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British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
The Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Superintendent of Securities, Yukon Territories
Registrar of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario
M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec)
H4Z 1G3

Re: Canadian Securities Administrators (the “CSA”) Notice and Request for Comment: CSA Consultation Paper 52-404 *Approach to Director and Audit Committee Member Independence* (the “Consultation Paper”)

Thank you for the opportunity to participate in the discussion concerning director and audit committee member independence. This is an issue that we have followed with interest over the history of the

development of corporate governance guidelines and the following is a summary of our position based on our substantial knowledge and experience with regards to this issue.

Background on Lifeco

Great-West Lifeco Inc. (TSX:GWO) (“Lifeco”) is a leading international financial services holding company with interests in the investment management, life insurance, health insurance, retirement savings and reinsurance businesses. Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company, London Life Insurance Company, The Canada Life Assurance Company, Great-West Life & Annuity Insurance Company, PanAgora Asset Management Inc. and Putnam Investments, LLC.

Lifeco is a member of the Power Financial Corporation (“Power Financial”) group of companies. Power Financial’s other subsidiaries include IGM Financial Inc., one of Canada’s largest managers and distributors of mutual funds and other managed asset products, which operates through Investors Group Inc. and Mackenzie Financial Corporation.

General Comments

Corporate governance is a topic that has received an ever increasing level of attention within Canada over the last two decades. Guidelines and more formal rules have been implemented in various sectors over time to address particular concerns or issues of the day. The current movement to review and update the corporate governance rules is one that we believe adds value by absorbing the decades of experience and knowledge in the area now available to refine and develop approaches that are responsive to the issues as well as to the current environment.

The question of independence and the appropriateness of a single set of criteria to be applied across all legal entities notwithstanding their unique structures is a good example of an opportunity to apply current knowledge and thinking to improve the guidelines to be more consistent and more responsive to the issues.

As a member of an extended group, involving several operations with their own public company parents, but which are under common control (a common control group or “CCG”) the question of board independence is one we are required to address regularly, both in the context of developing strong and effective corporate governance structures as well as explaining our unique structure to investors and the market.

It is our firmly held view that our position as a member of a CCG is a strength. It brings with it deep knowledge as well as consistency of practice. It is an invaluable tool in supporting the ability of the board of directors to discharge its duties to the high standard of care expected of them. It is invaluable to developing and refining a corporate strategy that is both stable and nimble in its ability to respond to changing market conditions. It also ensures seamless oversight of the key control functions that act as the pillars of strong corporations.

Lifeco strongly believes that the determination of director independence should be based upon (i) whether or not the director is independent of the issuer’s management, and (ii) whether or not the director has any other relationships with the issuer which, in light of all of the circumstances, could reasonably be expected to interfere with the exercise of the director’s independent judgment. This is a question of fact that should be determined by the issuer’s board of directors on a case-by-case basis without reference to any definitive or bright line tests.

The most important function of a board of directors is to oversee management in the drive to achieve long-term shareholder returns. A financially strong and long-term oriented controlling shareholder can have a significant positive impact on a corporation's long-term returns, benefiting all shareholders and the corporation as a whole. The benefits can include the ability to encourage and support management in the pursuit of long-term strategies and the provision of directors who are experienced and knowledgeable about the business of the corporation. In our case, many of these attributes are provided through a governance model which has been developed over many years, and which includes a group of directors who are also officers of the controlling shareholder. The full-time job of a number of these directors is to focus on and become knowledgeable about the affairs of the controlling shareholder's subsidiaries, such as Lifeco. These directors have no relationship with Lifeco other than as directors and shareholders.

In our view, no single corporate governance model is appropriate in all circumstances. A one size fits all approach to defining director independence does not enable corporations to achieve their full potential and, rather than allowing them to take advantage of their strengths, it instead results in a potential suppression of those strengths to the disadvantage of all stakeholders. For this reason we are wholly in support of a principle based structure that recognizes that unique corporate circumstances may call for different corporate governance models to optimize the objectives inherent in the purpose of establishing good corporate governance. In particular the guidelines should recognize the value brought by CCG entities and their unique board compositions.

Response to Consultation Questions

Appropriateness of existing approach

The objectives of the current requirements on director independence have been stated, almost universally, to address the concern that directors will not be in a position to exercise their independent judgment. Establishing strict rules on director independence may appear to be one method of addressing this concern, however, it runs the risk of disproportionate response. We do not believe the current approach strikes an appropriate balance due to the restrictions it imposes on an issuer's board in making a determination of director and audit committee independence.

Firstly, it does not recognize that other rules and policies are or may be in place to address situations of lessened objectivity. In Canada all directors already have an immutable obligation to manage or supervise the management of the business and affairs of the corporation to a standard of honesty and good faith with a view to the best interests of the corporation and with the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances¹. This basic duty is underlined in the context of independence with strict rules for dealing with conflicts of interest². Any concerns which may exist in a controlled company situation about conflicts of interest or self-dealing should be resolved directly through a committee of directors who are independent of the controlling shareholder. The governance model at Lifeco includes such a committee, the Conduct Review Committee, where transactions between the Lifeco and Power Financial (or its affiliates) are reviewed by directors who are neither officers nor employees of management, Power Financial or any of its affiliates.

¹ *Canada Business Corporations Act*, R.S.C., 1985, c. 44, s.102(1) and 122(1).

² *Canada Business Corporations Act*, R.S.C., 1985, c. 44, s. 120.

These measures are a more direct and appropriate method of dealing with objectivity issues particularly in the context of controlling shareholder influence on the board where the objectivity concerns will relate more closely to self-dealing than other risks.

