



## **SIO Policy Alert**

*a periodic bulletin on public policy issues affecting the socially responsible investment industry in Canada*

*September 9, 2009*

Pressure for mandatory corporate disclosure on environmental, social and governance issues is growing around the world. The US Social Investment Forum and the European Sustainable Investment Forum are leading efforts to bring about mandatory ESG transparency by the Securities and Exchange Commission and the European Commission. Investor coalitions are joining in with statements of support. The movement for mandatory ESG disclosure comes out of the widespread view that the investment markets failed to understand the environmental, social and governance risks that contributed to the current financial crisis. Better understanding would have mitigated or curtailed the current crisis.

This global movement comes at a critical time in Canada. In coming weeks and months, the Ontario Securities Commission will be conducting a consultation in response to a private member's resolution in the Ontario legislature calling on the OSC to look into ESG disclosure.

This SIO Policy Alert examines the various proposals for action, and reviews the potential for change in Canada on this critical issue affecting the SRI and mainstream financial industries.

### **Background**

In January 2009, the Social Investment Forum in the US raised the issue of ESG transparency with the transition team for then President-elect Barack Obama, saying that ESG disclosure by corporations is a top priority. In subsequent meetings, the SEC asked SIF to further define the issue and frame what mandatory ESG disclosure should look like.

On April 1, the SIO and five other global SRI forums (SIF, UK SIF, Eurosif, the Asian Sustainable and Responsible Investment Association and the Responsible Investment Association of Australia) issued *Transforming global capital markets: Leadership for economic stimulus and financial reform*. It was the first global statement on public policy by the world's SRI associations. In the statement, the SRI associations called for mandatory corporate disclosure of environmental, social and governance factors.

Later in April, the European Sustainable Investment Forum (Eurosif) issued a paper for a roundtable discussion on sustainability disclosure hosted by the European Parliament. Eurosif was supported in this by the Federation of European Accountants, which is the federation of accountancy associations in Europe.

Meanwhile, members of the Investor Network on Climate Risk (INCR) developed similar proposals to bring to the attention of the SEC. On June 10, 2009, the INCR sent a letter on this issue to the SEC. The letter was supported by 41 signatories, including some of the largest pension and institutional investors in the US. Total assets under management by these signatories is about \$1.4 trillion.

On July 21, 2009, the US SIF, representing the SRI industry in the US and supported by more than 50 financial-industry signatories, issued a letter to the SEC outlining its proposal for standardized sustainability disclosures and guidance on materiality and risk disclosures. This initiative is being supported by a public opinion campaign. On Aug. 25, the Christian Science Monitor published a commentary by SIF CEO Lisa Woll as part of the campaign to educate the public. "The extent to which investors are provided with a clearer picture of all types of risks -- including those categorized as environmental, social and governance factors (ESG) -- is key to efficient markets," she stated in the commentary. "In fact, it can determine if markets run smoothly or falter spectacularly."

The SIF, Eurosif and investor coalitions will continue to press their proposals for mandatory ESG disclosure as the issue of financial industry reform works its way through governments around the world in the wake of the global financial crisis.

### **The issue in Canada**

On April 9, the Ontario legislature gave all-party approval to a private member's motion calling on the OSC to conduct a consultation into best practice on corporate social responsibility and environmental, social and governance reporting standards. The motion was from MPP Laurel Broten (Liberal - Etobicoke-Lakeshore), who is former Ontario environment minister. She's a lawyer by background and has a professional and political interest in this from her time as environment minister. The motion was also supported by Peter Tabuns (NDP Toronto-Danforth). While Ted Chudleigh (PC Halton) spoke against the resolution, the Conservatives supported it, providing all-party support.

The resolution calls on the OSC "to develop and adopt an enhanced standardized reporting framework for both quantitative and qualitative social and environmental information, to ensure corporate disclosures are understandable, comparable and outcome focused." The motion calls on the OSC to report back to the Minister of Finance by January 1, 2010 with recommendations for next steps.

The OSC has extensive experience already on corporate governance and environmental disclosures. In communications with OSC staff subsequent to the resolution, the OSC indicated to the SIO that it intends to consult on corporate governance and environmental disclosures, taking the position that a consultation on comprehensive ESG disclosure is not feasible within the Jan. 1, 2010 timeline. The SIO has written to the OSC, urging OSC staff and Commissioners to reconsider this decision and to approach the issue from the viewpoint of comprehensive ESG disclosure. A number of roundtable meetings and other consultations are scheduled for this fall.

