



CPP  
INVESTMENT  
BOARD

# Discussion Paper on Conflicts of Interest

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## PURPOSE

The Canada Pension Plan Investment Board is on the brink of becoming a major presence in Canadian capital markets. It will experience rapid asset growth during the next several years, reaching \$160 billion by 2012. It will actively manage a growing portion of those assets and be a major shareholder in hundreds of Canadian companies. All this will attract heightened public awareness and interest.

To be well governed, the CPP Investment Board is expected to have and does have a board of directors with financial, investment and business expertise. To be well managed, it recruits and needs to retain experienced investment and other professionals.

In both cases, these individuals will have career successes resulting in personal wealth as well as deep knowledge and extensive contacts in the investment, financial and business communities. Consequently, as governors or employees of an investment-focused crown corporation, they will inevitably have conflicts of interest with their other corporate or personal responsibilities.

The appropriate management of real, potential and perceived conflicts of interest is a critical concern for the CPP Investment Board as a one-of-a-kind organization sponsored by both the Government of Canada and the provinces participating in the Canada Pension Plan to invest public funds in the best interests of 16 million CPP contributors and beneficiaries.

Therefore, clear procedures for identifying, anticipating, declaring and resolving conflicts of interest are integral to the CPP Investment Board's effective governance as well as to public and political confidence in it.

In view of the CPP Investment Board's rapid emergence as a highly visible investor, the Chairperson asked three independent specialists to advise the board of directors on the effectiveness of its current conflict of interest policies and procedures. She also asked them to anticipate concerns and advise how they might be managed effectively.

The advisory group consisted of:

**David Bonham**, a lawyer and chartered accountant, who chaired a task force of the Canadian Institute of Chartered Accountants that examined conflicts of interest for audit firms. A former managing partner in the Kingston, Ontario law firm Cunningham, Swan, Carty, Little & Bonham, he has served as professor in business and law at Queen's University; vice principal of finance and resources at Queen's; president of the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Ontario; and independent chair of the Council of the Royal College of Dental Surgeons of Ontario.

**Purdy Crawford**, a specialist in corporate and commercial law at Osler, Hoskin & Harcourt, who served on the Joint Securities Industry Committee on Conflicts and the TSE Committee on Corporate Governance in Canada. He was chairman of the Securities Industry Committee on Analyst Standards and is chairman of the Five-Year Review Advisory Committee under The Securities Act of Ontario. He was chief executive officer and subsequently non-executive chairman of Imasco Limited and is director of several large Canadian and American public companies.

**Ted Hughes**, former judge of the Court of Queen's Bench of Saskatchewan, who is Commissioner of Conflict of Interest and Ethics Counsellor to the Public Service in Northwest Territories. A former deputy attorney general of British Columbia, he has also served as commissioner of conflict of interest for British Columbia and the Yukon. Mr. Hughes served as chief federal negotiator on land claims negotiations between the two senior levels of government and First Nations. He has chaired various commissions of inquiry for the governments of Canada, Manitoba, Northwest Territories, Saskatchewan, and British Columbia.

On May 23, 2002 the group met for a roundtable discussion with three directors of the CPP Investment Board -- Gail Cook-Bennett (chairperson), Dale Parker (chair, governance committee), and David Walker -- as well John

MacNaughton, president and chief executive officer, Jane Beatty, general counsel and corporate secretary, and the Board's communications consultant, Gwyn Williams.

To facilitate the discussion, the participants were provided with a binder of background documents that included the Canada Pension Plan Investment Board Act, a Department of Finance Canada press release on the criteria for selecting candidates for the board of directors, a Department of Finance press release on the CPP Investment Board nominating committee, a form letter from the Ethics Counsellor to all part-time Governor in Council appointees, the CPP Investment Board's terms of reference for directors and the board, the CPP Investment Board's code of conduct and conflict of interest procedures for directors, the personal trading guidelines for directors, and an internal CPP Investment Board memorandum on the process for considering directors' conflicts. In addition, material related to employees included the terms of reference for the president, the corporate organization chart, the code of conduct and conflict of interest procedures for employees, and the disclosure of personal information and trading guidelines for employees.

