



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 four major parties to receive their views on two key issues. The issues involve "Right to Know" legislation concerning federally-regulated pension funds; specifically on mandatory disclosure of social and environmental policies, and mandatory disclosure of voting policies and records. SIO believes that legislation is needed to ensure that pension plan members and the investing public have a right to know about the SRI policies and voting policies and records of pension funds.

We received responses from three parties (Bloc Quebecois, Liberals and New Democrats). The Conservatives have told us they intend to respond before election day.

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

Eugene Ellmen
Executive Director, SIO

To the four major parties

Dear Sir or Madam:

Re: Questionnaire on your party's policy on transparency legislation for federally-regulated 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 into 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.

We are asking the major political parties (Liberal, Conservative, New Democrat and Bloc Quebecois) to participate in a short questionnaire on your party's policies with regard to potential amendments to federal pension legislation that would require federally-regulated pension funds to disclose their social and environmental investment policies, as well as their policies regarding how they vote their shares on shareholder proposals pertaining to companies they hold, and the actual voting record in those companies.

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 acting to mandate that institutional investors increase the transparency of their social and environmental policies, and their proxy voting policies and records.

Recently, the Securities and Exchange Commission approved a new rule requiring mutual funds in the US to publicly disclose their proxy voting policies and their voting records in the companies in their portfolios. Just last month, the Canadian Securities Administrators released similar draft rules in Canada.

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.

Clearly the international community recognizes that investors strongly demand more transparency in the selection and management of their institutional investment assets.

Questionnaire

With this background, SIO would like your responses to the following questions pertaining to potential transparency legislation involving federally-regulated pension plans. In the interests of a full dialogue on these issues, please take as much space as you require to answer these questions. The pension plans covered by these questions involve public sector plans, the Canada Pension Plan and private and public sector plans regulated by federal authorities.

We are planning to publish these responses for our members and for the public before the election on June 28.

- 1) Does your party support amendments to the Public Sector Pension Investment Board Act, the Canada Pension Plan Investment Board Act and the Pension Benefits Standards Act to require pension funds covered by these acts 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 amendments to the Public Sector Pension Investment Board Act, the Canada Pension Plan Investment Board Act and the Pension Benefits Standards Act to require pension funds covered by these acts to disclose their proxy voting policies and to provide their voting records to pension plan members upon request?

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 June 28.

Party Answers



Bloc Québécois (Questions 1 & 2 – disclosure of social/environmental policies and disclosure of voting policies and records)

In response to the questions, the Bloc feels and agrees with the SIO that there needs to be more transparency/information provided to investors by pension funds and administrators.

Half of the funds in world markets belong to small investors. It is clear that this is an important influence on globalization. The investors to a large extent ignore the social and environmental impact of their investments.

Taking into consideration that countries like Britain, Germany, Austria and France already have legislated laws outlining social and environmental investing, Canada is very late and perhaps lagging in the initiation of such policies.

A Bloc Quebecois MP (Stephan Tremblay) initiated and put forth a bill to the House of Commons in September 2001 to modify a law created in 1985 with regard to pension guidelines. These were proposed initiatives for responsible investing.

If the amendments proposed by the Bloc were adopted, the administrators of pension funds would have been legally bound to create annual reports describing social and environmental ethics when taking into consideration when choosing the liquidation of and purchase of stocks. The proposed amendments did not oblige them to make socially conscious choices, but did push to create awareness of the issues around social investment.

During the winter of 2003, Bloc MP Pauline Picard spoke to this issue in Committee. It was found non-voteable. After an hour debate, the Chamber decided not to pursue the law.

We believe investors possess the power to change how investments are made and to increase sustainable investment. The Bloc supports this subject of social investing and ethical globalization. Reforms have to give rights to investors.

We hope that our comments have answered your questions.



Conservative Party

As of June 24, the Conservative Party had not yet responded to the questionnaire. SIO has been assured that our questionnaire will be answered before election day.



