

**CORPORATE GOVERNANCE**

Canada's Big Five banks are breaking in lots of directors

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This is part of a series examining corporate governance issues at Canadian companies.

When the board of directors of Toronto-Dominion Bank meets these days, a lot of familiar faces are missing.

Since the beginning of 2015, five of the bank's 17 directors retired or declined to stand for re-election. As a result, TD's board has the shortest tenure among the Big Five Canadian banks. The average length of service of the directors is slightly more than four years, and only four of the 14 members were on the TD board during the 2008-09 global financial crisis.

But while TD has shown the most turnover among the boards of the big banks, it's not an outlier. The directors at Bank of Nova Scotia have, on average, just a bit more tenure, and six of the 17 have about one year or less of service. Royal Bank of Canada's board isn't far behind, with an average tenure of about six years. In both cases, a sizable majority of the board is new since the financial crisis.

The common element is that each of these banks also has a relatively new chief executive officer, with the top executive taking charge since 2013. (CIBC is an exception among banks with new CEOs, with an average board tenure of nearly seven years.)

The board with the most tenure happens to be at the bank with the longest-serving CEO: Bank of Montreal, where Bill Downe has held the top role since 2007. At BMO, the average tenure approaches eight years, and half the members have served since at least 2008, with four serving for a decade or more.

Certainly, board turnover is not necessarily a negative. There's something to be said for adding fresh perspectives to boards that may have become too entrenched in their ways of thinking.

At the same time, however, rapid board turnover soon after the ascension of a new CEO can also raise questions about the CEO's influence in the remaking of the board.

The Canadian Coalition on Good Governance (CCGG), in a paper on shareholder input in the choosing of directors, said more Canadian companies are using nominating committees made up entirely of independent directors, which has increased the independence and quality of boards.

However, writes the CCGG, the nominee slate “often still tends to reflect the board’s, or in some cases still the chief executive officer’s, network of relationships and perspectives,” even when prospective candidates are found through the use of independent search firms.

At TD, Bharat Masrani became CEO on Nov. 1, 2014, replacing Ed Clark. Henry Ketcham, who had served as a director since January, 1999, retired in March, 2015. John Bragg (who joined the board in 2004), Harold MacKay (2004), Wilbur Prezzano (2003) and Helen Sinclair (1996) all declined to stand for re-election this spring.

TD spokeswoman Ali Duncan Martin says the recent retirements at TD reflect a “disciplined approach” to limit the tenure of directors, including the applications of both term limits and a retirement age policy to the board. (Recent TD proxies show that Mr. Bragg, Mr. Prezzano and Mr. MacKay were all approximately 75 years old when they left the board, while Mr. Ketcham and Ms. Sinclair were in their mid-60s.)

Ms. Duncan Martin says TD anticipated the departures, increased its board to 17, and then allowed it to shrink back to 14 upon the retirements. “We believe ... we will now have a regular cadence of directors reaching the end of their tenure and new directors being appointed, which will result in our board being comprised of an appropriate mix of experienced and newer directors.”

Ms. Duncan Martin says the board’s all-independent corporate governance committee recommends criteria for selecting new directors and identifies qualified director candidates.

“The chair leads the process and the CEO is included with a number of directors in the interview process. ... We believe that a relationship of trust and confidence between management and our board is a critical component of good governance, and the views of the CEO, as well as other directors interviewing potential candidates, are taken into account by the [committee] before it recommends a candidate to the board.”

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