### **The US and European proposals**

The SIF and INCR proposals to the SEC call for comprehensive ESG reporting by companies through mandatory disclosure under the Global Reporting Initiative (GRI). The European proposal is not a comprehensive ESG proposal. Rather, EuroSIF calls for mandated disclosure of ESG data under a principles-based system, using a limited number of standardized Key Performance Indicators (KPIs), some of them being sector specific.

The US proposals are a more detailed version of a proposal originally made by SIO to Canadian federal government policymakers in 2006 meeting under the auspices of the National Roundtables on Corporate Social Responsibility and the Canadian Extractive Sector. In its brief to the Roundtables, the SIO called for amendments to the Canada Business Corporations Act to require publicly traded companies to make ESG disclosures under the GRI.

At present, about 1,000 global companies -- including some of the largest worldwide brand names -- file voluntarily to the GRI. In essence the proposal to mandate ESG reporting under the GRI would cede responsibility for the specifics of ESG disclosure from national securities regulators to the GRI. In its proposal, the SIF calls on the SEC to mandate issuers, after an appropriate implementation period, to adhere to the highest level of the GRI standard, the so-called *G3 Guidelines A-plus* reporting level.

The advantage to regulators, issuers and investors under the GRI disclosure proposal is that the GRI is widely respected, global in nature, governed by a multi-stakeholder framework, and permits systematic ranking of companies on ESG issues by analysts. However, there is debate among both investment analysts and corporations on the appropriateness of specific GRI indicators. As well, it is not clear whether regulators would be prepared to give up some responsibility for ESG disclosure regulation under this system.

In addition, the SIF and INCR proposals also call for SEC guidance on materiality and risk disclosures. The INCR confines this to climate risks specifically, asking the SEC to issue interpretive guidance to companies on the materiality of risks posed by climate change. The SIF goes further, urging the SEC to issue guidance on "any significant developments at a company that might harm public health or the environment, involve ethical lapses or labour or human rights abuses, hurt the companies brand or reputation, result in legal liabilities or otherwise detract from shareholder value."

The European proposal does not endorse the GRI as the mechanism for delivering ESG disclosure, focusing instead on the principle of Key Performance Indicators (KPIs). Eurosif does not provide recommendations on specific KPIs which would form the basis of the ESG disclosure, but does cite previous work on greenhouse gas protocols, CSR indicators and sector-specific ESG indicators. "Eurosif suggests exploring a number of existing initiatives (Global Reporting Initiative, the Carbon Disclosure Project, recent guidelines by the International Corporate Governance Network (ICGN), and the current work of the Climate Disclosure Standards Board, for instance) and use them to amend existing regulation," it states.

SIF and EuroSIF are pledging to continue to work with regulators in their jurisdictions to advance these proposals.

### **The prospects for change in Canada**

SIO believes the issue of mandated ESG disclosure has momentum around the world, largely as a result of the failure of investment markets to properly understand the role of ESG issues in contributing to the current financial crisis. Further, we believe that Canada will move with other countries on this issue.

As previously announced, the SIO believes the OSC consultation is an important step forward in bringing ESG disclosure to Ontario and, possibly, to other provinces through the Canadian Securities Administrators. This is an important public policy priority for the socially responsible investment industry, which views ESG disclosure as a critical means to bring non-financial information into the investment markets. While some corporate issuers may be opposed to this initiative, we believe that mandated ESG disclosure will be embraced by the corporate community generally in order to provide consistent rules on ESG disclosure, and to ensure that Canadian companies are covered by the same rules as those of their global competitors.

## **Next steps**

In coming weeks and months, SIO staff will do the following:

- Participate in the OSC consultation
- Work with the SIO Policy & Advocacy Committee to draft SIO's formal response to the consultation
- Engage SIO members to support mandatory ESG disclosure
- Reach out to leading institutional investors who are not SIO members to support the initiative

I welcome further discussion on this initiative through the SIO listserv, or directly to me by telephone or email.

Regards

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## **For more information:**

Transforming global markets, statement from the social investment forums

<http://www.socialinvestment.ca/documents/Globalstatement.pdf>

Eurosif and FEE join European roundtable discussion

[http://www.eurosif.org/press\\_events/eurosif\\_press\\_releases](http://www.eurosif.org/press_events/eurosif_press_releases)

SIF, 50 investor groups urge SEC to require ESG disclosure

<http://www.socialinvest.org/news/releases/pressrelease.cfm?id=143>