

MSCI'S FEEDBACK ON RECOMMENDATIONS OF ONTARIO CAPITAL MARKETS MODERNIZATION TASKFORCE

MSCI

September 2020

INTRODUCTION

MSCI appreciates the opportunity to comment on the Ontario Capital Markets Modernization Taskforce Consultation Report. Specifically, we would like to comment on proposals 19 and 25, with findings from our own research as well as insights gained from our interactions with over 1000 global investors and 10,000+ issuers.

About MSCI

MSCI ESG Research

For over 40 years, MSCI ESG Research has measured and modelled Environmental, Social and Governance (ESG) risk¹. MSCI is a leading provider of ESG ratings, indexes and analytical tools. We aim to help investors integrate ESG across their entire investment process; powering better investment decisions.

Our solutions:

*First ESG provider to assess companies based on industry financial materiality, dating back to 1999. Only dataset with live history (12+ years) demonstrating economic relevance². For over 11 years, we have rated companies on their exposure to, and management of, industry-specific ESG risks. We rate nearly 14,000 issuers representing more than 680,000 securities, with 90% of equity and fixed income market value. Our research is used by over 1,400 clients globally. Clients can use ESG ratings to support fundamental and quant analyses, portfolio construction and risk management and thought leadership and engagement.

* MSCI ESG Indexes: MSCI is the world's largest provider of ESG indexes with over 1,500 ESG equity and fixed Income Indexes leveraging MSCI ESG Research data to support ESG integration, screening and impact approaches. Several global asset owners have selected MSCI ESG Indexes, with over \$180 billion allocated in recent years³. The indexes can also be used as the basis for exchange-traded-funds and other index-based products.

* MSCI ESG Analytics: Our ESG research, data and indexes are available within MSCI's analytics systems. MSCI Analytics clients can explore ESG exposures on 680,000 securities and 8 million derivatives to support

security selection, portfolio construction, stress testing, and risk and performance attribution analysis.

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes.

For the purposes of the ESG metrics for the ESG benchmarks disclosures, the ESG metrics are provided by MSCI ESG Research LLC. MSCI ESG Indexes are provided by MSCI Inc. and utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Limited is the benchmark administrator for the MSCI Indexes under the EU Benchmark Regulation. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

- 1. Through MSCI ESG Research and its legacy companies KLD, Innovest, IRRC, and GMI Ratings*
- 2. Origins of MSCI ESG Ratings established in 1999. Produced time series data since 2007*
- 3. Based on publicly available information in press releases published from 2014 to date*

Proposal 25: Require enhanced disclosure of material environmental, social and governance (ESG) information, including forward-looking information, for TSX issuers

The Taskforce proposes to mandate disclosure of material ESG information which is compliant with either the TCFD or SASB recommendations for issuers through regulatory filing requirements of the OSC. Where feasible, the proposed enhanced disclosure will align with the global reporting standards of both TCFD and SASB. What specific material ESG information is needed beyond what is currently captured by existing disclosure requirements?

MSCI ESG Research LLC, a subsidiary of MSCI Inc., strongly supports the mission of the Task Force on Climate-related Financial Disclosures (TCFD) to establish “a clear, efficient, and voluntary disclosure framework that improves the ease of both producing and using climate-related financial disclosures”. We find the focus on governance, strategy, risk management, and metrics and targets are broadly consistent with MSCI ESG Research’s analytical framework, which is based on over 25 years of ESG financial research. Our research has found that few MSCI Canada IMI Index¹ constituents (n=262, as of September 1, 2020) are currently reporting even the most basic metrics recommended by the TCFD: only 41% report carbon emissions and 28% report greenhouse gas reduction targets, of which our research shows that 5% are aligned with a 1.5 or 2-degree warming scenario.

MSCI ESG Research recommends that, in addition to greater disclosure on how well a company is managing climate-related risks, firms should also disclose how they are taking advantage of climate-related opportunities. A lack of investment in low-carbon technologies and infrastructure could expose companies to potential lost business opportunities, and could heighten the possibility of existing products or services becoming redundant or obsolete in an increasingly low-carbon economy.

MSCI ESG Research agrees that scenario analysis will be a crucial tool for investors. For example, we’ve observed demand from institutional investors for a consistent and comparable assessment of climate change-related risks and opportunities across investment portfolios to make informed investment decisions. This highlights the need for having a core set of globally acceptable scenarios and developing common methodologies and underlying datasets. Only 38 Canadian listed companies reported having conducted scenario analysis in their CDP 2019 responses, suggesting that mandatory TCFD reporting could be

¹ The MSCI Canada Investable Market Index is designed to measure the performance of the large, mid and small cap segments of the Canada market. The index covers approximately 99% of the free float-adjusted market capitalization in Canada.

helpful for investors to understand the risks they are taking on by investing in these companies.

