

# INVESTOR ADVISORY PANEL

OSC Investor Advisory Panel  
c/o Letty Dewar, Chair  
iap@osc.gov.on.ca

December 27, 2017

**VIA EMAIL**

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
Financial and Consumer Services Commission (New Brunswick)  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Nova Scotia Securities Commission  
Nunavut Securities Office  
Ontario Securities Commission  
Office of the Superintendent of Securities, Newfoundland and Labrador  
Office of the Superintendent of Securities, Northwest Territories  
Office of the Yukon Superintendent of Securities  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

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**Re: OSC Investor Advisory Panel Response to CSA Consultation Paper 52-404 *Approach to Director and Audit Committee Member Independence***

The Investor Advisory Panel (the Panel) is pleased to respond to Canadian Securities Administrators (CSA) Consultation Paper 52-404 *Approach to Director and Audit Committee Member Independence* (the Consultation Paper). The Panel is an initiative by the Ontario Securities Commission (OSC) to enable investor concerns and voices to be represented in its rule and policy making process. Our mandate is to solicit and represent the views of investors on the Commission's policy and rule making initiatives.

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The CSA acknowledges that the consultation paper is a response to concerns expressed by some stakeholders about the appropriateness of the CSA's current approach to determining director independence. These stakeholders have argued that the application of the CSA approach has limited the pool of individuals who could be considered independent to the detriment of certain issuers. The consultation paper is meant to solicit views on whether any changes in determining director independence should be considered.

After reviewing the paper and in reflecting on the vital role that director independence plays in supporting public trust and maintaining market integrity the Panel believes that the CSA's current approach to director independence is appropriate for all issuers in the Canadian market.

The Panel is of the view that the additional time and effort that a company may have to expend to recruit directors that satisfy the CSA's current requirements are a small price to pay to enjoy access to Canada's public capital markets.

In addition, the Panel notes that the existing CSA approach is very much in line with that now in place in the United States, which we consider the most relevant international comparator in this regard.

Finally, the position of the Panel is also informed by relevant academic research that supports maintaining high standards of independence and finds that "pre-existing network connections between executives and directors within a firm may undermine independent corporate governance, reducing firm value."<sup>1</sup>

I thank you for considering our letter.

Sincerely,

*"Letty Dewar"*

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Letty Dewar  
Chair, OSC Investor Advisory Panel

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<sup>1</sup> FRACASSI, C. and TATE, G. (2012), External Networking and Internal Firm Governance. *The Journal of Finance*, 67: 153–194. doi:10.1111/j.1540-6261.2011.01706.x