



June 1, 2012

OBSI Governance Committee
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Dear Members of the OBSI Governance Committee:

Re: Framework for Reforming the Board of Directors of OBSI

The Industry Associations appreciate the opportunity to provide their input with respect to the proposed draft framework for reforming OBSI's governance structure. Further to our discussion and briefing with Angela Ferrante on May 15, 2012, we want to congratulate the Board on its efforts to update and improve OBSI's governance structure.

We have reviewed the components of the draft framework and provide a number of comments and a few recommendations that we hope will improve the overall framework:

Board Composition, Quorum and Voting Thresholds – Component #1

- a) **Composition:** We are in full agreement with the recognition in the framework that the foundation of an effective governance structure at the OBSI board-level requires that the Board be composed of directors who reflect the overall composition of OBSI's members. This structure ensures that the organization has individuals who can provide in depth industry knowledge to assist the organization. By industry category, OBSI's members are comprised of banks, dealers, brokers and fund managers. While the proposed framework provides for three industry directors to be selected by the Board from candidate shortlists submitted on behalf of each of the banks (by the Canadian Bankers Association), the dealers (by the Mutual Fund Dealers Association) and the brokers (by the Investment Industry Regulatory Association of Canada), it does not contemplate providing a director nomination right to fund managers who are not represented by any of the foregoing industry associations or self-regulatory organizations. To ensure the Board achieves balanced representation across industry participants, and, more importantly, has access to full industry sector knowledge we would propose that the governance framework provide fund managers with the right to a director nominee that would be selected from a shortlist of candidates submitted on their behalf by the Investment Funds Institute of Canada.
- b) **Quorum:** To ensure good governance, the quorum for any Board meeting should be a majority of the Board directors. We do not foresee any issue that would require additional requirements for or restrictions on which board members can constitute a quorum.

- c) **Voting Thresholds:** The approval threshold for all matters to be voted upon by the Board should be a majority of the directors. This is consistent with the objective that all directors have equal status, as well as with broad board voting practices. The rationale for imposing varying approval thresholds to various matters undermines the creation of a Board of equals.

Director Appointments and Skill Set – Components #2 and 3

- a) **Terms of Appointment:** The effectiveness of the Board will depend on, among other things, the leveraging of individual director experience and expertise attained in serving on the Board and working with the OBSI management team. Accordingly, our view is that the proposed two-year appointment term is too short and would not allow for the efficiencies and level of expertise that would be available to the Board and the management team if directors were appointed for longer terms. In this regard, we propose that director appointments be staggered and consist of three-year terms, up to a maximum term of six years. Creating a maximum term is important as it will allow for the refreshment of Board expertise.
- b) **Skill Set:** We agree with the intent of the framework that an important corporate governance requirement is to have directors with requisite competence, knowledge and industry experience to carry out his or her fiduciary duties. As such, we suggest that directors be appointed on the basis of a competencies matrix that is approved at the Board level and affixed to the Board's formal, written corporate governance guidelines.

Director Attributes & Responsibilities, Board Committees, Position Descriptions, Director Orientation and Education Policies – Components #4 – 8, 10 – 12

While these items represent important matters to guide the Board, its committees, individual directors and chairs, we find the list of items addressed in the framework to be incomplete. Rather than attempting to update or change several of the components on a piecemeal basis, we recommend that this be done in a more holistic way.

We note that OBSI has several documents addressing governance matters which include By-Laws and terms of reference. Many of the matters addressed in your framework document, for example, appropriately belong in OBSI's constating document – the By-Laws. It includes, in our view, matters such as: definition of quorum, director qualifications, election and term, voting, delegation and establishment of committees, naming of officers, membership, fees, etc. We recommend a complete review of the By-laws to update them to cover these matters.

Other matters more appropriately belong in a 'Board of Directors Policy Manual'. The Board should establish clear policies respecting: the ends that the constating documents prescribe and what the directors wish the organization to accomplish; how the operational aspects necessary to accomplish the ends are to be carried out including a more detailed mandate of the Board and its Committees, administrative practices; the authority delegated to the Ombudsman; etc. We note that some of these matters are already addressed in OBSI's current terms of reference. As with OBSI's By-Laws, we believe the terms of reference should be reviewed and updated and should become Board policies.

The complete review and updating of your constating documents, terms of reference and policies will ensure that they are aligned and that all components are updated. Furthermore it would be desirable to issue an updated set of all of these documents for broader comment. This would provide OBSI with fulsome comments, and the final versions will provide stakeholders with clarity and transparency in all matters involving governance and broader operational policies.

We would be pleased to provide input on such an exercise, including sharing our own documents to provide assistance with structure and broad content.

Board Evaluation - Component #9

The draft framework provides that the Board undertake a full evaluation of its own performance at least every two years. We believe the frequency of this review should instead be annually and specific details regarding such review be set out in a Board policy document. The survey process need not be onerous, and could be by way of an annual survey administered by the Governance Committee.

We appreciate the opportunity to discuss and comment on the draft framework and hope that our comments serve as useful feedback to assist you in your considerations regarding a new governance structure for OBSI. We look forward to discussing these matters in further detail with you as the draft framework is developed.

Yours sincerely,



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