One reason we have seen investors and issuers adopt the TCFD framework more readily than other frameworks is because it is both globally relevant and flexible in allowing companies to respond according to their own business models. While SASB is a succinct framework that has started to be adopted in the Canadian market (of the 327 issuers reporting to SASB globally, 25 are Canadian, while, of the 78 investors licensing SASB data, 8 are Canadian – including the largest pension plans: CPPIB, CDPQ, PSP), there are limitations. One challenge with the mandatory SASB disclosure proposal in Canada is that 10% of SASB metrics are specific to U.S. regulatory bodies and do not have a comparable global equivalent – e.g. Percentage of technical employees who are H-1B visa holders. Investors are seeking global standards that can be used across geographies, and metrics which can be compared across industries. Other important material ESG metrics that are not captured in SASB or existing financial disclosures, which are critical to investors in understanding the ESG risks that a company faces include: a breakdown of revenues and assets by business segment and jurisdiction and information about supplier locations. Initiatives such as the Workforce Disclosure Initiative (“WDI”) (supported by 120 investors with USD 13 trillion AUM²) point to the importance of human capital metrics, which are only included in the SASB framework for 32% of industries (in contrast, based on market feedback, MSCI ESG Ratings includes human capital assessment for 75% of industries). Of note is the fact that only 4 of out of 60 Canadian companies responded to the WDI’s survey in 2019, suggesting that even well-organized, global, voluntary reporting initiatives have fallen short of providing investors with critical data.³

MSCI ESG Research supports standardization of corporate disclosure on ESG to promote the transparency, comparability and reliability of ESG data. MSCI ESG Research has received an increasing amount of engagement from the Canadian issuer community over the past few years; the response rate rose from 57% in 2018 (making Canada the 14th most responsive country) to 66% in 2019 (10th most responsive). Issuers are clearly looking to investors to provide clarity on the metrics that they believe will impact the valuation of their firms. Ontario’s adoption of the SASB standard will improve data standardization and will help ESG data providers, such as MSCI, in collecting data and reduce the survey fatigue cited by issuers (although MSCI ESG Research does not collect data via

² <https://share.ca/press-release-wdi-2019/>

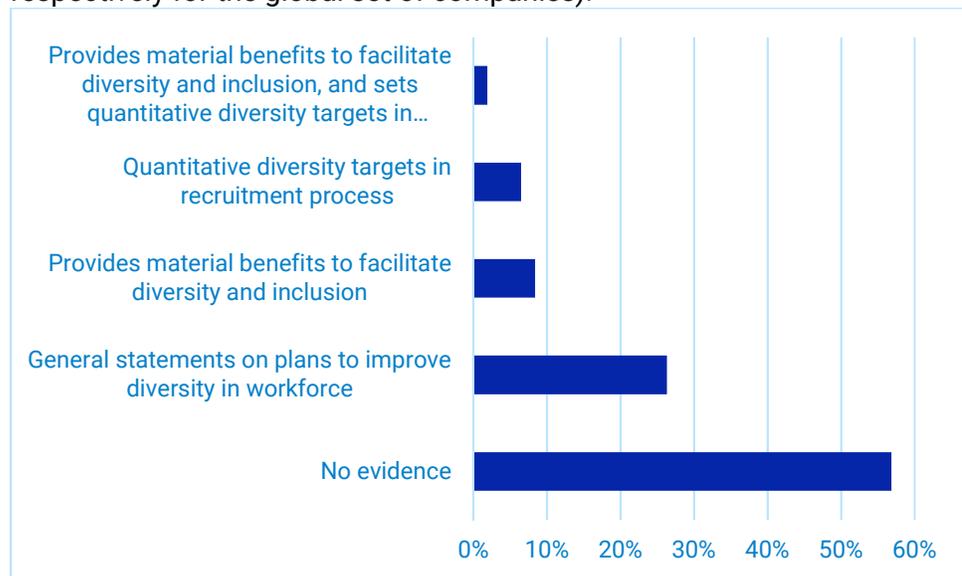
³ <https://share.ca/press-release-wdi-2019/>

survey). However, it is critical to ensure that the adoption of the SASB framework does not preclude disclosure to other global frameworks and, rather, acts as a first step in providing investors with industry-specific data to effectively assess the long-term resilience of companies to ESG risks and opportunities.

Proposal 19: Improve corporate board diversity

The Taskforce proposes amending securities legislation to require TSX-listed companies to set targets, and annually provide data in relation to the representation of women, black people, indigenous people, and people of colour (BIPOC), on boards and in executive officer positions.

