



August 17th, 2017

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Via Email: response@hkex.com.hk

Re: New Board Concept Paper (“Concept Paper”)

Dear Sir or Madam,

We welcome the opportunity to respond to the Concept Paper.

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.

Our Public Equities portfolio had over \$14 billion Canadian dollars in holdings in Asia, and Hong Kong ranked as our 10th largest market globally as of the end of March 2017. As Hong Kong is a significant market for us, this submission is our fourth one to the Hong Kong Exchange in the last four years. We provided submissions in response to the Consultation Papers on the Proposed Enhancements to the Exchange’s Decision-Making and Governance Structure for Listing Regulation in 2016, on the Review of the Environmental, Social and Governance Reporting Guide in 2015, and in response to the Concept Paper on Weighted Voting Rights in 2014.

We are not supportive of the creation of the New Board proposed. One of our main concerns with the proposed New Board is the acceptability of weighted voting rights (WVR). bcIMC firmly believes in the "one share, one vote" principle and we strongly advocate for the HKEX to preserve this listing standard for current and new listing boards.

As an active and long-time member of the Asian Corporate Governance Association (ACGA), as well as a member of the Council of Institutional Investors (CII), we are fully supportive of these respective organizations submissions. Similarly, as we have significant concerns on the proposals as outlined in the Concept Paper, we are not responding to the detailed questions.

WVR or dual class share (DCS) structures result in inequality between classes of shareholders, especially when some shareholders have greater voting rights and powers than others. bcIMC has long advocated for companies to adopt a single class of shares with a one share one vote structure where economic interest and voting interest are the same. Over the years, bcIMC has lobbied for the collapse of such structures in different jurisdictions.

Many shareholders share our views on dual class shares. Furthermore, the CFA Institute endorses a one-share, one-vote standard stating that *“a structure that permits one group of shareowners disproportionate votes per share creates the potential for a minority shareowner to override the wishes of the majority of owners for personal interest”*.¹

The main arguments and disadvantages of such structures supporting our position are as follow:

- Dual class share companies benefit from accessing public capital and maintaining control of the company while passing off the majority of the financial risk to minority shareholders.
- As the holders of the multiple voting shares (MVS) have the power to elect or replace board directors, DCS structures may result in a non-assertive board which does not represent the interest of minority shareholders;
- DCS structures can reduce the board’s ability to hold management accountable on behalf of all shareholders and entrench underperforming management;
- Studies demonstrate that controlled companies that have unequal voting rights underperform over time. After having assessed performance and risks over a 10 year period, a study on controlled companies in the S&P 1500 conducted by the Investor Responsibility Research Center (IRRC) Institute in the United States in partnership with Institutional Shareholders Services (ISS) reached the conclusion that controlled companies underperformed with respect to total shareholder returns, revenue growth, return on equity, and dividend payout ratios.²
- Such structures can destroy shareholder value as it can allow for holders of MVS to divert cash flows, funds and/or assets from the DCS company for projects that do not benefit all shareholders or for the benefit of the controlling shareholders.

¹ CFA Institute (2017) “Comment Letter on S&P Dow Jones Voting Rights Consultation” [On-line] <https://www.cfainstitute.org/Comment%20Letters/20170629.pdf>

² Investor Responsibility Research Center (IRRC) Institute, and Institutional Shareholder Services (ISS) Inc (2016) “Controlled companies in the Standard & Poor’s 1500: A Follow-up Review of Performance and Risk” [On-line] <https://irrcinstitute.org/wp-content/uploads/2016/03/Controlled-Companies-IRRCI-2015-FINAL-3-16-16.pdf>

Beyond the impact of such structures on the governance and performance of issuers, we note some recent developments that HKEX should consider. Recently, the Snap IPO with no voting shares has reinvigorated the debate around the appropriateness of the inclusion of non-voting shares and/or shares with differentiated voting rights in indices. In the context of the rapid rise of passive investing globally and as a significant portion of our assets is invested in indices, we provided comments to the public consultation by S&P Dow Jones and are in the process of responding to a similar consultation by MSCI.

We are very pleased with the far reaching decision by S&P Dow Jones on this matter, and we hope that MSCI will reach similar conclusions. Such decisions of ineligibility have the potential of being transformative and they send a strong signal to market participants and to stock exchanges. The proposed New Board standards are in sharp contrast with these developments. Consequently, we think HKEX should maintain strong governance listing standards.

Finally, we are of the view that allowing weighted voting rights structures would not serve the long-term interests of market participants such as investors. We also believe that this policy shift would translate into poor quality listings. Furthermore, we do not believe it will be possible to ring-fence the Main Board from the New Board. As a result, we consider the proposals in the Concept Paper are not suitable policy responses to the challenges facing HKEX.

To conclude, we would like to emphasize that in many ways Hong Kong has been a leader in the capital markets in part due to the high standards that it requires its listed companies to adhere to. The creation of a New Board as designed would, in our opinion, denigrate Hong Kong's stature in the capital markets and would be a disappointing step backwards.

Please feel free to reach out to our Senior Manager for ESG Integration, Jennifer Coulson [REDACTED] as you consider these comments or if you require further clarification. I appreciate your time and consideration.

Regards,

[REDACTED]

Bryan Thomson
Senior Vice President, Public Equities

