

April 20, 2009

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
Nova Scotia Securities Commission  
Office of the Attorney General, Prince Edward Island  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Government of Yukon  
Registrar of Securities, Department of Justice, Government of the Northwest Territories  
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

**Attention:**

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Re: **Request for comments on the proposed repeal and replacement of NP 58-201 Corporate Governance Guidelines, NI 58-101 Disclosure of Corporate Governance Practices, and NI 52-110 Audit Committees and Companion Policy 52-110CP Audit Committees.**

We are writing in response to the Canadian Securities Administrators' (CSA) request for comments on its proposed Corporate Governance releases<sup>1</sup>.

With \$3.6 billion in assets under management, Northwest & Ethical Investments L.P.'s approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will provide higher risk-adjusted returns over the long term. Significant experience evaluating corporate governance disclosure, engaging companies to improve governance practice, and participating in consultations on governance standards, as well as extensive staff background in regulatory policy-setting and design of industry best practices, gives us considerable insight into corporate governance issues.

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<sup>1</sup> [http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/rule\\_20081219\\_58-201\\_rfc.pdf](http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/rule_20081219_58-201_rfc.pdf)

Northwest & Ethical Investments L.P. commends the CSA for its continuing efforts to enhance corporate governance policy, and for seeking input in this process. We set out in the following pages our general response to the Proposed Materials, specific responses to the questions posed in the CSA consultation document, and our recommendations.

### **Enhancing the standard of governance and confidence in capital markets**

We welcome the proposal to broaden the scope of corporate governance policy to encompass conflicts of interest, risk management and shareholder engagement. But now is not the time to move to a fully principles-based policy, or to abandon the comply-or-explain approach to disclosure.

We understand the CSA hopes to provide scope for the evolution of corporate governance practice through the implementation of a principles-based system. We also note that in January 2009 the Expert Panel on Securities Regulation recommended a principles-based regulation approach in proposals for a National Securities Regulator<sup>2</sup>. In appropriate settings, the flexibility and adaptability associated with principles-based regulation may be advantageous. We are not convinced, however, that a principles-based system is appropriate in the context of defining corporate governance requirements for securities issuers.

Our analysts routinely evaluate all major Canadian issuers against an array of environmental, social and governance indicators. From this research we conclude that a significant proportion of Canadian companies need to improve governance practice and disclosure, and that the companies that most need to improve are those least likely to respond to a regime that is not based on clearly-defined standards. In addition, our Sustainability Department implements the most comprehensive Shareholder Action Program in Canada. Our experience of engaging Canadian companies on ESG issues has taught us that enunciating principles is not enough to produce lasting corporate change – it is often the discipline of following rules and guidelines that helps to build a culture of good governance and compliance.

Principles-based systems are not necessarily less onerous for issuers than (perceived) rules-based systems – in particular for smaller issuers. Although the principles themselves may be concise, significant accompanying guidance may be required to assist issuers in identifying ways to respond to them. Clear guidance on minimum standards may be particularly helpful for smaller issuers, which will often lack the resources needed to determine appropriate company-specific policies and practices.

We applaud CSA's desire to improve the quality of governance disclosure provided to investors. As well as providing vital information to guide investment decision-making, disclosure contributes to the development of better corporate governance. Once companies begin to establish and implement good governance policies, we engage them to seek disclosure and get them "on the public record".

Based on our own experience of evaluating disclosure by Canadian companies, we share the concern expressed in CSA Staff Notice 58-303 regarding failure to comply with current disclosure requirements and deficiency in the quality of governance disclosure - "in

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<sup>2</sup> [http://www.expertpanel.ca/eng/documents/Expert\\_Panel\\_Final\\_Report\\_And\\_Recommendations.pdf](http://www.expertpanel.ca/eng/documents/Expert_Panel_Final_Report_And_Recommendations.pdf)

particular, the extent to which issuers failed to provide clear or complete accounts of their governance practices”<sup>3</sup>. Boilerplate language is, unfortunately, all too common.

We are not convinced, however, that abandoning the present “comply or explain” regime is the right way to resolve the disclosure problem. We are concerned that without clear guidelines on good practice in governance disclosure, the proposed changes could encourage poor quality, incomplete disclosure. Once again, governance leaders will tend to provide useful disclosure under either system: the companies which most need to improve disclosure are the ones likely to be challenged by an absence of clear guidelines.

