British Columbia Investment Management Corporation
Suite 300 – 2950 Jutland Road, Victoria BC, Canada V8T 5K2
Web www.bcimc.com Email communications@bcimc.com
Phone 778.410.7100 Facsimile 778.410.7321

July 22, 2016

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Via Email: rule-comments@sec.gov

Dear Mr. Fields:

Re: Notice of proposed rulemaking on Incentive-based Compensation Arrangements (File No. S7-07-16)

British Columbia Investment Management Corporation (bcIMC) is an investment manager with over CAD$120 billion in assets under management, one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 500,000 people in our Canadian province, including university and college instructors, teachers, health care workers, firefighters, police officers, municipal and other public sector workers. 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 large institutional investor with a long-term perspective, bcIMC is supportive of regulatory efforts to reduce systemic risks to the global financial system. As a result, we welcome the opportunity to provide feedback on the proposed rule jointly developed by six agencies ("the Agencies")—the office of the Comptroller of the Currency; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Federal Housing Finance Agency; National Credit Union Administration; and the U.S. Securities and Exchange Commission (SEC)—to implement Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act on incentive-based compensation arrangements by covered U.S. financial institutions. Section 956 requires these Agencies to issue regulations or guidelines: (1) prohibiting incentive-based payment arrangements that the Agencies determine encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss; and (2) requiring those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate Federal regulator.

The proposed rule includes changes to the initial 2011 version in order to include current compensation practices in the financial services industry and regulations applied by domestic and international regulators intended to address problematic incentive-based compensation practices that contributed to the financial crisis.

Overall we believe that the proposed rule offers an effective framework for financial sector firms to integrate risk management into compensation decisions and to shift focus to the long-term consequences of decisions made by senior executives and key risk-takers.

The following comments include some overall views we wish to share, as well as specific responses to key issues or questions in the proposed rule as they pertain to publicly-traded financial sector companies.

bcIMC's approach to compensation

bcIMC believes that management compensation is a critical aspect of a company's governance. Pay decisions are one of the most direct and visible ways for shareholders to assess the performance of the board of directors. Boards must strike a balance between compensation packages that are required to attract, retain and motivate qualified executives, on the one hand, and showing moderation and restraint on the other. Boards should seek to align the interests of management with the interests of shareholders through compensation arrangements that are linked to the achievement of long-term company success and do not incentivize excessive risk-taking.

bcIMC is a founding member of the Canadian Coalition for Good Governance (CCGG), which includes Canada's largest institutional investors as members. We endorse the CCGG's 2013 *Executive Compensation Principles* which promotes sound risk mitigation practices in executive compensation design.[1]

Governance of compensation risk

We support the proposal's requirement for board or committee oversight of the incentive compensation program for named executive officers (NEOs) as well as significant risk-takers. We also support the prohibition of NEOs from the relevant committee, and we suggest that the Agencies also require covered institutions to only appoint independent members to the committee responsible for compensation. In accordance with our proxy voting guidelines, we do not support non-independent nominees who serve on Nominating, Compensation or Audit Committees nor do we support management nominees other than the CEO from serving on the board of directors given the board's primary responsibility of overseeing management.[2]

While the proposed rule prohibits covered institutions from using hedging instruments on behalf of employees, it does not prohibit employees from utilizing such instruments. To ensure ongoing alignment between management and shareholders, we believe anti-hedging policies should explicitly prohibit directors and executives from directly or indirectly hedging or monetizing the value of shares held in the company.

Covered compensation

The Agencies define what types of pay are considered to be incentive-based compensation covered by the proposal and types of pay that fall outside of the rule, impacting what types of pay get deferred. While bcIMC generally agrees with the proposed rule on what constitutes incentive-based

---

[1] The Canadian Coalition for Good Governance, *Executive Compensation Principles*, January 2013. Available at: http://www.ccgg.ca/site/ccgg/assets/pdf/ccgg_publication_-_2013_executive_compensation_principles.pdf

[2] bcIMC, *Proxy Voting Guidelines*, April 2015. Available at: http://read.uberflip.com/i/500877-proxy-voting-guidelines

compensation, we are concerned that the exclusion of retention awards conditioned on continued employment, such as restricted share units, could have unintended consequences. First, we believe that retention awards do incentivize employees to remain at an organization which still places them in a position to influence decisions and take risks. Second, we are concerned that retention pay may become more commonly used to avoid the deferral requirements of incentive-based compensation and inadvertently reduce the overall proportion of performance-based compensation in long-term plans. We, therefore, encourage the Agencies to consider including retention pay within the definition of covered compensation.

Deferred awards

We support the proposed deferral approach as it generally aligns with global practices and encourages long-term value creation among the relevant executives and significant risk-takers. We would also support increasing the total amounts deferred as we commonly see financial institutions in Canada awarding 65 to 80% of their incentive pay in deferred compensation.

We generally discourage the use of time-vested awards such as restricted shares and stock options. In the case of stock options, we are concerned that options may encourage inappropriate risk-taking and may lead to large payouts that are not well aligned with long-term performance. Another concern is that options may allow management to participate in share performance upside that reflects market-specific rather than company-specific factors, while avoiding negative consequences on the downside. As a result, we support the proposed limitation on the use of stock options to 15% of the total deferred amount.

Downward adjustments, forfeiture and clawbacks

We agree with the Agencies that systemically important financial institutions should be subject to the proposed rule's approach to downward adjustments and forfeiture. While we support such adjustments and forfeiture principles, the guidance lacks specific examples of what constitutes inappropriate risk-taking. The Agencies should consider providing concrete examples of potential triggers.

The proposed rule also requires adoption of a clawback mechanism allowing for the optional recovery of incentive-based compensation for up to seven years after vesting. While we support the adoption of such a clawback mechanism and seven year time frame because this is an effective deterrent to excessive risk-taking, we are concerned that the proposed clawback rule is not mandatory. As we expect firms to clawback compensation in egregious cases, we suggest the Agencies provide guidance on scenarios that trigger mandatory recovery efforts.

Limitation on leverage on incentive-based compensation plans

The proposed rule prohibits covered institutions from providing incentive-based compensation with maximums in excess of 125% of pre-set target awards for NEOs and 150% for significant risk-takers because higher levels of potential upside may encourage covered persons to take inappropriate risks.

We support the proposed limitations on incentive-based pay as they are consistent with our belief that capping components of pay will ensure an appropriate sharing of value between management and shareholders, as well as limiting the incentive to take excessive risks focused on short-term gain.

Thank you for this opportunity to provide our views on the proposed rule. Please do not hesitate to contact Jennifer Coulson, Senior Manager, ESG Integration at [redacted] if you wish to discuss any aspect of this letter in further detail.

Regards,

Bryan Thomson
Senior Vice President, Public Equities