



**SOCIAL INVESTMENT ORGANIZATION**

*The Canadian Association for Socially Responsible Investment*

184 Pearl St. 2<sup>nd</sup> floor  
Toronto, Canada M5H 1L5  
416-461-6042 t  
416-461-2481 f  
[www.socialinvestment.ca](http://www.socialinvestment.ca)

July 14, 2008

David Murchison  
Executive Director  
Expert Panel on Securities Regulation  
Ottawa ON K1A 0G5

Dear Mr. Murchison:

**Re: Consultation of the Expert Panel on Securities Regulation**

I am writing on behalf of the members of the Social Investment Organization, the national association for socially responsible investment (SRI). Our members include approximately 35 asset management firms, financial institutions, fund companies, investors and non-governmental organizations, as well as about 100 investment advisors and consultants. Our members are committed to the development of socially responsible investment, which is the application of social and environmental analysis to investment selection and management. Our members serve more than a million Canadian investors and depositors.

With this letter, we are responding to your recent consultation on the way forward to improve securities regulation in Canada.

Let me take this opportunity to commend the initiative. We agree that securities reform represents one of the most urgent policy issues in Canada today, both from an economic perspective to enhance Canada's competitiveness, and from a social and sustainability perspective, in helping to improve the social responsibility of Canada's corporations, and the sustainability of our society and economy.

The SIO is on record as supporting a single securities regulator in Canada. We have stated that we believe that a single regulator would reduce regulatory costs for the financial industry, as well as provide a better model for principles-based regulation to improve social and environmental accountability, transparency and disclosure.

## Expert Panel on Securities Regulation.....2

Yet after many years of reform proposals, securities regulation in Canada has made little headway. The debate has become bogged down between proponents of the passport system and proponents of a national regulator.

We would like to advise a practical approach on this matter, and support regulatory reform that would streamline securities regulation, while providing an improved framework for social and environmental accountability, transparency and disclosure.

### *The role of environmental, social and governance factors in securities reform*

The incorporation of environmental, social and governance (ESG) issues in investment decision-making has been growing at a fast pace in recent years. In the US, a study released in March by the US Social Investment Forum (*Report on Socially Responsible Investing Trends in the United States*, (<http://www.socialinvest.org/news/releases/pressrelease.cfm?id=108>) found that SRI assets increased more than 18 per cent between 2005 and 2007 to \$2.71 trillion. This compares with conventional asset growth in the same period of less than three per cent. In Europe, the European Social Investment Forum estimates that the broad European SRI market is now 1 trillion euros, representing between 10 and 15 per cent of total European funds under management. This represents 36 per cent growth since 2002 (*2006 European SRI Study*, [http://www.eurosif.org/publications/sri\\_studies](http://www.eurosif.org/publications/sri_studies)).

In Canada, our own study (*The Canadian Socially Responsible Investment Review 2006*, <http://www.socialinvestment.ca/documents/SRIReview.pdf>) found \$503 billion in assets managed under SRI guidelines, a major increase from \$65 billion in 2004. In the Canadian instance, the growth was driven by the adoption of SRI policies and practices by major public pension funds, including the CPP Investment Board, the Caisse de depot et placement du Quebec and the BC Investment Management Corp.

Investors in Canada and around the world are becoming increasingly interested in environmental, social and governance (ESG) considerations in securities selection and portfolio management. This has been prompted by recent concerns with climate change, as well as long-standing awareness of issues such as sweatshop labour, product safety, employee relations, and a host of other social and environmental concerns. It is clear that Canadians want investments that reflect their concerns not just as investors, but as members of families and communities, and their values as citizens and consumers in the world.

In recent years, much attention has been focused on the shaken confidence of the world's capital markets resulting from the corporate abuses of Enron, WorldCom and other companies, as well as the continuing turmoil prompted by the crisis in credit markets. The SIO believes this crisis of confidence involves more than just accounting and auditing abuses. We believe that these examples of corporate malfeasance are indicative of a larger underlying problem in which some companies emphasize short-term profit and capital appreciation at the expense of stakeholders, including investors.

One of the most effective ways of addressing this problem is through the creation of an effective ESG continuous disclosure and governance mandate through securities rules.

It is uncertain where the debate about a national regulator is heading, but it is clear that Canada needs to improve its ESG accountability, transparency and disclosure framework.