## CONCLUSIONS

This paper is the result of that roundtable discussion. The external advisors:

1. Agreed that the Canada Pension Plan Investment Board Act has taken the right approach in anticipating the possibility of conflicts of interest and charged the board of directors with establishing standards and procedures for resolving them.
2. Rated highly the existing standards and procedures for identifying and managing transactional and systemic conflicts of interest<sup>1</sup> for both directors and employees.
3. Stressed that the organization has to eliminate conflicts of interest that cannot be managed (such as systemic ones) and manage conflicts (such as transactional ones) that are inevitable given the nature and scope of the CPP Investment Board's current and future activities.
4. Recommended further work be done on defining acceptable and unacceptable real, potential and perceived conflicts.
5. Encouraged expansion of the corporate culture to further sensitize directors and employees on ethical issues.
6. Suggested that the directors individually think through whether they might have a conflict of interest that could test their loyalty to the CPP Investment Board in view of their other corporate or personal interests, and that they disclose their self-assessment to the Chairperson.
7. Suggested consideration be given to retaining an external conflict/conduct review advisor aware of our distinctive mandate with whom directors and employees could confidentially discuss concerns, who could write an opinion on issues, and to whom the board of directors could turn for regular evaluations of the effectiveness of its procedures.
8. Proposed transparency in discussing publicly conflicts of interest issues so that interested Canadians could contribute to and learn from the debate and develop confidence in the CPP Investment Board's ethical commitments.

## CONTEXT

The CPP Investment Board is a federal crown corporation operating at arm's length from governments in the public sector. It is also an investment management company competing in the private sector.

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<sup>1</sup> A transactional conflict of interest exists where an individual has an interest in a financial contract or investment that is being considered by the CPP Investment Board. A systemic conflict of interest occurs when an individual has, for example, a competitive responsibility for managing invested assets.

Being created as a public institution to operate in the world of investment and finance raises the question of how the organization should balance the standards on conflicts of interest for the public and private sectors.

Those who view the CPP Investment Board as an instrument of public policy to help secure the financial future of the Canada Pension Plan will be inclined to apply public sector expectations.

Those who view the CPP Investment Board as an investment management organization designed by the federal and provincial governments to operate at arm's length from them to compete in capital markets will be inclined to apply private sector expectations.

Reconciling competing expectations is critical to public confidence in the integrity of the CPP Investment Board. For example, in the public sector blind trusts are a standard method of separating private investment interests and public duties. In the private sector, such a notion is alien.

The CPP Investment Board is concerned that it would have difficulty in recruiting the calibre of employees and directors required if they were obliged to put their personal investments in a blind trust.

As a crown corporation in **the public sector**:

- Our governing legislation and regulations are subject to government review, specifically by federal and provincial finance ministers as part of their triennial review of the Canada Pension Plan.
- The directors are part-time Governor in Council appointees,<sup>2</sup> and as such are notified by the Ethics Counsellor of the 10 principles of the federal *Conflict of Interest and Post Employment Code for Public Office Holders*.<sup>3</sup>
- Following consultation with the provincial finance ministers, the federal finance minister is required to authorize a special examination of the CPP Investment Board's books, records, systems and practices every six years.
- The federal minister of finance has the discretion to appoint a firm of accountants to conduct a special audit of the CPP Investment Board.
- The CPP Investment Board's annual report is tabled in Parliament by the minister of finance.
- The CPP Investment Board must file quarterly financial statements with the federal and provincial finance ministers.
- The CPP Investment Board must hold public meetings every two years in each province that participates in the Canada Pension Plan to discuss its most recent annual report.

However, the CPP Investment Board was deliberately created by the federal and provincial governments as an investment company to compete in **the private sector**. As a result, its governance and management is structured very much like that of a publicly traded corporation. Specifically:

- The CPP Investment Board is not subject to the *Financial Administration Act*, sets its own budgets, and pays its own expenses.
- The CPP Investment Board is not subject to the *Access to Information Act*, because its legislation specifies extensive disclosure and reporting to governments and the public.
- The CPP Investment Board is required to have a board of directors with investment, business and financial expertise.<sup>4</sup>

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<sup>2</sup> However, the directors are not what the public might consider to be direct political appointees. The federal and provincial finance ministers have publicly announced the qualifying criteria for directors. They also created a nominating committee of public and private sector appointees to identify candidates who meet the pre-determined criteria. The committee recommends a list of candidates. The federal finance minister selects from the list in consultation with the provincial finance ministers.