Although there should be (and is already) flexibility about how good governance outcomes are achieved, there should be no misunderstanding that corporate governance is somehow an optional activity. It should be made clear that corporate effort to meet the objectives described in the Principles is mandatory. This is not explicit in the “introduction and application” section of the Proposed Materials. The CSA notes some issuers have interpreted the current guidelines as being too prescriptive, and takes care to emphasize in the Proposed Materials that practices outlined in the commentary are not mandatory and should not be seen as “best practices”. If one of the objectives is to enhance confidence in the Canadian capital markets, the timing is unfortunate. Just as in 2004-5, corporate governance policy is being revised against the background of a crisis of investor confidence – brought on this time, at least in part, by poor corporate policy and practice in governance areas such as risk management and executive compensation.

One of CSA’s stated objectives is to better align with international standards. Globally, the drive now is for more rigorous regulation of the markets: Canadian banking regulation, the relatively conservative and prescriptive nature of which protected this country’s banks in the face of an international meltdown in the sector, is being held up as a model for others to follow. Moving towards a principles-based system and away from “comply or explain” disclosure is likely to create divergence between Canada and other jurisdictions. The UK Financial Services Authority, which pioneered principles-based regulation, is moving towards more rule-based approaches<sup>4</sup>; while international investors representing US\$1.3 trillion in assets have written to the new US Administration urging amongst other reforms a move to a “comply or explain” model of disclosure<sup>5</sup>.

Against the background of the current financial crisis, extra effort by regulators in compliance enforcement seems warranted, even if the governance policy remains unchanged. For a new principles-based system to be rendered effective, significant resources would have to be invested in developing appropriate compliance mechanisms and consultation processes among regulatory stakeholders. In this context, the Proposed Materials give no indication as to how compliance would be supported under the principles-based system. As noted in a study prepared for the Expert Panel on Securities Regulation, “promulgating principles-based legislation alone, without paying attention to implementation and regulatory approach, will not foster better regulation”<sup>6</sup>.

Nevertheless, certain elements within the Proposed Materials could be adopted as enhancements to the current system. We would welcome expanding the scope of governance policy to incorporate management of conflict of interest, risk management, and

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<sup>3</sup> [http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/csa\\_20070629\\_58-303\\_corp-gov-disc.jsp](http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/csa_20070629_58-303_corp-gov-disc.jsp)

<sup>4</sup> “Oversight in a post-crisis world”, *Investment Executive*, April 2009

<sup>5</sup> <http://www.corpgov.net/news/2009/feb/2009-02-13CGReforms.pdf>

<sup>6</sup> Cristie Ford, *Principles-Based Securities Regulation: A Research Study Prepared for the Expert Panel on Securities Regulation*. <http://www.expertpanel.ca/documents/research-studies/Principles%20Based%20Securities%20Regulation%20-%20Ford.English.pdf>

engagement with shareholders and other corporate stakeholders. Defining a set of governance policy outcomes based on the Principles, supported with clear guidelines on minimum standards and generally-accepted good practices, and a “comply or explain” disclosure regime, could help to foster innovation among companies with the capacity to explore and describe new practices designed to meet the outcomes, while setting the bar for companies lagging behind and providing clarity for smaller issuers.

### **Proposed Governance Policy**

*Question 1: Do you think Principles 6, 7 and 9 provide useful and appropriate guidance? Does this guidance appropriately supplement other corporate law and securities law relating to these areas?*

We would welcome broadening the scope of CSA governance policy to explicitly address conflict of interest, risk management frameworks, and engagement with key stakeholders, including long-term shareholders - issues that we have raised in previous consultations on corporate governance<sup>7</sup>. However, we would prefer to see more detail in the guidance.

#### Principle 6 – Recognize and manage conflicts of interest

The principle should also address practices that help issuers to avoid, as well as identify and manage, conflicts of interest.

It is unclear if the guidance on consultants refers to all consultants whose tasking might represent a conflict of interest, or only to those involved in management of conflict of interest. Certain combinations of consultancy tasking involving audit or compensation work are well-recognized as potential conflicts of interest.

