British Columbia Investment Management Corporation
301-2940 Jutland Road, Victoria BC, Canada V8T 5K6
Web www.bcimc.com Email communications@bcimc.com
Phone 250.356.0263 Facsimile 250.387.7874

February 17, 2011

Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, ON M5H 3S8

via email: jstevenson@osc.gov.on.ca

Re: Response to Request for Comments on Proposed Amendments to: Form 51-102F6 *Statement of Executive Compensation*

Dear Mr. Stevenson,

The BC Investment Management Corporation (bcIMC)[1] respectfully submits this letter in response to the request for comments on the proposed executive compensation disclosure rules that were released in mid-November 2010 by the Canadian Securities Administrators (CSA).

We are very supportive of the proposed amendments. If enacted, they will:

- shine a light on short-term biased compensation strategies that helped create the global financial crisis of 2008 by encouraging excessive risk-taking (e.g., companies will be required to disclose whether they have considered the risks to long-term shareholders created by compensation policies).
- keep Canada's regulations in line with the basic rules that the U.S., our largest trading partner, is now adopting (e.g., the CSA is asking for expanded disclosure of the role of, and fees paid to, compensation consultants).
- make executive compensation decisions clearer for investors (e.g., there will be new limits on the ability of companies to cite competitive considerations as the reason for not disclosing compensation strategy).
- elevate compensation disclosure beyond an exercise in legal compliance to become a thorough, useful story for shareholders like bcIMC to make informed investment decisions (e.g., companies will be reminded about the use of plain language in their Compensation Discussion and Analysis).

[1] *bcIMC is responsible for investing the assets of public sector clients in the province of British Columbia. Public sector pension plans constitute our largest client group. At March 31, 2010, bcIMC's assets under management were approximately $85 billion, with more than $12 billion invested in the shares of Canadian public companies.*

Our overall perspective:

You will hear from many participants on the buy-side of Canada's capital markets that they are looking for improvements in both compensation disclosure and the practices that will be the subject of that disclosure. A recent CFA Institute survey revealed that, although investors want and use this information, they are quite frustrated with the current state of disclosures.

The May 2009 survey (available at www.cfainstitute.org) was delivered to 14,977 CFA Institute members and 74% of respondents said they regularly use information about compensation practices and/or pay levels in their investment decision-making process. Importantly, such information is used to assess management's alignment with shareowner interests. When the investors were asked about their satisfaction with the current disclosure process, 59% voiced dissatisfaction with the present level of information level and clarity.

In contrast, the CSA proposed changes to executive compensation disclosure offers companies clear rules for drafting a useful review of compensation policies and decisions that investors can easily understand.

Specific comments:

Based on our experience reviewing the CD&A of hundreds of Canadian companies each year, the following sets out the specific proposed disclosure changes that are key to bcIMC:

(1) Disclosure of relationship between compensation and risk management

Compensation programs that encourage excessive risk taking are being held partly responsible for the recent economic crisis. This belief has generated a number of responses to deal with the link between executive compensation and excessive risk. For example, the Financial Stability Forum introduced Principles for Sound Compensation Practices; the Basel Committee delivered a Report on Risk and Performance Alignment; the U.S. Congress enacted the Dodd-Frank Act; and the Securities and Exchange Commission (SEC) introduced changes to U.S. executive compensation disclosure.

In this context, we agree that the CSA should follow suit with a requirement for companies to disclose whether and how the board considered the implications of the risks associated with the company's compensation policies and practices. The "how" part of this rule is particularly interesting to us and we believe that the CSA examples of compensation policies or practices that could encourage excessive risk taking will be very helpful to companies. These are:

- policies that are heavily weighted toward short-term objectives or that pay out before the risks associated with the performance are likely to materialize;

- policies that are significantly different for a particular business unit or particular executives or that vary from the company's overall compensation structure;

- programs in which the compensation expense is a significant percentage of the company's revenues;

- policies that do not include risk management and regulatory compliance as part of their performance metrics.

In addition, in its supporting commentary, we would like the CSA to encourage companies to disclose how they address excessive risk taking through pay practices like:

- clawback policies that require repayment of compensation earned by taking excessive risks;

- "malus" policies that allow forfeiture of unvested compensation in similar circumstances; and

- deferred vesting provisions that align the time of payment with the period during which the risks associated with the performance will be realized.

Finally, as we have seen from the recent BP PLC disaster in the Gulf of Mexico, company policies and practices related to non-financial risks, like the environment and worker health and safety, can have material financial impacts. Therefore, the CSA supporting commentary on the disclosure of risk-adjusted compensation should expressly note that "risk" includes environmental and social performance risks.