<sup>3</sup> As this paper discusses, the CPP Investment Board's legislation and its own procedures are consistent with, and in most cases exceed, the 10 principles. The legislation accepts that conflicts are inevitable and requires the board of directors to develop procedures to resolve them. The procedures being implemented also cover related issues relevant to our mandate that are not included in the federal code.

<sup>4</sup> The Canada Pension Plan Investment Board Act, Subsection 10(4) states that the board of directors shall have "a sufficient number of directors with proven financial ability or relevant work experience such that the Board will be able to effectively achieve its objects" which are defined in section 5 as to act in the best interests of CPP contributors and beneficiaries and to maximize investment returns without undue risk of loss.

- The directors (not government) appoint the chief executive officer and officers.
- The directors have total discretion in selecting and appointing the external auditor to audit the annual financial statements.
- The directors set the organization's compensation policy, not the Public Service Commission.

These distinctions illustrate the challenges for the CPP Investment Board as a public institution operating as a private sector company in framing ethical issues such as conflicts of interest. Two documents help to reconcile any differences:

1. The Canada Pension Plan Investment Board Act and Regulations.
2. Policies and procedures developed by the CPP Investment Board.

### **1. Requirements of the CPP Investment Board Act & Regulations**

The CPP Investment Board's legislation explicitly requires the board of directors to establish procedures for identifying and resolving potential conflicts of interest, establishing a code of conduct for employees, and designating a committee to monitor application of the procedures and code.<sup>5</sup>

Conflicts between the private interests and public duties of directors with investment, business and financial expertise were anticipated by the federal and provincial finance ministers in setting out the criteria for the selection of board candidates. The criteria state that:

"Backgrounds of board members selected for 'proven financial ability or relevant work experience' should include: experience in a senior capacity in the financial industry; broad investment knowledge (e.g. securities and financial markets); experience as a chief financial officer or treasurer of a large corporation or government entity; consulting experience in the pension area; and generally recognized accreditation as an investment professional (e.g. CFA, MBA, training in economics or finance)."<sup>6</sup>

In many cases, they will also be directors of publicly traded and privately owned corporations.

The legislation requires directors and employees to act honestly and in good faith and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.<sup>7</sup> However, the act establishes a higher expectation for directors with special knowledge or skill. Specifically, the act states:

"A director or officer of the Board who in fact possesses, or by reason of profession or business ought to possess, a particular level of knowledge or skill relevant to the director's or officer's powers or duties shall employ that particular level of knowledge or skill in the exercise of those powers or the discharge of those duties."<sup>8</sup>

An illustration of the forward-looking position adopted by the federal and provincial finance ministers is evident in the CPP Investment Board's regulations that require the annual report to include a statement of the corporate governance practices of the board of directors that, among other things, sets out the procedures in place for assessing the board's performance.<sup>9</sup>

With respect to conflicts of interest, the legislation discusses them only in transactional terms. It defines a "transaction" to include a contract, guarantee and investment.<sup>10</sup> The focus is on preventing directors and employees from profiting or otherwise benefiting from a transaction by or with the CPP Investment Board.

Directors and employees must disclose in writing, or request in board or committee minutes disclosure of, any interest they have in a transaction or proposed transaction. Directors are expected to disclose such an interest

<sup>5</sup> Canada Pension Plan Investment Board Act, Section 8

<sup>6</sup> The Canada Pension Plan Board: Criteria for the Selection of Candidates for the Board of Directors, Department of Finance Canada News Release 98-108

<sup>7</sup> Canada Pension Plan Investment Board Act, Subsection 14 (1)

<sup>8</sup> *Ibid*, Subsection 14 (2)

<sup>9</sup> Canada Pension Plan Investment Board Regulations, subsection 22 (1)

<sup>10</sup> *Ibid*, Subsection 22 (9)

at the board or committee meeting at which the proposed transaction is first considered or at the first meeting after the director has gained an interest in the transaction. Employees are expected to disclose any conflict as soon as they are aware of a transaction or proposed transaction in which they have an interest or without delay after gaining an interest in the transaction.

A director with an interest in a transaction cannot vote on a resolution or participate in a discussion to approve the transaction. (The CPP Investment Board's procedures are stronger than the legislation and require the director to leave the boardroom during the discussion).