Our research related to diversity practices shows that Canadian listed companies lag their global peers in implementing best practices. For programs to facilitate and increase workforce diversity, we consider best practice to include material benefits and quantitative recruitment targets. About 2% of the MSCI Canada IMI Index constituents (n=262, as of Sept. 1, 2020) reported having both (vs 9% of global companies), while 57% of Canadian listed companies reported nothing at all and another 26% made only general statements of intent (41% and 27% respectively for the global set of companies):



Source: MSCI ESG Research LLC., company disclosures, Data for MSCI Canada IMI constituents as of Sept. 1, 2020

With regards to setting targets, we could learn from the success of mandatory quotas in ensuring gender diversity in other jurisdictions:

Companies domiciled in jurisdictions that had established compulsory quotas (e.g. Italy, France, Belgium, Germany, Portugal) attained greater overall gender diversity at the board level, with 71.8% having at least 30% female directors as of October 31, 2019. Similar to the "tipping point" metric of three or more female directors on boards,⁴ 30% female representation has been a metric used by many global advocacy groups and regulators as a minimum threshold for gender diversity at the board level (for example, Thirty Percent Coalition, 30% Club, European Commission "Women on the Boards Pledge for Europe").

In contrast, non-compulsory targets were less correlated with gender diversity. Indeed, constituents of the MSCI ACWI Index⁵ in countries with voluntary quotas, and in countries without any gender-related requirements, had comparable overall board gender diversity levels as of October 31, 2019. Among the constituents of the MSCI ACWI Index that were not required to comply with any form of elective or compulsory gender quota, only 20.3% had reached the 30% female director threshold and 23.0% had all-male boards.

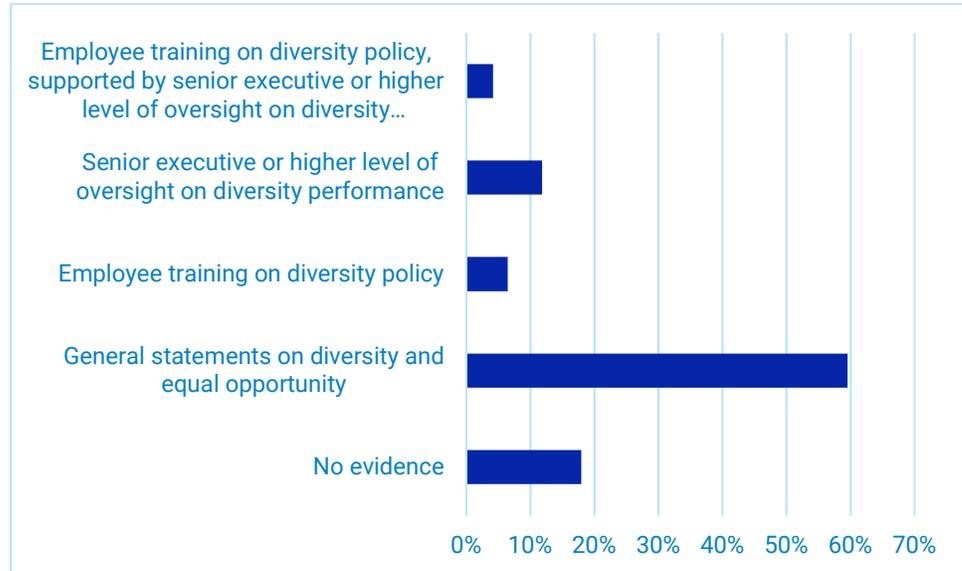
The Taskforce also proposes to amend securities legislation to require TSX-listed companies to adopt a written policy respecting the director nomination process that expressly addresses the identification of candidates who are women and BIPOC during the nomination process.

In 2019/2020, there were 10 board diversity-related shareholder proposals filed among Canadian listed companies, signaling that this a clear priority for investors. Our research has uncovered that companies disclose little qualitative information about their policies and practices to prevent discrimination and promote diversity and therefore mandatory disclosure about the nomination process would be an important step in the right direction.

As of September 2020, 4.2% of the companies in the MSCI Canada IMI Index (n=262) reported having both diversity training and executive oversight. More than half of companies provided general statements of support for diversity or anti-discrimination but no details regarding training or executive oversight.

⁴ Thwing Eastman, M, Rallis, D and Mazzucchelli, G (2016), "The Tipping Point: Women on Boards and Financial Performance". MSCI ESG Research LLC.

⁵ The MSCI All Country World Index (ACWI) is designed to track broad global equity-market performance. The index is comprised of the large and mid-cap stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.



Source: MSCI ESG Research, company disclosures, Data for MSCI Canada IMI constituents as of Sept. 1, 2020

The Taskforce further proposes to amend securities legislation to set a 10-year maximum tenure limit for directors, with an allowance that 10 per cent of the board can exceed the 10-year maximum for up to two years. This is aimed to encourage an appropriate level of board renewal.

We would encourage the Taskforce to only apply the term limit to independent directors. Should the term limit be applicable to all directors, there is a concern that this could result in founders/family members being forced off the boards and effectively governing from the sidelines, which would result in transparency concerns.

Contact us

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

ABOUT MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit
www.msci.com.

The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

Notice and disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy. It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.