We are unsure why a “divergence of interests among shareholders” represents a governance conflict of interest for the issuer. In our experience, shareholders often disagree. If the commentary is intended to address situations involving a controlling shareholder, this should be specified.

#### Principle 7 – Recognize and manage risk

We would agree that risk management is most effective when it is embedded in all the issuer’s processes. To this end, when evaluating companies for our portfolios, we seek evidence of companies assigning appropriate priority to their most significant risks through the establishment of Board Committees responsible for those issues (e.g. a Board Committee responsible for safety at an extractive company).

We would support providing more specific guidance on the need for recognition and management of environmental, social and governance (ESG) risks. As noted earlier, our approach to investing incorporates the thesis that companies integrating best ESG practices into their strategy and operations will provide higher risk-adjusted returns over the long term. Increasingly, directors and executives share this perspective: in a 2004 Deloitte survey, 92% responded that financial indicators alone do not adequately capture their company's underlying strengths or vulnerabilities<sup>8</sup>. Globally, securities regulators are moving towards more explicit recognition of the significance of ESG risk. In South Africa the

<sup>7</sup> [https://osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/Comments/58-101/com\\_20040531\\_58-101\\_rwalker.pdf](https://osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/Comments/58-101/com_20040531_58-101_rwalker.pdf)

<sup>8</sup> Deloitte (2004) *In the Dark: What Boards and Executives Don't Know About the Health of Their Businesses* [http://www.deloitte.com/dtt/cda/doc/content/dtt\\_audit\\_InthedarkFINAL2\\_101304.pdf](http://www.deloitte.com/dtt/cda/doc/content/dtt_audit_InthedarkFINAL2_101304.pdf)

King II Code on Corporate Governance requires companies listed on the Johannesburg Stock Exchange to report to Global Reporting Initiative (GRI) standards; the Stockholm Stock Exchange reserves the right to refuse listing, even where the company meets listing requirements, if it commits serious or systematic violations of human rights or other international ethical norms; while companies listed on the Paris exchange are required to include social and environmental information in their annual reports<sup>9</sup>. Here in Canada, a resolution has just been passed in the Ontario legislature calling on the Ontario Securities Commission to review its reporting requirements, with the aim of establishing best practice ESG reporting standards<sup>10</sup>.

#### Principle 9 – Engage effectively with shareholders

We implement the most comprehensive Shareholder Action Program in Canada. In this context, we welcome explicit recognition of engagement with shareholders within the CSA governance policy. The Proposed Materials do not, however, reflect the full scope of effective engagement with shareholders, instead addressing only one element - shareholder voting at the Annual General Meeting (AGM). While filing and voting on resolutions are cornerstones of shareholder rights, they also represent the last resort in terms of exercising shareholder voice. Effective engagement should also encompass issuer interaction with shareholders before the AGM and throughout the year. We would therefore recommend adding further guidance on this point.

We suggest that issuers should focus their engagement effort on responsible long-term shareholders whose interests align with the long-term health of the company. Although we do not share his conclusions regarding shareholder rights, we agree with Lawrence Mitchell that at least some shareholders distort the behaviour of corporate managers away from long-term business health<sup>11</sup>; a 2004 study revealed that due to the negative market reaction associated with missing quarterly earnings targets, 80% of executives would give up creating long-term value in exchange for smooth quarterly earnings<sup>12</sup>.

The introduction to the Proposed Governance Policy recognizes that corporate governance relationships extend beyond shareholders to “other stakeholders”. We strongly agree that effective engagement with wider corporate stakeholders – including bondholders, employees, customers, suppliers, and communities – is vital to the long-term health of companies, and ultimately to maintaining long-term shareholder value. That is why, for example, we promote international standards for stakeholder engagement, and we engage extractives companies on the issue of Free, Prior and Informed Consent of indigenous peoples whose traditional territories will be impacted by their projects.

As presented, however, the Proposed Materials offer no concrete guidance on the issue of stakeholder engagement. We suggest, therefore, that the governance policy guidance should be extended to cover not only engagement with investors, but also with other corporate stakeholders.