The legislation states that:

“... a general notice to the board of directors or to one of its committees by a director or officer, declaring that the director or officer is a director or officer of, or has a material interest in, an entity and is to be regarded as interested in any transaction made with that entity, is a sufficient declaration of interest in relation to any transaction so made.”<sup>11</sup>

The legislation goes on to add that a transaction is neither void nor voidable because a director or employee has an interest in it, or because a director with an interest in the transaction was present at a board or committee authorizing the transaction as long as the director disclosed the interest, the transaction was approved by the board of directors, and the transaction was reasonable and fair to the CPP Investment Board at the time it was approved.

In summary, the legislation emphasizes timely and written disclosure. Conflicted directors are barred from discussing or voting on transactions in which they have declared an interest. No penalties are specified, although the CPP Investment Board can take legal action to set aside a transaction should a director or officer fail to disclose an interest in that transaction.

## 2. Our own procedures

The board of directors has introduced procedures that build on the legislation with the goal of reflecting the highest standards of conduct, consistent with public expectations. The directors have established codes of conduct and detailed procedures for identifying and resolving conflicts of interest for both themselves and employees.<sup>12</sup> The intent is to assist directors in determining appropriate business practices and behaviour, and to help employees in discharging their responsibilities effectively.

In dealing with issues of proper conduct, directors and employees are first asked to answer the following questions:

- Is it legal?
- Is it in conflict with the best interests of the CPP beneficiaries and contributors?
- Will the action meet or exceed the standard of behaviour that might reasonably be expected of the CPP Investment Board by the Canadian public?

If the resolution is not clear, the matter can be referred to the governance committee or chairperson in the case of directors, or to the general counsel, president, chairperson or governance committee in the case of employees. Compliance is monitored by the governance committee.

The CPP Investment Board has expanded the definition of a conflict beyond a transaction to include for directors “... a personal relationship which may appear to compromise independence or his or her ability to provide an impartial and objective decision, recommendation or assessment of facts in any circumstances.”<sup>13</sup>

Conflicts of interest are deemed to exist where a director, or the close relative of a director, has a significant direct or indirect financial interest in, or obligation to, an actual or potential supplier, client, or bidder for business, of the CPP Investment Board; accepts gifts of more than token or nominal value from an actual or

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<sup>11</sup> Ibid, Subsection 22 (6)

<sup>12</sup> Code of Conduct and Conflict of Interest Procedures for Directors, November 8, 2001, and Code of Conduct and Conflict of Interest Procedures for Officers and Employees, February 7, 2002

<sup>13</sup> Code of Conduct and Conflict of Interest Procedures for Directors, section 3.2

potential client, supplier or bidder; or conducts business on behalf of the CPP Investment Board with a client, supplier or bidder.

The chairperson can permit such conduct if it is considered to have no significant effect on the CPP Investment Board. The decision must be explained in writing.<sup>14</sup>

Directors are required to disclose to the chairperson any business activity directly or indirectly affecting the activities of the CPP Investment Board, or that could be construed as a conflict. Again, the chairperson rules on the conflict and whether it can continue.<sup>15</sup>

In practice (and consistent with a subsequent board-approved process), the chairperson discusses any issue with the chair of the governance committee. If necessary, the chairperson reviews the issue with the corporate secretary. If appropriate, the corporate secretary seeks an external legal opinion and the issue is referred to the governance committee for discussion. The governance committee then reports to the full board with a recommendation on how the issue should be resolved.

Finally, directors are required to adhere to strict rules of confidentiality regarding sensitive CPP Investment Board information that has not been publicly released.

The conflict of interest procedures for employees impose strict confidentiality rules and restrict outside employment or business activity. They also restrict the acceptance of benefits, entertainment, gifts or favours from vendors and suppliers that create or appear to create special treatment or consideration.<sup>16</sup> The codes for directors and employees include personal trading requirements that have four components:

1. The CPP Investment Board maintains lists of securities in which neither directors nor employees are permitted to trade. These are securities in which the CPP Investment Board is accumulating or selling, or is considering accumulating or selling, an ownership position. The restricted list is more extensive for employees than directors because employees will have confidential information about situations that are never referred to the board.
2. All directors and employees must pre-clear the buying and selling of any securities with the CPP Investment Board's general counsel.<sup>17</sup> The intended trades are checked against the appropriate restricted list. If the intended trade is on the relevant restricted list for directors or employees, it is not permitted.
3. Directors are required to provide written confirmation semi-annually that they are in compliance with the trading procedures. Employees are required to have their broker or financial advisor file monthly or quarterly statements with the CPP Investment Board's external auditor disclosing all securities transactions. In addition, they are required to disclose all securities and non-personal assets owned. The disclosure and pre-clearance requirements include any beneficial interest in or influence over the investments of a spouse or other individual.
4. The external auditor checks the records for directors and employees against the compliance certificates or statements that each individual files. The auditor reports regularly on compliance to the audit committee, which reports to the full board.