## Expert Panel on Securities Regulation.....3

Corporations are now facing a growing global consensus that socially responsible disclosure and governance is a requirement. Denmark introduced a law on mandatory "Green Accounts" for large companies in 1995. France followed in February 2002 with legislation requiring listed companies to include social and environmental evaluations in their annual reports. Norway and Sweden also have legislation requiring companies to disclose financial consequences of the environmental impacts of corporate operations. Germany has introduced new rules requiring companies to disclose material information on sustainability-related key performance indicators. The King Report on Corporate Governance in South Africa now mandates directors of companies listed on the Johannesburg Stock Exchange to undertake Social and Ethical Accounting, Auditing and Reporting exercises as well disclosing additional information on safety, health and environment issues. And while the UK government cancelled its proposed Operating and Financial Review (which proposed mandatory social and environmental reporting) the British government is continuing to look into reforms on appropriate corporate ESG reporting.

Apart from the issues of ESG accountability, transparency and disclosure for issuers, there is also significant international consensus on the need to improve ESG disclosure by pensions, investment funds and financial advisors. Governments and securities commissions are coming to the view that SRI disclosure represents an important new form of consumer protection for investors and pension plan members.

In July 2000, the UK Pensions Act was amended to require trustees of occupational pension plans to disclose their policy on socially responsible investment as part of their Statement of Investment Principles (SIP). Before this amendment, pension fund trustees were under no obligation to inform their members of their SRI stance. Since then, France, Germany, Belgium and Sweden have adopted similar regulations. Furthermore, some jurisdictions are extending such mandatory disclosure to the retail market. The regulatory environment in Australia represents the best practice in the world in this regard, supported by a broad consensus among industry associations, the Australian Securities and Investment Commission (ASIC) and legislators from different political parties. As a result, ASIC has instituted guidelines for such disclosure not only for advisors in their relationship with clients, but in the product disclosure statements of investment funds under ASIC jurisdiction.

As more countries adopt a socially responsible disclosure and governance regime, Canada risks falling behind important international standards on these issues. It is important for Canada to implement a national socially responsible disclosure and governance framework to stay current with developments in Europe and elsewhere. It is critical for the federal and provincial governments to move forward in this area, whether it is through a national regulator, or a bolstered passport system, which is currently being implemented by the Canadian Securities Administrators.

### *Key principles*

In moving forward on securities reform in Canada, we would like to recommend two key principles.

**Passport system.** In the absence of agreement on a single national regulator, an improved passport system represents a practical way forward on securities regulation in Canada. An improved role for the Canadian Securities Administrators could be key to making this work. The proposed passport system could be further improved by working toward national enforcement of securities rules, a national system of securities registration and a formal system of national governance for the CSA. In our experience, the CSA can provide an efficient, comprehensive framework for advancing important reforms. For example, the CSA initiative on mandatory disclosure of mutual fund proxy voting policies and records has been very effective at bringing enhanced transparency to mutual fund proxy voting in Canada.

**ESG accountability, transparency and disclosure.** The SIO supports principle-based regulation, as opposed to rules-based regulation. However, for principles-based regulation to be effective, there needs to be clearly identified outcomes for issuers and registrants. Given the growing importance of ESG accountability, transparency and disclosure, it is necessary for the CSA to clearly articulate and monitor its desired outcomes in this area. There should be clear expectations in the following areas:

- Issuers should come to adopt ESG governance models, leading to improved ESG accountability by management, Boards and audit committees
- ESG disclosure should be improved in issuers' annual filings and accounting reports, including Management's Discussion and Analysis. Issuers should gradually adopt international best practices on ESG reporting, such as the Global Reporting Initiative (GRI)
- For advisors, there should be mandatory inquiry into the social and environmental concerns of clients, and this information should be integrated into client reviews and client suitability assessments
- For fund companies, there should be enhanced disclosure of the ESG policies and impacts of investment funds
- And while pension regulation is not now a part of securities regulation, pension funds should be mandated to disclose their ESG policies and impacts.

These recommendations would help to move Canada forward on improved securities regulation as well as enhanced ESG accountability, transparency and disclosure. This would also help to create an environment of responsibility and sustainability for our capital markets, a situation that would lead to better investor returns with lower risks, as well as greater responsibility and sustainability throughout our economy.

Sincerely,



Eugene Ellmen  
Executive Director