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<sup>9</sup> Domini Social Investments (2008) *Innovations in Social and Environmental Disclosure Outside the United States*, [http://www.domini.com/common/pdf/Innovations\\_in\\_Disclosure.pdf](http://www.domini.com/common/pdf/Innovations_in_Disclosure.pdf)

<sup>10</sup> <http://srimonitor.blogspot.com/2009/04/ontario-regulator-asked-to-improve.html>

<sup>11</sup> Lawrence Mitchell (2009) *The Legitimate Rights of Public Shareholders*, George Washington University, accessible via [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1352025](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1352025)

<sup>12</sup> John R. Graham, Campbell R. Harvey, and Shiva Rajgopal, "The Economic Implications of Corporate Financial Reporting", *Journal of Accounting and Economics*, April 2004.

*Question 2: Does the level of detail in the commentary and examples of practices successfully provide guidance to issuers and assistance to investors without appearing to establish “best practices”?*

The content of the guidance provided is, on the whole, sound – indeed in many sections, the commentary duplicates the present guidelines. But by definition, a fully principles-based system cannot provide comprehensive guidance on what issuers could do to meet the requirements. We would also argue that many of the practices suggested as possible means to fulfill the objectives of the principles are, in fact, fundamental tenets of good corporate governance that all companies should follow.

Our understanding is that by rejecting the concept of “best practices”, the CSA is seeking to eliminate a misconception that practices described in its guidance represent the only or obligatory way to achieve the objectives described in the Principles, and to emphasize that flexibility exists for issuers to devise alternatives.

We believe it is important to distinguish between best practices and minimum acceptable standards. Best practices are constantly evolving, and regulation should provide scope for issuers to develop them further. However, regulation must also take into account the need to push the worst performers to an acceptable level. It is, therefore, entirely appropriate for regulation to define minimum acceptable standards that must be met. Our experience suggests that many companies do not prioritize issues unless action is (or is believed to be) mandatory. The process orientation required to develop company-specific good practices can be incompatible with the entrepreneurial nature of many organizations. Because of capacity issues, smaller issuers in particular are likely to benefit from explicit guidance on minimum acceptable standards and generally-accepted practices. Providing such guidance does not prevent companies from exploring new ways to generate the desired governance outcomes.

We do not think that the CSA should be concerned that its instruments may be perceived to promote minimum standards and widely-accepted good practices. Because securities regulators (like institutional investors) have an overview of the state of corporate governance practice across all listed companies, they are well-suited to the role of alerting companies to what constitutes current good practice.

Our corporate evaluations indicate that many practices relevant to the Proposed Governance policy are either followed by the vast majority of companies on the TSX Composite Index, or are being adopted by an increasing number. For example:

- Less than 15% of the companies had at least one director who attended less than 75% of the meetings.
- Less than 25% of the companies had not separated the roles of Chair and CEO, and of these companies, almost 60% had an independent lead director.
- Over 20% of the companies had already adopted majority voting.

For us this is evidence that in some areas of governance, it is appropriate to acknowledge that minimum standards or accepted practices exist, which all issuers should be following - or exceeding. In this context, we note that the level of detail in the commentary and guidance provided for the different principles varies widely, and that the guidance for some of the principles appears more prescriptive.

Rather than a purely principles-based instrument, a hybrid approach may be more appropriate. The governance policy might describe the governance outcomes that the policy is intended to support, create an obligation for issuers to build and report on systems to deliver these outcomes, and as appropriate mandate or suggest ways that issuers could

fulfill that obligation – highlighting widely-acknowledged good practices or minimum standards where these exist.

We would highlight NI 81-107 (*Independent Review Committee for Investment Funds and Related Amendments*) as an example of policy that provides prescriptive minimum standards, while explaining the rationale behind the rule-making, and enabling the further evolution of best practices<sup>13</sup>.

### **Proposed Governance Instrument**

*Question 3: In your view, what are the relative merits of a principles-based approach for disclosure, compared to a comply-or-explain model?*

Disclosure is essential to the healthy functioning of capital markets. We are not convinced that abandoning the present “comply or explain” regime is the right way to resolve governance disclosure problems. We are concerned that the principles-based disclosure approach will not encourage better disclosure among those companies that most need to improve their reporting. These issuers are most likely to respond adequately in a system that obliges them to report against clearly-defined guidelines on good practices and minimum standards. Smaller issuers are also likely to find this approach less challenging, because it provides clarity. At the other end of the spectrum, the “comply or explain” system does not prevent leaders from applying innovative approaches to governance, and describing and explaining them in reporting.