## EXPERIENCES TO DATE

During the CPP Investment Board's first four years, the procedures have generally worked well. In more than 40 board meetings, four directors excused themselves on half-a-dozen occasions from discussions involving transactions in which they had a real, potential or perceived conflict. These transactions mostly concerned the

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<sup>14</sup> Ibid, section 3.4

<sup>15</sup> Ibid, section 3.5

<sup>16</sup> Code of Conduct and Conflict of Interest Procedures for Officers and Employees, section 4.6

<sup>17</sup> Certain securities are exempt, such as government bonds, mutual funds and other investments that do not trade on public exchanges.



board's consideration of suppliers to provide investment or operational services as the result of competitive request-for-proposal processes. The conflicted directors did not participate in the discussion of, or vote on, these matters.

The pre-clearance and disclosure of personal trading requirements took effect in October 2000 when the CPP Investment Board began active investing. Since introduction, directors and employees have inadvertently failed to pre-clear trades in a small number of instances. In many cases, these individuals self-corrected their errors by contacting the general counsel soon after the trade. In other cases, the incidents were captured by the personal trading compliance process. The CPP Investment Board's external auditor informed the audit committee of all incidents and procedures were enhanced.

Sensitivity to systemic conflicts of interest has resulted in the loss of two excellent directors out of the 15 who have served or are serving on the board.

Neither director had a systemic conflict at the time of being appointed to the board. Conflicts of interest arose in both cases because they had fiduciary responsibilities for managing invested assets. In one case, the conflict arose as a result of our decision to implement active investment strategies much sooner than originally planned. While the CPP Investment Board was solely a passive investor in funds that replicated established stock indexes, this was not an issue. In the other case, the director changed jobs in mid-term.

The CPP Investment Board views these situations as "systemic" conflicts, compared with the "transactional" conflicts envisaged in the legislation. With a transactional conflict, the director can leave the room while the transaction is discussed and refrain from voting. With a systemic conflict, the director is excluded from virtually all reviews and discussions of investment strategies and activities – negating their role on the board. As a result, individuals who have management responsibility for investment decisions at other organizations, such as banks and mutual funds, would be conflicted as directors of the CPP Investment Board and therefore should not be eligible board candidates.

## **QUESTIONS IN SEARCH OF ANSWERS**

The consensus of the advisory group is that the current policies and procedures are sufficiently robust to eliminate systemic conflicts of interest and to manage transactional conflicts.

However, as the CPP Investment Board becomes a large and active investor in Canadian equity markets, other conflicts – real or perceived – could arise.

Responding to public perceptions of conflicts of interest may be the CPP Investment Board's biggest challenge. Will Canadians accept – as Parliamentarians and the federal and provincial finance ministers have – that conflicts are inevitable?

For example, as the CPP Investment Board takes an active ownership interest in many of Canada's publicly traded and privately owned corporations, transactional conflicts of interest could become more visible. There could be a greater risk of an employee trading the shares of a Board-owned company without insider knowledge shortly before the company announces a material change that drives its share price sharply up or down.

Those unfamiliar with the Board's procedures might be tempted to consider such an outcome more than a coincidence. The existence of a real or perceived conflict, however, does not mean that anyone has behaved (or will behave) improperly. The goal is to eliminate systemic conflicts and manage those that should not be to eliminated.

Our legislation accepts conflicts provided they are disclosed in a timely manner and the director or employee with a conflict does not participate in decision-making relevant to that transaction. Our rigorous personal trading rules make it possible to detect and effectively manage conflicts between an employee's personal investments and the CPP Investment Board's current and prospective investments.



Still, is that enough to deal with perceptions of a conflict of interest in a busy and more active investment environment?

Other types of real or perceived conflicts of interest could emerge – such as board-to-board conflicts and relational conflicts.

If the CPP Investment Board is a significant shareholder in Company A, and a CPP Investment Board director is also a director of Company A, will this give rise to conflicts of interest?