(2) Compensation Committee Competence

The proposed disclosure requirements about compensation committee training and skills reflects the increasing importance shareholders like bcIMC are attaching to compensation matters , as well as an acknowledgement of the complexity of the issues with which the compensation committee must deal.

We expect compensation committee members to be "compensation literate" and agree that companies should disclose:

- whether any of the committee members have direct experience relevant to their responsibilities in executive compensation; and

- the skills and experience that enable the committee to make decisions on whether the company's compensation policies and practices are consistent with the company's risk profile.

In addition to experience, we would like to see the proposal encourage disclosure of committee member education and training in compensation matters.

(3) Executive Officer and Director Hedging

We appreciate that the new rules will require companies to disclose whether named executive officers or directors are permitted to hedge their equity-based compensation awards or the value of the securities they hold.

Hedging an equity-based award or securities held under a share-ownership program to protect the NEO or director against a decrease in share price is, in our view, contrary to the purpose for which these awards are introduced (i.e., align the interests of executives with shareholders and give an incentive value to compensatory stock awards).

We hope that this new rule will ultimately cause companies to introduce explicit policies prohibiting hedging of equity-based compensation awards and securities held under share-ownership requirements, rather than face the shame of disclosing that they are permitting NEOs to reduce their exposure to their own companies' performance.

(4) Fees for Compensation Consultants

In bcIMC's April 2008 comment letter to the CSA in response to proposed amendments to executive compensation disclosure (this was a supplement to our first comment letter sent in 2007), we sought:

Disclosure of compensation consultants engaged by the Compensation Committee and how much the consultants earned from the company for work that was not related to their work with the Committee.

Therefore, we highly support the fact that the CSA is now requiring expanded disclosure on all fees paid to compensation consultants for each service provided. As a result, investors will understand whether a possible conflict exists between consultants who offer human resources, or actuarial or benefit services, as well as advice on compensation strategies.

A similar requirement for disclosure of all fees earned by external audit firms has had an important reducing effect on potential conflicts of interest.

We agree that no materiality threshold should be established for any compensation firm advisory fees that must be disclosed.

(5) Performance Goals

Requiring disclosure of performance goals to help shareholders answer the pay-for-performance question was, in our opinion, one of the most helpful changes to the executive compensation rules in the last CSA review of 2007/2008. We also note that in the U.K., companies must disclose long-term incentive plan targets as a matter of law. Unfortunately, many Canadian companies still do not disclose performance targets on the basis that disclosure would seriously prejudice the company's interests.

If a company is relying on the "serious prejudice exemption" and will not disclose this important information to investors, we think there should be a detailed discussion of the reasons for relying on this exemption in the CD&A. We applaud the CSA for introducing such a requirement this time. We also support the new CSA strict limits on the ability of companies to cite competitive considerations as the reason for not disclosing compensation strategy (e.g., disclosure of targets based on broad corporate financial metrics such as earnings per share, revenue growth and EBITDA is deemed not to seriously prejudice the company).

In cases of “serious prejudice”, it would also be beneficial for shareholders to have supplemental information demonstrating how the company has historically implemented a robust pay-for-performance pay structure in recently completed performance periods.

(6) Benchmarking

While disclosure of the names of competitors and peers used to create compensation benchmarks is currently mandated, investors lack meaningful peer group benchmarking information. For most companies, the use of benchmarking is a basic first-step in establishing pay levels and pay structure. Disclosure related to how the peer group is determined or why that peer group is relevant is valuable and should be required.

(7) Other Issues

We continue to have an information need that was omitted in the last CSA executive compensation rule change. We call on the CSA to require the following:

- Certification of the Compensation Discussion and Analysis by members of the Compensation Committee that all company compensation information (executive and director) has been collected, itemized and justified. The primary goal of the CD&A is investor communication and information, and we believe it is more likely to achieve this goal if the Compensation Committee, rather than management, takes primary responsibility for preparation of the CD&A. This process of “ownership” will strengthen the Compensation Committee’s accountability to shareholders for ensuring the company is providing understandable and transparent compensation disclosures.

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Should you have any questions with respect to bcIMC's views, please feel free to contact me.

Sincerely,

Doug Pearce
Chief Executive Officer and Chief Investment Officer

cc Ms. Anne-Marie Beaudoin, Corporate Secretary
Autorité des marshés financiers
Email: consultation-en-cours@lautorite.qc.ca

Mr. Martin Eady
Director, Corporate Finance
British Columbia Securities Commission
Email: meady@bcsc.bc.ca