*Question 4: Is the level of disclosure under each of the principles appropriate both from an issuer’s and an investor’s point of view? Specifically, do you think the disclosure in respect of Principles 6, 7 and 9 provides useful information to investors?*

Reflecting the differing levels of guidance provided in the policy document, the levels of disclosure demanded for each of the principles varies significantly, from detailed lists of specific information to be disclosed, to one-sentence requests to describe systems relating to as principle, “if any”. Given the lack of clarity as to whether action on the principles is mandatory, and the lack of clear guidelines as to what would constitute appropriate practices to meet certain principles, we fear that some issuers will simply skip certain disclosure topics. This will leave the investor in uncertainty – does the omission mean the issuer has no systems, or did it not attach priority to reporting on the systems? Where it is not possible to provide detailed guidance on disclosure content, it would be more helpful to investors if issuers were asked to disclose whether or not they have practices to address a principle, and to describe those practices.

From an investor perspective, the disclosure requirements associated with Principles 6, 7 and 9 in particular seem to lack detail. Given that incorporation of these areas is an innovation, it would seem appropriate to provide more, rather than less, guidance for issuers.

Under Principle 5 issuers are asked to disclose a summary of their code of conduct, if any, and explain how the whole document can be obtained. We believe the entire code of conduct should be made public and readily accessible on the company’s website.

### **Proposed approach to independence**

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<sup>13</sup> [http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part8/rule\\_20061110\\_81-107\\_independent-review.pdf](http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part8/rule_20061110_81-107_independent-review.pdf)

*Question 6: In your view, what are the relative merits of the proposed approach to independence compared to the current approach. In particular (a) basing the determination of independence on perception rather than expectation; and (b) guiding the board through indicia rather than imposing bright line tests?*

We believe that “perception” possibly represents a more rigorous standard than “expectation”. If that is the intention, we would favour determination based on perception. It may be helpful, however, to provide clarification on the difference between the two concepts.

While the document relates specifically to the Audit Committee, we are heartened to see that the standard for independence will apply to the whole board of directors.

*Question 7: Is it sufficiently clear that the phrase “reasonably perceived” applies a reasonable person standard?*

It is not clear that the phrase “reasonably perceived” applies a reasonable person standard. The ambiguity regarding the definition of “reasonably” is increased by the assertion that “ultimately determining independence is left to the reasonable judgment of the Board of Directors”. The use of the reasonable person standard should be made explicit.

*Question 8: Is the guidance in the Proposed Audit Committee Policy sufficient to assist the board in making appropriate determinations of independence?*

In general, the guidance in the proposed Audit Committee policy is clear in comparison with other sections of the proposed materials – perhaps because it is “rules-based” to a greater extent. The guidance in the Companion Policy duplicates portions of the current ‘bright line’ tests (section 1.4 and 1.5).

Independence of directors is essential for the Audit Committee, but also relevant in other governance contexts. We favour appointment of a majority of independent directors, and believe that nomination and compensation committees, as well as audit committees, should be composed entirely of independent directors.

*Question 9: The proposed definition provides that independence is independence from the issuer and its management, and not from a control person or significant shareholder. Given this definition: (a) should a relationship with a control person or significant shareholder be specified in section 3.1 of the proposed Audit Committee Policy as a relationship that could affect independence? (b) should such a relationship be solely addressed through principle 6 as proposed? (c) is it appropriate to include as an example of a corporate governance practice that an appropriate number of independent directors on a board of directors and audit committee be unrelated to a control person or significant shareholder?*

A director who has a relationship with a control person or significant shareholder cannot be considered as independent. The best long-term interests of the company and its other shareholders may not necessarily coincide with those of a controlling shareholder.

The question of director association with controlling shareholders is a fundamental issue for corporate culture. Principle 6 speaks mainly to conflicts of interest in business transactions and contracts. Consequently, we believe this question is best addressed in the director independence guidelines.



As we do not consider a director related to a control person or significant shareholder to be independent, we do not think it is appropriate to include as an example of a corporate governance practice that an appropriate number of independent directors on a board of directors and audit committee be unrelated to a control person or significant shareholder.

