



Morning Open Space Interactive Session A - Shareholders October 20, 2008, 11am

Speakers:

Matthew Kiernan, Chief Executive and Founder, Innovest Strategic Value Advisors
Jo-Anne Matear, Assistant Manager, Corporate Finance Branch, Ontario Securities Commission
Neeti Varma, Senior Accountant, Corporate Finance, Ontario Securities Commission
Brian Minns, Principal, Mercer

Session Speaker: Matthew Kiernan, Chief Executive and Founder, Innovest Strategic Value Advisors

- During a recent conference in London, there was a discussion about a lack of hope for SRI during the market meltdown. Mr. Kiernan disagreed that there's a lack of hope. In fact, he sees this as an prospect to advance the CSR argument and to educate financial analysts, through the following concrete examples of recent events:

Innovest very specifically was able to alert its clients about the sub prime fiasco because they were looking at the financial sector through the ESG lens.

One of Innovest's analysts was writing back in March that Maple Leafs Food's health and safety system was not up to par. Because the food industry is sensitive to health issues, Innovest's analysts suggested that Maple Leafs Food's shareholders should exercise caution.

Innovest looked at Bear Stearns a year before the company collapsed. Their financials might have looked great at the time, but Innovest's analyst said that their ESG was bad and suggested that from an ESG lens, investors should avoid investing in Bear Stearns.

- **Incorporating ESG:** While corporate executives and corporate boards moved quickly to incorporate ESG into their operations, Canadian institutional investors are massive lagers compared to international peers in terms of bringing in ESG factors.
- **Disclosure:** Canadian Institute of Chartered Accountant (CICA) is among disclosure leaders internationally. Disclosure is nice, but one should be mindful of its limitations. Disclosure is necessary but not sufficient. It is a means, not an end. There are many companies that disclose about CSR but are not really doing anything.

A study of 2,000 companies around the world using the GRI framework found that on average approximately 30% of GRI Guideline requirements were met, and that information provided was not presented in an investor friendly way.

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Investors said they didn't understand what carbon emissions were and what it meant to them. The good news about CDP is that there is a large asset base pushing companies to report on their carbon. Many institutional investors signed up on climate change treaties but have not invested any differently than prior to signing up.

Break-out Discussion [Matthew Kiernan]

How did the investor people in the UK conference respond when you said that the current situation represents an opportunity?

That raises a very critical distinction between value-based, call it neoclassical SRI, and risk-based SRI. These two approaches are very different, but they get confused and conflated constantly. Value-based SRI is all about expressing personal values. This is what most chief investment officers usually assume when they hear the term SRI. They think SRI means negative screening or judging, for example, that weapon manufacturers are evil. If your value is to invest your money in companies with left-handed CEOs, that's your choice. But if you're investing other people's money, pension fund managers should not have the authority to say that 5% investment in weapon manufacturers is unacceptable but 4.9% investment is acceptable. Our firm (Innovest) looks at SRI in the form of what it says about risk profiles of the companies.

I'm concerned about those people who make thoughtless choices in the majority.

It goes to the quality of the research that companies use. Investors have problems if research is superficial, inadequate, out of date, or based on fault methodology. If it's good research, then advisors' suggestions are crucial to listen to.

What's the possibility of having sustainability as new financial restriction or is it just a dream?

I don't think it's just a dream. I was part of the expert committee that helped draft the UN Principles for Responsible Investment (UNPRI). A lot of people signed up and do nothing. Companies that signed up for the UN Global Compact now have to report what they did in the last year. I think you'll see that happen with UNPRI over time. I think it's got legs and I think it will begin to change.

A couple of years ago there was a climate change seminar. Good news is that 250 people were gathered in a room to talk about it; that alone is progress. Once the issue is out there, the stakeholder accountability clock starts ticking, and hopefully sooner rather than later.

How would the report that Canadian institutional investors don't have CSR culture affect you?

There are leaders and lagers. There are important areas for risk identification of which pension fund trustees need to be aware. Climate change is one of the most obvious examples. If pension funds are required to disclose the extent to which they take ESG into account in their decision making, I think that would capture their attention. Education of investors is another important point. The International Corporate Governance Network (ICGN.org) representing trillions of dollars is about to release a paper on non-financial business reporting. If you want to get serious about this kind of issue, you should be literate about it. If you want to invest smart, you should be smart about what information you look for.

How much of a fight has it been? To what extent would your job be easier if investors keep throwing you questions that are consistent with what we've been discussing here?

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It would be a lot easier if there's more external pressure from stakeholders. There's a lot going on about educating people to understand this – triple bottom line, cost reduction, and so on.

Jo-Anne Matear Assistant Manager, Corporate Finance Branch and Neeti Varma, Senior Accountant, Corporate Finance, Ontario Securities Commission (OSC)

Ms. Matear and Ms. Varma provided the disclaimer that their presentation represents their own views and it does not necessarily represent the views of the OSC or other commission staff.

Jo-Anne Matear

Ms. Matear discussed what securities regulators are doing with respect to environmental reporting. OSC Staff Notice 51-716 *Environmental Reporting* (the Notice) was issued on February 27, 2008. The OSC decided to do this review because the environment has become an increasingly visible and relevant issue for investors, and investors appear to be increasingly taking environmental matters into account when making investment decisions.

Neeti Varma, OSC

Ms. Varma added that OSC staff decided to address compliance with existing disclosure requirements for environmental matters. They expect disclosure of material environmental matters so that investors are provided with all relevant material information that could affect their investment decisions. The OSC's review did not focus on environmental behaviour, but on environmental reporting. A number of issuers welcomed the additional guidance on disclosure of environmental reporting matters.

Break-out Discussion [OSC Staff]

- The Notice is intended as an educational tool for issuers. The Notice sets out guidance that issuers should consider when preparing their continuous disclosure filings required to be filed under National Instrument 51-102 *Continuous Disclosure Obligations*.
- Overall, the OSC staff found that there is inadequate compliance with existing environmental disclosure requirements. The disclosure is often “boilerplate” and in their view, does not provide meaningful information to investors for making investment decisions.

Was the OSC a leader in this kind of initiative, or were they following the trend of other counterparts in Canada and world wide?

- In the U.S, a coalition of investors petitioned the SEC to clarify that existing law requires disclosure of material climate risks. To our knowledge, the SEC has not yet formally responded.
- We are not aware of similar guidance regarding environmental reporting being issued by other securities regulatory authorities.
- There are voluntary reporting initiatives regarding corporate sustainability reporting that provide some guidance on environmental matters. For example the Global Reporting Initiative has published disclosure guidelines.

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Does the Notice cover climate change specifically?

The Notice does not discuss climate change specifically; however, the Notice addresses disclosure of environmental liabilities and risks. To the extent that climate change represents a material liability or risk, issuers are required to include a discussion of these matters in their continuous disclosure filings.

From the time it became evident that this initiative was needed, how much time passed between realizing the initiative was needed and taking action; was the OSC already poised to take action or did they need to expand their resources and team to implement?

There was already a committee dedicated to monitoring issues and ongoing developments relating to environmental reporting.