



SOCIAL INVESTMENT ORGANIZATION

The Canadian Association for Socially Responsible Investment

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Dear Mr. Hicks:

Let me take this opportunity to comment on behalf of the members of the Social Investment Organization on the draft interpretive release "Disclosing the financial impact of climate change and other environmental issues."

As you may know, the SIO has more than 400 members across Canada, including staff and managers of specialist and mainstream investment funds, asset managers, financial institutions and investment advisors. Our members manage funds on behalf of more than half a million depositors and investors. Among our members and others, there is approximately \$65 billion in assets in Canada managed with regard to social and environmental guidelines.

As we have pointed out in our past brief to the CICA on MD&A Guidance (August 3, 2002, <http://www.socialinvestment.ca/Policy&Advocacy/CICA.htm>), our members are very interested to see strengthened MD&A Guidance on social and environmental issues. We have also called for stronger continuous disclosure rules from the Canadian Securities Administrators (<http://www.socialinvestment.ca/Policy&Advocacy/CSA.doc>) to create a disclosure regime requiring companies to report their risks, uncertainties and opportunities in a comprehensive manner.

MD&A Guidance 2

As such, we fully support publication of the interpretive release on climate change issues. There is a great deal of evidence that climate change disclosure in the automobile, petrochemical, insurance, oil and gas, and utilities sectors still falls far short of what is required by investors. In fact, the 2004 report *Third Survey of Climate Change Disclosure in SEC Filings* (<http://www.foe.org/camps/intl/corpacct/wallstreet/secsurvey2004.pdf>) shows that disclosure is still only 39 per cent across all sectors.

While comparable Canadian statistics are unavailable, it is our assumption that the record of Canadian filers is no better, and additional Guidance is necessary to create a more transparent reporting regime.

As well, the recent increase in investor interest in this topic, as shown by support for the Carbon Disclosure Project, the Investor Network on Climate Risk, the Institutional Investors Group on Climate Change and the rise in shareholder proposals all show that there is strong investor interest in enhanced corporate disclosure on climate change. This is as true in Canada as in other countries, as the success of our own workshop in March 2004 indicates ([http://www.socialinvestment.ca/Climate_Risk_Workshop_Report_\(updated\).pdf](http://www.socialinvestment.ca/Climate_Risk_Workshop_Report_(updated).pdf)).

We commend CICA in its efforts to create greater guidance for companies in their climate change reporting activities. With this introduction, we would like to make the following suggestion to strengthen the draft interpretive release.

In *Part 2 – Deciding what to disclose*, your enumeration of specific content of what to disclose is very helpful. However, we believe that the reliance on the materiality test will still provide most corporate management with an argument for why they should not disclose. As you state, the Guidance currently recommends that management disclose information of “known trends, demands, commitments, events or uncertainties that are reasonably likely to have an effect on your company’s business.” It is our view that most management will still choose to conclude that climate change impacts will not have an effect on company business; and therefore not disclose such information.

We believe that the onus should lie with management to fully disclose unless there is no material impact on the business. This change would encourage companies to default to disclosure, rather than to argue that climate change represents no material impact.

MD&A Guidance 3

In its May 11, 2004 brief to the Securities and Exchange Commission, the Coalition for Environmentally Responsible Economies (CERES) argues that companies “should start from the premise that climate change impacts – both positive and negative – must be disclosed unless the registrant finds that no material effect on liquidity, capital resources or results of operations is reasonably likely to occur either in the short- or long-term.”

Further, CERES argues, “the registrant should not rely on a best-case scenario, but should consider the full range of possible outcomes; in other words, decisions about reasonableness and materiality must be made on the basis of a complete analysis of available scientific and other information.”

We believe that a simple materiality test is not sufficient because many corporations will simply take the easy way out, concluding that climate change impacts are uncertain and therefore not material to their business. This will limit or eliminate the discussion of climate change impacts in the MD&A, severely reducing the effectiveness of the document to the investing public.

In conclusion, once again, we commend CICA for its work in this area. We support release of this document, and encourage you to consider our suggestion to strengthen what is already a comprehensive and thorough guidance document for corporate management.

Sincerely,

Eugene Ellmen
Executive Director