



**SOCIAL INVESTMENT ORGANIZATION**

*The Canadian Association for Socially Responsible Investment*

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August 12, 2010

The Honourable Dwight Duncan  
Minister of Finance  
7 Queen's Park Crescent, 7<sup>th</sup> floor  
Toronto, Ontario  
M7A 1Y7

Dear Minister Duncan:

**RE: Hennick Centre and Jantzi Sustainalytics Corporate Social Reporting Initiative**

I am writing on behalf of the members of the Social Investment Organization, the national association for socially responsible investment (SRI). Our sustaining and associate members include financial institutions, asset management firms, fund companies, investment consulting firms and credit unions. As well, our membership includes advisors, consultants, lawyers and non-profits from across Canada. Our members are committed to the development of socially responsible investment, which is the integration of social and environmental considerations into the selection and management of investments. Our members serve more than a million Canadian depositors and investors.

With this letter, we urge you to support the recommendations in the recent Report to the Minister of the *Corporate Social Reporting Initiative*, undertaken by the Hennick Centre for Business and Law and Jantzi Sustainalytics. The report was commissioned following all-party approval of Laurel Broten's resolution on corporate social responsibility reporting in the Ontario Legislature in April, 2009. The report is a carefully researched and thoughtfully analyzed study on the issue of corporate social disclosure. If implemented, the recommendations in the report would have a major impact in reducing financial risk on social issues that are not now properly disclosed to the investing public. The outcome would be enhanced investor returns, lower investor risk and improved corporate performance on important social issues.

As the report notes, there is a growing body of research documenting the investment materiality of a broad range of social issues, such as human rights, labour relations, health and safety and aboriginal relations. This view has been taken up by the investment community as witnessed by the success of the United Nations Principles for Responsible Investment (UN PRI), which has secured support from more than 600 asset owners, institutional asset managers and investment consultants from around the world.

Yet, in spite of significant investor demand for information on the social performance of publicly-listed companies, most companies fail to disclose information on their material social issues. As SIO pointed out to the Hennick/Jantzi initiative, of the over 1,400 companies listed on the Toronto Stock Exchange, only 24 reported on their social and environmental performance using the framework of the Global Reporting Initiative (GRI) in 2009. This has led, in the words of the report, to a “disclosure gap.”

Of particular interest is the fact that companies are particularly lax on social issues reporting. This is evidenced by the 2008 report, *Reporting on Community Impacts* by the Global Reporting Initiative, the University of Hong Kong and CSR Asia.<sup>1</sup> The study examines 72 sustainability reports from global corporations. The study found that most reports were relatively weak in fulfilling the social requirements (SO1 indicator) of the Global Reporting Initiative. In addition, the majority of GRI reporters claim to be reporting in accordance with the G3 Guidelines SO1 indicator. However, in reality, only 11 percent of the G3 reporters fully report according to SO1 requirements.

To address this disclosure gap, the Hennick report recommends that OSC staff issue a clarifying guidance with respect to existing social disclosure obligations in the MD&A and AIF forms.

We strongly urge you to support this recommendation. This is especially important since OSC staff has already been mandated to develop a guidance on environmental reporting obligations. Without a similar social reporting guidance, we believe that publicly-listed corporations will have the view that environmental reporting is of a higher level of importance than social reporting, regardless of the individual circumstances of the corporation. In some cases, this will indeed be true, but in others, (companies with significant aboriginal community obligations, for example) social issue reporting will be as important, or more important, than environmental reporting. It is critical that OSC staff provide clear guidance on both environmental and social reporting obligations.

The report also calls for the clarifying guidance to provide direction on the materiality threshold as applied to corporate social performance. Again, we urge you to support this recommendation.

Some corporations are of the view that disclosures are material only if they involve issues that would create litigation damages greater than 10 per cent of corporate assets. The correct view, as expressed by the OSC in Staff Notice 51-716 (environmental matters) is that issuers should consider both quantitative and qualitative factors in determining materiality and that meaningful discussion of material matters is important to achieve fair representation of the issuer's financial condition. Again, we expect this issue to be clarified in the upcoming environmental guidance; it needs to be clarified in a social guidance as well.

The report also calls on the OSC to take the lead in encouraging a dialogue among investors, issuers, industry associations, regulators and other stakeholders regarding social disclosure. We believe this is an excellent recommendation, and we would be pleased to provide the OSC with any assistance we can in helping to organize such a dialogue.

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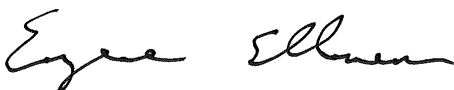
<sup>1</sup> *Reporting on Community Impacts*, published by the Global Reporting Initiative, the University of Hong Kong and CSR Asia. 2008. <http://www.globalreporting.org/CurrentPriorities/CommunityImpacts/>

Further to this, the report calls on the OSC to support a shift in the direction of more standardized reporting, particularly in the creation of sectoral key performance indicators that would establish rigorous and systematic comparisons of companies and social performance issues. This is an increasingly important concern to investment analysts who need to rank companies based on non-financial as well as financial performance. Systematic KPIs are a critical tool in this analysis. Two recent reports have been published since the Hennick/Jantzi Report was released calling for development of similar tools in the US and Europe.<sup>2</sup>

Finally, the report also recommends that the OSC should actively monitor disclosure trends and related internal controls by undertaking periodic reviews with additional guidance as best practices and standardized KPIs evolve. We urge you to support this recommendation as well, since OSC Staff Reviews have proven to be an effective tool in focusing issuers on particular matters with regard to continuous disclosure.

In conclusion, we believe that the issues identified in this report represent practical and implementable reforms that would reduce investor risk, enhance investment returns and create better performance on important corporate social responsibility issues that impact on our society as a whole. This report is worthy of your support.

Regards



Eugene Ellmen  
Executive Director

CC. Laurel Broten MPP

Jo-Anne Matear, Corporate Finance Branch, Ontario Securities Commission

Norm Miller MPP, Finance Critic, PC Party

Peter Tabuns MPP, Finance Critic, NDP

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<sup>2</sup> *KPIs for ESG*, published by the European Federation of Financial Analysts Societies [http://www.dvfa.de/files/die\\_dvfa/kommissionen/non\\_financials/application/pdf/KPIs\\_for\\_ESG\\_Exposure\\_Draft.pdf](http://www.dvfa.de/files/die_dvfa/kommissionen/non_financials/application/pdf/KPIs_for_ESG_Exposure_Draft.pdf). *From Transparency to Performance: industry based sustainability reporting on key issues*, published by the Initiative for Responsible Investment at the Hauser Centre for Non-Profit Organizations, Harvard University [http://hausercenter.org/iri/wp-content/uploads/2010/05/IRI\\_Transparency-to-Performance.pdf](http://hausercenter.org/iri/wp-content/uploads/2010/05/IRI_Transparency-to-Performance.pdf)