*Question 10: Does the required disclosure on director independence provide useful and appropriate information to investors?*

As long as following them is mandatory, the disclosure requirements are useful – in particular the requirement to name directors and describe the basis on which they have been identified as independent or not. We recommended this in our earlier submission on the topic<sup>14</sup>.

### **Concerns of Alberta Securities Commission**

In response to the concerns of the Alberta Securities Commission:

- We prefer the “reasonable person” test for defining independence of directors.
- It is appropriate to include being actively involved in the management of the issuer, which may include a control person or a significant shareholder, as one of the relationships that could affect independence enumerated in section 3.1 of the Proposed Audit Committee Policy.
- We believe that disclosure is paramount: the board should explain why a director is or is not found to be independent. In our corporate ESG evaluations and for proxy voting purposes, our assessment of independence is based on the Council of Institutional Investor’s definition<sup>15</sup>. Without this disclosure, we would be unable to apply our assessment rules.

### **Main Recommendations**

*Enhancing corporate governance policy:*

Rather than switching to a fully principles-based system, we suggest incorporating some elements of the Proposed Materials into the current policy. The corporate governance policy should define the desired governance outcomes – and mandate companies to deliver on them. While allowing companies the flexibility to innovate if they have the capacity to do so, it should provide clear guidance on good practices and minimum acceptable standards – to keep laggards to a benchmark, and provide adequate support for smaller issuers. The governance areas covered by Principles 6, 7 and 9 should be incorporated into the current governance policy. Recognizing and managing conflicts of interest, recognizing and managing risks, and engaging effectively with stakeholders (including shareholders) are all issues that investors have long identified as important governance priorities.

*Enhancing corporate governance disclosure:*

As an investment institution, our focus is assessing and addressing risk – financial and extra-financial. In order for us to carry out our role effectively, we require quality disclosure. We share CSA’s concern over the prevalence of boiler-plate disclosure, but fear that the proposed changes could further reduce the quality and scope of disclosure. We therefore favour building on the current “comply or explain” model.

*Require disclosure of the complete Code of Conduct:*

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<sup>14</sup> [https://osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/Comments/58-101/com\\_20040531\\_58-101\\_rwalker.pdf](https://osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/Comments/58-101/com_20040531_58-101_rwalker.pdf)

<sup>15</sup> [https://www.ethicalfunds.com/SiteCollectionDocuments/docs/proxy\\_voting\\_guidelines.pdf](https://www.ethicalfunds.com/SiteCollectionDocuments/docs/proxy_voting_guidelines.pdf) PV Guidelines p 7; www.cii.org

The entire code of conduct (not just a summary) should be made public and readily accessible on the company's website.

*More attention for compliance:*

As noted in a study prepared for the Expert Panel on Securities Regulation "promulgating principles-based legislation alone, without paying attention to implementation and regulatory approach, will not foster better regulation"<sup>16</sup>. Against the background of the current financial crisis, extra effort by regulators in compliance enforcement seems warranted - even if governance policy remains unchanged.

## Conclusion

We commend CSA's continuing commitment to review and enhance corporate governance policy. The contribution of poor risk management, inappropriate compensation regimes and other governance failings to the current financial crisis, with disastrous consequences for investors and other corporate stakeholders, demonstrates the continuing relevance of working to enhance corporate governance practice and disclosure. We do not believe, however, that implementation of the Proposed Materials as presented will fulfill the CSA's objective of "enhancing the standard of governance and confidence in the Canadian capital markets". For companies, raising money in public markets is a privilege, not a right. The extent to which companies can take advantage of that privilege depends on market confidence, and companies must expect to be held to high standards in order to build that confidence. The time is not right to move to a fully principles-based system.

Should you have any questions with regards to this submission, please do not hesitate to contact us.

Sincerely,

**Northwest & Ethical Investments L.P.**



Bob Walker  
Vice President, Sustainability

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<sup>16</sup> Cristie Ford, *Principles-Based Securities Regulation: A Research Study Prepared for the Expert Panel on Securities Regulation*. <http://www.expertpanel.ca/documents/research-studies/Principles%20Based%20Securities%20Regulation%20-%20Ford.English.pdf>