



**SOCIAL INVESTMENT ORGANIZATION**

*The Canadian Association for Socially Responsible Investment*

**To help Social Investment Organization members assess the federal parties on important SRI issues before the coming election, the SIO sent questionnaires to the five major parties to receive their views on two key issues. The issues involve "Right to Know" policies concerning federally-regulated private and public pension funds; specifically on mandatory disclosure of social and environmental policies, and mandatory disclosure of voting policies and records.**

After providing some background to the parties on the issues, SIO asked the five major parties to respond to two key questions:

- o Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?
- o Does your party support policies, regulations or amendments to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose their proxy voting policies and voting records?

**We received responses from all five major parties (Bloc Quebecois, Conservatives, Greens, Liberals and New Democrats).**

**Here is SIO's letter to the parties, and their responses.**

**Eugene Ellmen**

**Executive Director, SIO**

Dear Sir or Madam:

**Re: Questionnaire on your party's policy on transparency for federal pension funds**

I am writing to you on behalf of the Social Investment Organization, a national network of investment funds, asset management firms, financial institutions, investment advisors and investors. Our members are committed to the integration of social and environmental considerations in the selection and management of investments. Our members serve more than half a million depositors and investors across Canada. Full information on the SIO and our members is available on our website at [www.socialinvestment.ca](http://www.socialinvestment.ca).

We are asking the major political parties (Bloc, Conservative, Green, Liberal and New Democrat) to participate in a short questionnaire on the issue of pension transparency.

**Background**

Transparency in the investment practices of large institutional investors is becoming a significant international issue. The recent corporate scandals in the US, Europe and other countries are drawing attention to the investment and voting practices of mutual funds and other major institutional investors. In spite of the enormous potential to influence companies with their voting power, most mutual funds and other institutional investors fail to exercise their voting rights on issues of corporate governance, social responsibility and environmental sustainability.

In addition to the governance-related issues raised by these recent scandals, there is increasing demand that investors apply social and environmental assessments to companies in their portfolios. There is growing evidence showing that corporate social responsibility is linked to long-term investment performance. Therefore, it is critical for investors to look at the social and sustainability profiles of companies to understand the long-term societal and environmental risks and opportunities driving these companies.

As a result of these concerns, governments and regulatory authorities around the world are requiring institutional investors to increase the transparency of their social and environmental policies, and their proxy voting policies and records.

Two years ago, the US Securities and Exchange Commission approved a rule requiring mutual funds in the US to publicly disclose their proxy voting policies and their voting records in the companies in their portfolios. Last year, the Canadian Securities Administrators approved a similar rule in Canada, which will take effect in August 2006.

In the UK, the British government amended pension regulations in 2000 to require pension plans to disclose the extent to which labour rights, social, environmental and ethical considerations are taken into account in the selection and management of their investments, including the exercise of their voting on shareholder proposals. These requirements have also been put in place in Germany, France, Belgium, Sweden and Australia.

In October, the Canada Pension Plan Investment Board released a Policy on Responsible Investing, which discloses CPPIB's policies on environmental, social and governance issues. As well, under an earlier Policy, CPPIB has pledged to disclose its proxy voting policies and records. However, the CPPIB is one of only a few pension plans in Canada that provide such disclosure.

**Pension plan members are demanding more transparency in the selection and management of their institutional investment assets. Yet only a few Canadian pension funds are prepared to voluntarily provide information on their social and environmental policies, and their proxy policies and voting. It's clear that Canadian pension plan contributors and beneficiaries need Right to Know rules requiring their pension plans to disclose their social and environmental policies, and proxy voting policies and records.**

**Questionnaire**

With this background, SIO would like your responses to the following questions pertaining to potential transparency legislation involving federally-regulated pension plans. This questionnaire is similar to a questionnaire we issued to

the federal parties before the last election. In the interests of a full dialogue, please take as much space as you require to answer these questions. The pension plans covered by these questions involve public sector plans and private plans regulated by federal authorities.

We are planning to publish these responses for our members and for the public before the election on January 23.

- 1) Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?
- 2) Does your party support policies, regulations or amendments to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose their proxy voting policies and voting records?

