepared to quickly adopt measures in each of the areas they identified – if necessary, without a consensus from other provinces - to ensure that the basic rights of Canadian shareholders are respected.

Similarly, we commend the TSX for its recent initiative to amend its listing rules to abolish slate voting and staggered boards. We were disappointed, however, with the decision of the TSX to require majority voting only on a "comply or explain" basis, as opposed to making it a requirement for TSX-listed issuers. We urge the TSX to re-think its approach and require its issuers to adopt majority-voting policies, particularly given that so many of its listed companies have already done so. Canada's biggest exchange has an easy opportunity to showcase for the world a progressive approach to corporate governance. We encourage them to reconsider.

REFORMING THE SHAREHOLDER VOTING PROCESS

Clearly, all of the priorities and potential reforms I have just discussed depend heavily on a shareholder-voting process that is accurate and reliable. But a consensus has emerged that the process is flawed. Perhaps most concerning is that the complexity of shareholder voting has made auditing its accuracy and reliability virtually impossible.

The existence of majority voting, "Say on Pay," and the potential for proxy access make it even more important for the shareholder-voting process to be accurate and transparent. We applaud the work of Carol Hansell and her legal team at the law firm Davies Ward Phillips & Vineberg for their comprehensive report that we think has helped everyone to better understand the process and to identify some of the key challenges to improving it.

At a symposium in June sponsored by RBC Dexia and bcIMC, some of the key industry participants got together to continue the discussion started by the Davies paper. The symposium was designed to clarify the roles of each industry participant, allow interested parties to communicate their perspectives and build a consensus on some logical next steps to addressing the issues. I understand that the written report from that symposium is being provided to participants of this Summit and I recommend it to you as a good basis for further discussion.

We hope that this Summit can further this dialogue by:

- Identifying some concrete steps that can be taken in the short term and long term,
- Identifying who should be responsible for taking each step, and
- Beginning the important task of prioritizing any proposed changes, recognizing that it will be impossible to make all of the necessary changes at one time.

Given the complexity of the voting process, our members do not think it is realistic or desirable to expect any regulator or lawmaker to propose a comprehensive solution on its own. Initial ideas for reform should come from participants in the process, which can then be used by the regulators to develop specific proposals for reform. Many of you have an important role to play in this.

CONCLUSION

As I close, I want to again thank the Canadian Society of Corporate Secretaries for organizing this Summit and for this invitation to speak. Some, here or elsewhere, may view the CCGG's program, or even our approach, as aggressive. I would characterize our goals as ambitious, appropriate and achievable. I can't hope to speak for what it is the public wants in this time of dashed hopes, but I can guess that fairness, transparency and accountability will be well received. Each of our proposals moves corporate governance in that direction. Right now, we can help to make this happen.

Thank you