In the private sector, an individual can serve without difficulty on two or more corporate boards, provided none is a competitor, and fulfill the requirement of loyalty. Where should the director's loyalty reside, however, if the behaviour of a company of which he or she is a director (or an officer) contravenes the corporate governance expectations of the CPP Investment Board and by extension the best interests of CPP contributors and beneficiaries?

Conflicts of interest for CPP Investment Board employees in serving on boards of directors are less likely. Any management request to serve on the board of a publicly traded or privately owned company requires board discussion and approval, including an assessment of possible conflicts of interest. Currently, no employee serves on the board of a publicly traded company. Two officers represent the CPP Investment Board on the boards of privately owned companies in which the CPP Investment Board has significant investments.

A related potential conflict of interest could arise if a policy difference between the CPP Investment Board and an investee company becomes a public controversy. What, if anything, should a director do if a policy dispute erupts between the CPP Investment Board and a company where the individual is also a director or officer?

Policy conflicts could arise between corporate decisions or shareholder proposals with respect to such matters as stock options, golden parachutes, poison pills, or real or perceived socially irresponsible corporate behavior. If there is a policy conflict, what mechanism or process should attempt to resolve it? Is this a "matter of conscience" for the director involved, or for the CPP Investment Board's board of directors to discuss?

Is the position of the individual director even relevant? After all, board decisions are collective decisions. Those who vote against a motion are expected to support the majority decision. (If they cannot, should they resign or should they remain and continue to advocate their point of view?)

The CPP Investment Board may be a major prospective source of new business for investment firms and other suppliers as it assumes a more active investment role. What are the risks of perceived conflicts of interest for employees who have personal relationships with companies and individuals competing for that business?

CPP Investment Board employees have extensive relationships with the managers of prospective investee companies as well as consultants and other suppliers who serve those companies. As the CPP Investment Board becomes a significant shareholder in several hundred Canadian publicly traded and privately owned companies, relational conflicts are inevitable, raising the risk of perceived favoritism in making investments or retaining suppliers.

To date, we have successfully dealt with these issues as transactional conflicts of interest. In a larger and more dynamic investment universe beyond the CPP Investment Board's passive investment history, will current procedures be sufficient?

## **SOME POSSIBLE ANSWERS**

A concept recommended by our advisory group to deal with future real or perceived conflicts of interest is to further strengthen the corporate culture so that it naturally incorporates concerns about all ethical issues. This could be accomplished in part through educational sessions for directors and employees, based on case studies at other organizations. Specialists could be brought in to review and discuss issues.

The sensitivity to potential conflicts of interest could also be achieved by developing a keener understanding of the principle of loyalty, which rests in large part on respect for confidentiality.

Some individuals are adept at putting out of their mind the confidential information received from one organization when they are advising on a similar situation at a second organization. This is a common practice among professional advisors working for multiple clients in the same industry. They do not consider themselves to be conflicted.

Others cannot separate what they know confidentially at one organization from what they should advise at a second organization. For them, loyalty can be an acute conflict that they must resolve. One obvious solution is to resign from one of the boards.

Another suggestion by the advisory group is that directors and employees need a safe place to talk about issues that concern them without recrimination. The advisory group suggested the board of directors consider the benefits of appointing a part-time external advisor on conflicts and ethical conduct to the CPP Investment Board; an individual who understands investment and business related matters, the public and private sectors, and legal issues, ethical expectations, and good governance practices.

The advisor would report through the chairperson to the board of directors on issues and advise on enhanced ways to deal with them.

A question raised by the chairperson during the roundtable discussion was whether the existing disclosure procedures are sufficient to anticipate the range of conflicts that might emerge as the CPP Investment Board grows in size and influence.

Policy conflicts illustrate the need for broader sensitivity to issues that will influence public confidence in the CPP Investment Board and the perceived loyalty and integrity of its directors and employees. This is an area for discussion by the directors and management as the CPP Investment Board advances its active management strategies and develops proxy voting guidelines and related corporate governance policies. Adding pressure to this point as a strategic initiative may be a public expectation that the CPP Investment Board (as a one-of-a-kind national investor of public funds) should demonstrate leadership on proxy-related and corporate governance issues.

Finally, the advisory group urged the CPP Investment Board to be as transparent as possible on its philosophy, policies and procedures for managing real, potential and perceived conflicts of interest. Such transparency would be consistent with the CPP Investment's Board's policy of full and open disclosure.