Liberal Party

Question 1 (disclosure of social/environmental policies)

Social investing can mean different things to different people. Pension boards cannot reflect all the divergent religious, economic, political, social and personal views of millions of Canadians in their investment decisions. What they do instead is invest based on strong social principles. The Liberal government expects that pension boards will invest only in companies that are responsible corporate citizens.

The Canada Pension Plan Investment Board maintains a strict and detailed social investment policy. The Board follows the principle that responsible corporate behaviour – in such matters as the environment, employee practices, stakeholder relations, human rights, respect for domestic and international laws, and ethical conduct – generally contributes to enhanced long-term investment and societal returns.

To be eligible for investment, businesses must be engaged in a business that is lawful in Canada or in any country with which Canada maintains normal financial, trade and investment relations. In the interest in the long-term viability of their businesses, companies should care about, and be sensitive to, the concerns of their employees, customers, suppliers, community neighbours, and environment.

The Liberal government supports corporate policies and practices that encourage the disclosure of information that could assist investors in assessing whether corporate decisions are likely to contribute to or detract from long-term investment returns.

Furthermore, the Liberal government encourages pension boards to utilize their voting power to encourage companies to disclose information about non-investment and ethical issues in response to reasonable shareholder requests.

Question 2 (disclosure of voting policies and records)

The Liberal government believes that pension funds, like all other government institutions, should be accountable and transparent, and believes that proxy voting policies should be made available to pension plan members.

On February 11, 2004, the Canada Pension Plan Investment Board released a detailed summary of their proxy voting positions and guidelines. It clearly outlines the various positions the Board could be expected to take, as well as its corporate governance and social responsibility. It is available at http://www.cppib.ca/who/policy/Proxy_Voting_Guidelines.pdf.

The Liberal government also supports the public disclosure of the boards' proxy voting records. For example, each month, Institutional Shareholder Services Inc. provides detailed electronic reports on all proxies voted on behalf of the CPP Investment Board.



New Democratic Party

Question 1 (disclosure of social/environmental policies)

Yes. The Canada Pension Plan Investment Board should implement the use of ethical screening for investment.

Lorne Nystrom, one of our longest serving MPs addressed this issue in Parliament on numerous occasions. Here is what he said,

“Why not use an ethical screen to make sure that the investments made by the board are made on an ethical basis?”

“The Canada Pension Plan Investment Board must have ethical screening to prevent investment in companies with poor environmental standards, for example, or with poor child labour standards or sweatshops, and to prevent investment in tobacco companies and other companies that harm people.

It has been shown that ethical screening does not reduce the rate of return. In fact, if one looks at many ethical funds in the country, one sees that their rate of return is not reduced but is in some cases higher than that of the funds that do not have an ethical screen. I think of the ethical funds in the credit union movement, for example, which have a very good track record in Canada.

I would recommend that we oppose the bill unless changes are made that provide the CPPIB with a mandate **to put an ethical screen in place**. I also would like to see the bill's provision for investment in foreign markets eliminated, because I think we should put the money from Canada's large pension fund into Canada."

In addition, in February of this year, NDP MP Pat Martin introduced a motion that called for investment into ethical investments rather than supporting companies such as military suppliers and tobacco makers.

The motion introduced in February of this year by Mr. Martin calls for the Canada Pension Plan Investment Board to be "prohibited from investing in companies and enterprises that manufacture and trade in military arms and weapons, have records of poor environmental and labour practices or whose conduct and practices are contrary to Canadian values."

Question 2 (disclosure of voting policies and records)

We support changes in the CPP program to ensure greater transparency. We believe that by giving pension plan members more information such as the ability to request voting policies and voting records that the CPPIBA, PBSA and PSPIBA will be strengthened. An increase in transparency, democracy and accountability are key when it comes to this issue and the disclosures will lead to that.

Our platform calls for requiring broader representation of Canadian workers on the CPP Investment Board and changing the mandate to promote sustainable industry and community development. We also call for an ethical screen on our public pension management to prevent investments in companies that engage in the arms trade, pollute, exploit labour or undertake other unscrupulous practices that offend Canadian values.