Secondly, the evidence has shown both internationally and, in particular, in Canada, that CCG entities, particularly ones such as ours with a control structure vested in a single family, with their unique board compositions, not only do not impair the value or the long term prospects of a corporation but, in many cases, create an environment in which the corporations can thrive well above the performance of similar non-CCG entities³. The value that they bring has been expressed as including:

Commitment to Principles – Family members are typically committed to the principles under which the firm operates. It is often as if they are taking on an identity which embodies the values of the founding family. This helps to create a unified and productive culture.

Long-Term View – ...Family Firms with a plan for family succession tend to focus on the sustainability of the firm for future generations and choose long-term strategy over short-term gains.

Ability to Change – Family Firms are more willing to adopt new strategies quickly compared to widely-held firms. This agility allows Family Firms to take advantage of new opportunities for long-term success, and to mitigate possible risks from changing markets in order to maintain long-term firm viability.⁴

In addition, CCG boards have a significant advantage of corporate knowledge and corporate memory. CCG entity Related Directors⁵ have the mandate to invest themselves wholly in understanding the core business of the corporation. This has been particularly valuable in our case as the business of Lifeco and its subsidiaries is highly diverse, subject to complicated regulation and on a global scale. In order for a board of directors to appropriately discharge their duties a high degree of knowledge, experience and understanding needs to be available to the members. Being a CCG entity provides that depth to enable Lifeco to succeed at the highest levels of board effectiveness. Being able to bring that knowledge to the table at the Audit Committee would benefit all stakeholders and improve, not impair corporate governance throughout the organization.

³ “Practical Guide to Corporate Governance: Experiences from the Latin American Companies Circle”, International Finance Corporation, OECD, Global Corporate Governance Forum, 2009. Also, “The Impact of Family Control on the Share Price Performance of Large Canadian Publicly-Listed Firms (1998-2012)”, Clarkson Centre for Board Effectiveness, Antonio Spizzirri and Matt Fullbrook, June 2013.

⁴ “The Impact of Family Control on the Share Price Performance of Large Canadian Publicly-Listed Firms (1998-2012)”, Clarkson Centre for Board Effectiveness, Antonio Spizzirri and Matt Fullbrook, June 2013.

⁵ “‘Related Director’ means a director who is (i) directly or indirectly a Significant Shareholder of the Controlling Shareholder, (ii) directly or indirectly employed by the Controlling Shareholder (or one of its Significant Shareholders) or (iii) an immediate family member of the Controlling Shareholder (or one of its Significant Shareholders)...” “Governance Differences of Equity Controlled Corporations”, Canadian Coalition for Good Governance, October 2011.

Suggested changes to approach

We support the elimination of the bright line test currently in place in 52-110. In our view a more balanced principles-based approach, which supports and promotes the best governance structure for that entity taking into consideration all relevant factors, should be implemented.

More specifically the determination of director independence should be based upon independence from management and the existence of any other relationships with the issuer which could reasonably interfere with the exercise of independent judgment by a director. This is a question of fact that should be determined by the issuer's board of directors, on a case-by-case basis. Directors with a relationship with a controlling shareholder should not be considered to be non-independent by definition.

In the event the bright line test is not eliminated then our view is that NP 58-201 and NP 52-110 should be amended to permit the distinction between non-independent directors and Related Directors thereby allowing greater participation by Related Directors both on the board generally and on the audit, compensation and nominating committees of the board and it is our view that this will not damage the effectiveness of corporate governance but rather will enhance it.

Effect of implementing changes to approach

Changing the approach to director independence will have several advantages.

First, and primarily, it will allow corporate governance models to reflect and leverage the unique strengths of varied corporate structures for the benefit of all stakeholders.

Second, while it may appear to erode certainty as to the appropriate standard, in recent years studies have shown that the discrepancy between the specified independence requirements and the effectiveness of the corporate governance of the entity is significant in the context of CCG entities⁶. This has resulted in an unjustified imbalance in the corporate governance perception of CCG entities. Resetting these requirements to be more responsive to actual corporate governance objectives rather than check box criteria will improve the quality of information about corporate governance available to the public.

Finally, it will lessen situations of conflict both by reducing situations competing national regulations dictate competing requirements and by harmonizing with the more common global approach. This can only improve the opportunities available for investment in Canada and Canadian businesses.

Summary

Lifeco encourages the CSA to eliminate the current bright line test used to determine director and audit committee member independence to allow for a more principle-based approach, allowing an issuer's board to make such determinations based on (i) whether or not the director is independent of the issuer's management, and (ii) whether or not the director has any other relationships with the issuer which, in light of all of the circumstances, could reasonably be expected to interfere with the exercise of the director's independent judgment.

In the event the bright line test is not eliminated then we encourage amending NP 58-201 and NP 52-110 to permit the distinction between non-independent directors and Related Directors thereby allowing greater

⁶ "The Long View Canada's First Family Firm Board Ratings", Clarkson Centre for Board Effectiveness, Matt Fullbrook, March 2015.

participation by Related Directors both on the board generally and on the audit, compensation and nominating committees of the board.

Please accept our submission in support of a new approach to director independence which provides more flexibility and more responsiveness to corporate strengths without weakening the necessity for good corporate governance.

In addition to our submission, we also want to acknowledge the submission by Power Corporation of Canada in its response to the Consultation Paper, which we fully support.

We appreciate the opportunity to provide you with our comments on the Consultation Paper and would be pleased to answer any questions that you may have about these submissions. Please feel free to contact any one of Melissa Catalano, Senior Vice-President and Associate General Counsel (Melissa.Catalano@gwl.ca, (416) 552-3863), Laurie Speers, Vice-President and Corporate Secretary (Laurie.Speers@gwl.ca, (204) 946-8682), or myself, if you wish to discuss this further or require additional information.

Yours very truly,

GREAT-WEST LIFECO INC.



Paul A. Mahon
President and Chief Executive Officer