

# Expectations for governance practices

June 2022

BMO Global Asset Management (BMO GAM) is committed to upholding a consistent philosophy and approach to corporate governance through our engagement and voting activities.

Companies should have a robust policy and governance framework that promotes independent oversight, management accountability and transparency in reporting. Good corporate governance helps foster an environment based on accountability, transparency and trust which provides an essential foundation to ensuring continuity in business operations, avoid legal and regulatory fines, improve satisfaction across stakeholders, and maintain companies' reputations. Good governance also serves as the foundation for robust environmental and social practices. Ultimately, we believe it contributes to sustainable long-term value creation.

We recognize that some of our expectations are aspirational and that governance standards may vary across different markets. Our Corporate Governance Guidelines<sup>1</sup> set out our overall good governance expectations in more detail while taking into account local practices. Where relevant, we use our influence as active owners to encourage stronger governance practices through our engagement and voting activities. Achieving best practice in corporate governance is a dynamic process between the board of directors, management, shareholders and other stakeholders. We encourage companies to engage

in the process of shaping and meeting evolving standards of best practice.

Our expectations are based on international standards<sup>2</sup> and industry commitments as well as supported by internal guidance and training.

Core to our expectations on how companies should approach their governance practices is a commitment to preserve and enhance long-term shareholder value through:

- Maintaining adequate levels of **independence** at the board and committee structures by establishing refreshment mechanisms such as tenure limits and succession planning
- Targeting **diversity** of gender, ethnic origin, professional background, experience, identity as well as other factors that may enhance overall performance at the board, executive management level and throughout the company
- Avoiding **conflict of interests** to ensure executive decisions are in the best interest of stakeholders
- Board-level oversight of **internal controls** and **risk management** covering all material risks, including ethics and ESG risks such as climate change, cyber security, and consumer protection

<sup>1</sup> See our Corporate Governance Guidelines for more information on our governance expectations of the companies in which we invest.

<sup>2</sup> Among them: OECD Principles of Corporate Governance as well as the listing rules and guidance given by the Canadian Coalition for Good Governance, International Corporate Governance Network and Council of Institutional Investors.

- **Responsible business conduct and ethics-related accountability mechanisms**, on issues such as anti-competitive behaviour, bribery and corruption, financial fraud, and tax practices
- Company-wide **whistleblowing mechanisms** consisting of robust policies and procedures
- Effective **stakeholder engagement**, including with regulators and investors, as well as a process for reviewing stakeholder grievances
- A demonstrated understanding of and sensitivity to the views and expectations of **shareholders and other key stakeholders**, including employees
- Aligning **compensation levels and executive pay** with the long-term success of the company
- Ensuring **audit quality and independence** is the main consideration in the auditor selection process
- Respecting **shareholder rights**, including voting on material issues and timely communication on important information
- Conducting thorough due diligence on ESG issues prior to pursuing **mergers and acquisitions, spin-offs and other corporate restructuring**

Corporate reporting should evidence strategies and targets to achieve good governance practices and include a narrative account about the trends and factors affecting the performance and future development of the business. Companies should also be ready, where practicable, to engage with shareholders based on an understanding of shared objectives.

This document will be reviewed annually by BMO GAM's Responsible Investment team and published externally following approval by our Investment Committee whose members include our Chief Investment Officer and other senior investment representatives from across BMO GAM.

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