



SOCIAL INVESTMENT ORGANIZATION

The Canadian Association for Socially Responsible Investment

184 Pearl St. 2nd floor
Toronto, Canada M5H 1L5
416-461-6042 t
416-461-2481 f
www.socialinvestment.ca

February 17, 2011

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Securities Commission of Newfoundland and Labrador
Nova Scotia Securities Commission
Ontario Securities Commission
Registrar of Securities, Prince Edward Island
Saskatchewan Financial Services Commission – Securities Division
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 22e étage
Montréal (Québec) H4Z 1G3

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto ON M5H 3S8

Dear Sir and Madame:

Re: Comments on proposed amendments to statement of executive compensation, and form 51-102F6

I am writing on behalf of the members of the Social Investment Organization, the national association for socially responsible investment. Our members include about 40 investment funds, financial institutions, investment consultants, asset managers, credit unions, and institutional investors, as well as more than 150 investment advisors, lawyers, consultants and non-profit organizations across Canada. Our members serve more than a million Canadian depositors and investors. I am writing in response to the request for comment on your proposals related to the Statement on Executive Compensation, and form 51-102F6.

We commend the CSA's attention to this matter. Generally, we believe that the amendments will improve the disclosure of executive compensation, and provide useful information to investors. In particular, we believe it is a useful step to require disclosure in the CD&A on whether the board considered the implications of the risks associated with the company's compensation policies and practices. By highlighting this disclosure requirement, and providing specific guidance to companies, we believe you will encourage better compensation practices and improved oversight by Boards.

However, we would like to point out some deficiencies in the proposed amendments, particularly in regard to the issue of long-term risk management and compensation disclosure. We believe that the amendments are deficient in failing to draw attention specifically to disclosure of the environmental, social and governance (ESG) risks posed by a company's compensation policies and practices.

Compensation disclosure and ESG risks

We agree with the point you make in your request for comments in regard to the recent SEC amendments mandating compensation disclosures that are reasonably likely to have a material adverse effect on the company. As you point out:

These amendments were made in response to concerns that, at some companies, compensation policies have become disconnected from long-term company performance and create incentives that influence behavior inconsistent with the overall interests of the company.

In thinking about the interests of the company, there is a growing consensus among investors that ESG factors hold material risks. The Report to the Minister of Finance by the Corporate Social Reporting Initiative¹ published in June 2010 summarizes how disclosure of risks is directly connected to ESG factors.

Better disclosure is a cornerstone for developing governance models that can anticipate and manage, rather than simply react to, such complexity and risks. Success in addressing challenges as diverse, in today's tightly inter-connected environment, as climate change, fiscal crises (and their social and political implications) or chronic disease will depend on the ability of corporations and capital markets to integrate sustainability considerations into business strategy. This presupposes reporting of "material" risks, goals and performance information for key environmental and social challenges.

CSA's recently-published Environmental Reporting Guidance² states: "Information relating to environmental matters is likely material if a reasonable investor's decision whether or not to buy, sell or hold securities of the issuer would likely be influenced or changed if the information was omitted or misstated."

¹ Report to the Minister of Finance, Corporate Social Reporting Initiative. Hennick Centre for Business and Law and Jantzi Sustainalytics. June 2010 <http://www.hennickcentre.ca/documents/FINALREPORT.pdf>

² Canadian Securities Administrators. Staff Notice 51-333 Environmental Reporting Guidance October 2010. http://www.osc.gov.on.ca/documents/en/Securities-Category5/csa_20101027_51-333_environmental-reporting.pdf

Given that ESG issues are areas that demand greater attention from companies, what is the connection between ESG risks and executive compensation?

We believe that there are many instances in which executive compensation practices are encouraging management to take a level of risk-taking that ignores predictable and foreseeable ESG risks. There is a possibility that executive compensation practices are encouraging management to avoid consideration of environmental and social externalities that pose long-term risks to investor value. For example, in a recent report, *Oil Sands Update: Reducing investor risk through engagement*³, NEI Investments found that most oil sands companies claim to consider environmental and social performance when setting pay — but very few are doing it. In fact, only Shell disclosed how performance against defined environmental and social metrics impacts annual executive compensation. None of the companies ties long-term compensation to environmental and social performance.

Further, it is our view that companies with comprehensive ESG and executive compensation policies will benefit in the long term through enhanced risk management and identification of ESG opportunities. By tying compensation to improved ESG performance, companies will incentivize management to identify ESG risks that pose harm to long-term investor returns, and ESG opportunities for cost savings, production efficiencies, innovative technologies or new markets related to environmental and social concerns.

Lack of mandated disclosure on how compensation practices impact ESG risks is a significant deficiency in current compensation disclosure requirements. Your proposed amendments also fail to deal with this issue, so we would like to propose some simple amendments that could rectify this disclosure gap.

Proposals

The SIO urges CSA to expand the scope of the CD&A to specifically require disclosure concerning a company's compensation policies and practices as they relate to environmental and social risks. Guidance should include disclosure of how ESG metrics such as environment, health and safety or customer satisfaction indicators relate to compensation practices.

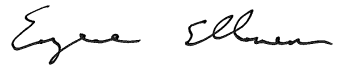
If a company does not have an ESG policy in regard to compensation, it should be mandated to disclose this. Conversely, if a company has a policy relating ESG metrics to executive compensation, it should be required to disclose this policy.

This suggests that the CD&A should include additional detail that allows investors to follow through the stages of the compensation calculation, including disclosure of performance targets and actual performance. Investors are often left wondering how a set of metrics has been applied in an individual company's compensation package. Mandated disclosure of metrics and performance would rectify this.

We believe that these amendments would significantly improve the package you have put forward, and rectify some important deficiencies in regard to disclosure of company compensation practices and ESG risks.

³ NEI Investments. Oil Sands Updates: Reducing investor risk through engagement. Fall 2010.
http://www.neiinvestments.com/neifiles/PDFs/5.4%20Research/NEI_OilSandUpdate_Oct%202010.pdf

Sincerely,

A handwritten signature in black ink that reads "Eugene Ellmen". The signature is written in a cursive style with a large initial 'E' and a long, sweeping underline.

Eugene Ellmen
Executive Director