We would appreciate it if you could respond as quickly as possible to this request in order that we may inform our members of your response in a timely way before the election on January 23.

**Therefore, please send us your responses to these questions by Thursday January 5. You can send them by fax to 416-461-2481 or by email to [info@socialinvestment.ca](mailto:info@socialinvestment.ca).**

If you require any further information on this issue, or would like further background on the Social Investment Organization, or our members, do not hesitate to contact our Executive Director, Eugene Ellmen, directly at 416-461-6042 or [ellmen@socialinvestment.ca](mailto:ellmen@socialinvestment.ca).

Regards, and I look forward to receiving your response to this questionnaire.

Andrika Boshyk  
Assistant Director

## Party Answers



### Bloc Québécois

1. *Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?*
2. *Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?*

In answer to your questions as a whole, the Bloc Québécois think it is important that measures be taken to provide more information to investors in large pension funds.

Half of the money compounded on global capital markets belongs to small investors gathered in pension plans. At a Canadian scale, this represents more than 500 billion dollars. Therefore, investors have a considerable amount of power to influence, which may be put at work to favour the growth of sustainable development, and that is very much in tune with Bloc Québécois' convictions with regards to a humane globalisation. But most workers have no clue what social and environmental impacts the use of their savings entails.

Because of laws that already exist in certain countries such as the United Kingdom, Germany, Australia and France, and taking into account Canada's delay in adopting this type of legislation, one of the Bloc Québécois MPs, Stéphan Tremblay, proposed a private bill at the House of Commons, in September 2001, amending the 1985 Pension Benefits Standards Act, and inducing ethical investment.

Had the House of Commons confirmed this bill, pension funds administrators would have been required by law to put together yearly reports stating social, ethical or environmental considerations taken into account at the time of selection, maintenance or liquidation of investment securities. This legislative amendment did not aim at forcing the pension funds committees to make socially ethical investments, but rather at inducing them to adopt a policy along those lines and to tell so to pension plan members.

In the winter of 2003, Bloc Québécois MP Pauline Picard tried to table this bill once again at the House of Commons.

The Bloc Québécois firmly believe that investors have a considerable power of influence, and we think that reforms must take place so that investors are able to use this power.



## Conservative Party

1. *Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?*

In responding to this question we would like to point out that social, environmental and ethical considerations always should be incorporated into the decision making processes when selecting investments, whether by pension fund managers or by investors generally. This is important because failure to do so can, in fact, expose the pension fund to substandard rates of return if the companies being invested in do not have proper business practices. As you note, companies that practice sound principles in their business activities have better rates of return and therefore pension fund managers will, as a matter of self interest, invest in these companies to the benefit of the recipients of pension payments. This is part of their fiduciary responsibilities to pensioners and must be at the centre of their investment decision making.

By way of a best practices model, we are supportive of the Canada Pension Plan's policy on *Responsible Investment* which is related to its *Proxy Voting Principles and Guidelines*. Many pension plans have adopted similar policies and practices and are very transparent about their position with respect to considering environmental impacts of the company's products, the impact of the company on the community in which it operates, or labour practices when they invest in these companies.

2. *Does your party support policies, regulations or amendments to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose their proxy voting policies and voting records?*

The Conservative Party of Canada has made and will continue to make the case for Accountability in decision making in Canada. This policy will be reflected in the first Act we will table when we form a new government in 2006.

We believe that the principles of Accountability apply not only to public institutions but also to pension funds and we expect fund managers to have accountability policies and to make their decisions fully transparent. This includes proxy voting in connection with companies in which they invest. This information is vital to investors and members of pension funds. Proxy voting guidelines should be developed to help encourage companies to take actions that in the long term are in the best economic interests of their shareholders. This is central to a pension plan's fiduciary responsibility to its pensioners.

Again the Canada Pension Plan is a good model of this type of transparency where each month the CPP Investment Board receives detailed reports on proxy voting on its behalf. This allows the Board to ensure that voting is consistent with its proxy voting guidelines. Other major pension plans have similar practices and we support this.



## **Green Party**

1. *Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?*

YES

The Green Party of Canada is committed to the principles of corporate responsibility. It thus follows that we would support legislation that would enforce norms of transparency regarding the investments of Canadian pension funds. Our MPs would also work to see the implementation of a Corporate Social Responsibility Act that would regulate all Canadian industry and business activity both in Canada and abroad.

