



SOCIAL INVESTMENT ORGANIZATION

The Canadian Association for Socially Responsible Investment

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Jo-Anne Matear
Assistant Manager, Corporate Finance

Neeti Varma, CA
Accountant, Corporate Finance

Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto ON M5H 3S8

Dear Ms. Matear and Ms. Varma:

Re: OSC STAFF NOTICE 51-716 ENVIRONMENTAL REPORTING

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 36 financial institutions, asset management firms, fund companies, investment consulting firms and credit unions. As well, our membership includes advisors, consultants, lawyers and non-profits. 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 are responding to your recent Staff Notice 51-716 on environmental reporting.

Let me take this opportunity to commend the OSC on this Staff Notice. We agree with your assessment that, in many cases, issuers fail to adequately report their environmental issues. Your guidance provided through the comments section of the report is very helpful.

The incorporation of environmental issues into investment decision-making has been growing at a fast pace in recent years. In the US, a study released in March by the US Social Investment Forum (*Report on Socially Responsible Investing Trends in the United States*, <http://www.socialinvest.org/news/releases/pressrelease.cfm?id=108>) found that SRI assets – including assets selected on environmental criteria -- increased more than 18 per cent between 2005 and 2007 to \$2.71 trillion. This compares with conventional asset growth in the same period of less than three per cent. In Europe, the European Social Investment Forum estimates that the broad European SRI market is now 1 trillion euros, representing between 10 and 15 per cent of total European funds under management. This represents 36 per cent growth since 2002 (2006 *European SRI Study*, http://www.eurosif.org/publications/sri_studies).

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In Canada, our own study (*The Canadian Socially Responsible Investment Review 2006*, <http://www.socialinvestment.ca/documents/SRIReview.pdf>) found \$503 billion in assets managed under SRI guidelines, a major increase from \$65 billion in 2004. In the Canadian instance, the growth was driven by the adoption of SRI policies and practices by major public pension funds, including the CPP Investment Board, the Caisse de depot et placement du Quebec and the BC Investment Management Corp.

As you can see, investors in Canada and around the world are becoming increasingly interested in environmental, social and governance (ESG) considerations in securities selection and portfolio management.

Yet, the inadequacy of ESG reporting by corporations makes it difficult for investors to gather information on the ESG profile of companies, to compare companies with each other and to assess ESG risks and opportunities among companies.

Your Staff Notice is an important statement by the regulator that environmental issues are material to investors. We endorse your guidance on specific issues, and we also agree with your position that audit committees are required to review issuers' environmental reporting contained in the financial statements and Management's Discussion and Analysis (MD&A). Furthermore, we believe you are correct in your assessment that "the audit committee's oversight of financial reporting related to material environmental matters, where applicable, in CD documents is an important aspect of meeting these responsibilities."

This is an especially important component of your Staff Notice because it clearly mandates audit committees to review environmental disclosures, and the procedures for gathering information on environmental disclosures. We are hopeful that, as issuers come to understand their environmental reporting obligations, environmental policies will be better integrated into financial reporting by issuers. Furthermore, because environmental matters will need to be reviewed by audit committees, environmental issues material to corporate strategy will come under Board overview, a significant development in corporate governance. We believe this will improve management's long-term thinking and help to reduce the myopia so ingrained in the outlook of many of today's corporations.

Recent media coverage of your Staff Notice has raised concerns by some lawyers who argue that the Staff Notice will encourage litigation by plaintiffs, who may be encouraged to take up legal action as a result of your guidance.

Our view is that investors are becoming increasingly aware of the link between environmental issues and shareholder value. As your Notice states, the obligations to disclose environmental issues already exist in continuous disclosure rules. Your Staff Notice simply makes them explicit in the environmental area. We believe that additional information to investors on material issues is a good thing, and may actually help to reduce litigation in the future by providing investors with early signals of environmental risks and opportunities. This will provide investors with appropriate market information that will, ultimately, improve returns and reduce risks.

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While we generally commend your Staff Notice, we would like to bring your attention to the lack of guidance specifically on climate change issues. Climate change issues are of critical importance to the investment community, largely because of the scale of estimated future environmental, social and economic impacts. An illustration of this is the growing investor interest in the Carbon Disclosure Project, which is now supported by 315 investment institutions worldwide, representing \$41 trillion in assets under management (<http://www.cdproject.net/cdp5reports.asp>). The 2007 signatories to this initiative include the following Canadian institutions:

- Acuity Investment Management
- Beutel Goodman and Co.
- BMO Financial Group
- BC Investment Management Corp.
- CAAT Pension Plan
- Caisse de depot et placement du Quebec
- CPP Investment Board
- CI Mutual Funds Signature Funds Group
- CIBC
- Comite syndicale national de retraite Batirente
- Fondation
- Genus Capital Management
- Groupe investissement responsable
- Hospitals of Ontario Pension Plan
- Inhance Investment Management
- Meritas Mutual Funds
- Ontario Municipal Employees Retirement System
- Ontario Teachers Pension Plan
- Pension Plan for Clergy and Lay Workers of the Evangelical Lutheran Church in Canada
- Philips, Hager & North Investment Management
- PSP Investments
- Royal Bank of Canada
- Scotiabank
- TD Asset Management & TD Asset Management US Inc.
- The Cooperators Group
- The Daly Foundation
- The Ethical Funds Company
- The United Church of Canada – General Council
- Vancity Group of Companies
- York University Pension Fund

Given the significant investor interest in climate change as a notable specific area of environmental reporting, we urge you to specifically clarify that existing disclosure requirements under NI 51-102 apply to climate change issues, and provide guidance as necessary.

We commend to you the discussion paper on Climate Change and MD&A disclosure published by the Canadian Institute of Chartered Accountants (*MD&A disclosure about the financial impact of climate change and other environmental issues*, http://www.cica.ca/download.cfm?ci_id=35203&la_id=1&re_id=0). The CICA discussion paper contains very specific guidance for issuers on climate change issues. The CICA is in the process of updating this document. When this update is complete, we urge OSC to consider endorsing this guidance in a new Staff Notice, directed specifically to details of climate change disclosures.

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In conclusion, let me commend you again on the Staff Notice. We believe it is an important step forward by a regulator in recognizing the importance of environmental disclosures, which have traditionally been ignored by issuers. Canada's investors and the general public will benefit from this initiative.

Sincerely,

A handwritten signature in blue ink, appearing to read "E. Ellmen". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

Eugene Ellmen
Executive Director