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

MSCI

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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) risk[1]. 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 relevance[2]. 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 years[3]. 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.

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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 Index[1] 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 AUM[2]) 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/

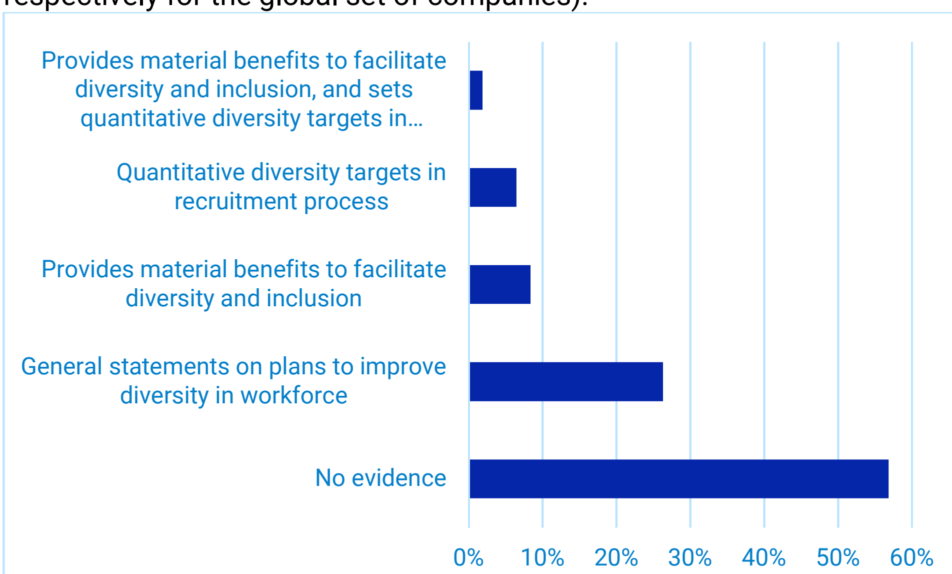
[3] https://share.ca/press-release-wdi-2019/

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 Index[5] 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.

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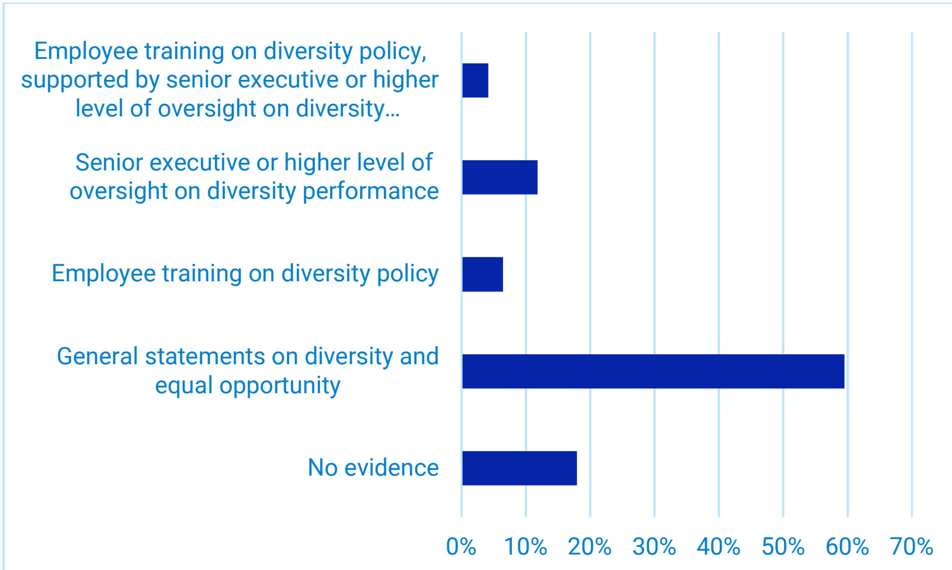
[4] Thwing Eastman, M, Rallis, D and Mazzucchelli, G (2016), "The Tipping Point: Women on Boards and Financial Performance". MSCI ESG Research LLC.

[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.

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