2. *Does your party support policies, regulations or amendments to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose their proxy voting policies and voting records?*

YES

The Green Party believes that measures of corporate (as well as government) transparency and accountability are essential for the development of a truly democratic society. Pension funds must be required to disclose their proxy voting policies and voting records as a safeguard against corruption and the concentration of power in the hands of a small, influential group.



## Liberal Party

1. *Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?*

The Canadian Pension Plan (CPP), one of the most important social programs in Canada, serves the retirement interests of approximately 16 million Canadian contributors and benefactors. The CPP is controlled by the Canadian Pension Plan Investment Board, an arms length Crown Corporation that has taken proactive steps to become a leading proponent of responsible investing.

On October 13, 2005, the CPP Investment Board released a new *Policy on Responsible Investing*. This new policy went beyond previous guidelines to build an engagement capability to encourage improved performance and enhanced disclosure of environmental, social and governance (ESG) factors in companies in which we invest. It embraces the philosophy that long-term responsible corporate behaviour with respect to ESG factors can have a positive influence on long-term corporate financial performance.

The CPP Investment Board is pursuing its goal of encouraging corporate conduct that enhances long-term financial performance through a policy of engagement. To date, the CPP Investment Board has focused its attention on two critical areas – disclosure and corporate governance. This focus will be expanded in the future to include support for key initiatives surrounding the disclosure of information regarding ESG factors.

2. *Does your party support policies, regulations or amendments to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose their proxy voting policies and voting records?*

The Liberal government believes that pension funds, like all other government institutions, should be responsible, accountable and transparent. To comply with these ideals, proxy-voting policies should be made available to pension plan members.

The CPP Investment Board has established clear internal guidelines on how its proxy votes are to be exercised. Internal staff resources are specifically dedicated to monitoring proxy voting issues. The Investment Board works with Institutional Shareholder Services (ISS) to cast proxy votes in accordance with established guidelines, and a record of all votes cast is posted for public consumption on their website. Certain shareholder proposals and voting matters that fall outside of the CPP Investment Board's proxy voting guidelines are elevated to the CPP Investment Board Proxy Voting Review Committee which is chaired by the President and CEO and comprised of senior officers within the CPP Investment Board.

On September 28, 2005 the CPP Investment Board released a detailed summary of their proxy voting positions and guidelines. The 2005 *Proxy Voting Principles and Guidelines* include clear guidelines as to how environmental, social and governance considerations must be applied to decisions on how proxy votes are to be cast. The Investment Board's comprehensive guidelines on proxy voting can be found at [http://www.cppib.ca/who/policy/Proxy\\_Voting\\_Guidelines.pdf](http://www.cppib.ca/who/policy/Proxy_Voting_Guidelines.pdf).



## **New Democratic Party**

1. *Does your party support policies, regulations or legislation to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose the extent to which social, environmental and ethical considerations are taken into account in the selection and management of investments?*

New Democrats have consistently called for meaningful, ethical screening of pension investments. Unfortunately, the Liberals do not agree with this approach. In October, Judy Wasylycia-Leis, the NDP Pension critic, gave the CPP Investment Board Policy on Responsible Investing a failing grade and called for stronger ethical guidelines for CPP investments.

In a press release she noted “These ‘new’ CPP guidelines send a message to the world’s oppressors and exploiters that they have nothing to fear from Canadians. The tap to our pension billions will remain wide open...Canadians have been demanding change – significant change – to the CPP’s unethical approach. Now, in the Liberal mold, the CPP Board has given us appeasing words with no significant consequences. This is an attempt to pre-empt the meaningful action Canadians have demanded.”

2. *Does your party support policies, regulations or amendments to require pension funds covered by the Pension Benefits Standards Act and the Public Sector Pension Investment Board Act to disclose their proxy voting policies and voting records?*

We support changes to make pension funds more transparent. We believe that by giving pension plan members more information such as the ability to request voting policies and voting records we will strengthen Canada’s pension Acts. An increase in transparency, democracy and accountability are key when it comes to this issue and the disclosures will lead to that.