Robert Day
Senior Specialist Business Planning
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

May 23, 2017

Dear Mr Day,

Input on the Ontario Securities Commission (OSC) 2017-2018 Draft Statement of Priorities

About the PRI

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI represents 1700 signatories globally, 95 of which are Canadian.

Responsible investment is an approach to investment that explicitly acknowledges the financial relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole.

In January 2017, PRI published our Canada Roadmap with UNEP Finance Initiative and The Generation Foundation. It followed interviews with over 30 stakeholders at different points in the Canadian capital markets and informs our response.

Summary of Response

The PRI recommends the OSC consider the below:

- Introducing mandatory "say on pay" votes for Ontario public companies, consistent with international capital markets.
- Clarifying ESG disclosure requirements for companies, including common performance metrics – in particular, by industry, portfolio and across time series – so that data is easily comparable.
- Working with IOSCO to harmonize ESG reporting standards globally.
- Enhancing gender disclosure requirements.

Where relevant, we also encourage the OSC to consider the integration of ESG factors throughout its programme. For example:

- ESG integration in guidance offered by financial advisors to retail investors.
- Training on ESG issues for retail investors and trustees.

COMMENTS AND RECOMMENDATIONS

Adoption of mandatory "say on pay" votes at Canadian public companies.

We recommend the OSC require an annual shareholder advisory vote on executive compensation. We support SHARE's request for a consultation on the new rule to be included in the OSC's final 2017-2018 Statement of Priorities.[1]

Mandatory "say on pay" votes are a common feature of mature markets, such as the US[2] and the UK[3], but are not obligatory in Canadian capital markets. For investors, "say on pay" votes are an increasingly important tool for engaging with investee companies as they provide a structured and efficient method for engagement on an often controversial issue. It is also critical to investors that executive compensation is adequately aligned to a company's business plan and strategic objectives. The structure of executive compensation packages can also help embed long-term and sustainability approaches in management practice.

"Say on pay" raises the minimum level of engagement to be expected by investee companies with their shareholders. The preparation for such votes also seems to have improved the quality of disclosure of corporate strategy and long-term plans[4]. This is part of rising trends of shareholder engagement across a range of governance issues, such as board composition and director tenure, in addition to engagement on environmental and social issues.

Our "fiduciary duty" roadmap recommends all Canadian securities regulators to act on this issue, so we encourage OSC to take on a leadership role in this area, and also encourage CSA colleagues to follow suit.

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[1] SHARE's consultation response: http://www.osc.gov.on.ca/documents/en/Securities-Category1-Comments/com_20170508_11-777_chapmanp.pdf

[2] SEC adopts say on pay: https://www.sec.gov/news/press/2011/2011-25.htm

[3] Say on Pay around the World: http://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=6133&context=law_lawreview

[4] Boardroom Resources: http://www.boardroomresources.com/how-say-on-pay-has-affected-shareholder-engagement/

Expand reporting framework and guidance on the reporting of material ESG factors

We are pleased to see that ESG risks, including climate change, are considered under systemic risk and that the OSC is open to adopting regulation in response to the (FSB) Task Force on Climate-related Financial Disclosures (TCFD). We would welcome such a response, and also encourage the OSC to prioritize enhancing reporting frameworks for ESG factors more broadly. In doing so, we believe the OSC will be addressing its priorities to deliver responsive regulation, promote financial stability through effective oversight, and reduce the potential risk of global systemic events.

Recent developments in both Canada and internationally provide an opportunity to revisit corporate reporting in Canada. Investors and corporations seek standardized reporting of material ESG factors to create more consistent reporting practices. This would lower the cost of production and analysis of such information and increase its usefulness to investors.

Since the release of the CSA Staff Notice 51-333, investor opinion about reporting enhanced financial information has strengthened. For example, CPA Canada has begun to review the effectiveness of management discussion and analysis disclosures that mention climate risks[5]. Additional disclosures have been mandated for oil and gas[6] and mineral[7] projects for over a decade, both of which have been subject to recent updates and amendments. Several studies have also indicated that ESG issues are routinely considered by Canadian investors although frustrations exist about the quality of the information provided to them[8]. The recently published *OECD Guidelines for Responsible Business Conduct for Institutional Investors* also set the expectation for investors to consider responsible business conduct in the investment process and engage with investee companies to improve performance in relevant areas.[9]

In the US, the SEC launched a full review of its disclosure framework, including in response to its climate change guidance[10]. In the UK, requirements for enhanced financial disclosures by UK

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[5] PIAC Corporate governance principles: http://www.piacweb.org/files/PIAC-Corporate-Governance-Principles-and-Guidelines-14-09-29.pdf

[6] Oil and gas disclosures: http://www.osc.gov.on.ca/en/13338.htm

[7] Mineral project disclosures: http://www.osc.gov.on.ca/en/15019.htm

[8] 2016 Canadian Investor Survey: New insights into what investors want from disclosure (RR Donnelly & simplelogic): http://www.simple-logic.com/wp-content/uploads/2016/06/2016-Canadianinvestor-study.June2-2016.pdf

[9] SHARE's consultation response: http://www.osc.gov.on.ca/documents/en/Securities-Category1-Comments/com_20170508_11-777_chapmanp.pdf

[10] SEC Business and Financial Disclosure Required by Regulation S-K Concept Release: https://www.sec.gov/rules/concept.shtml

companies have been expanded to include more ESG information in annual reports and accounts.

We recommend the following principles help shape the OSC's requirements for corporate disclosures:

- ESG factors should be disclosed with the annual report and other relevant documents, showing clear links between ESG factors and the company's business model and risk factors.
- Over time, ESG factors should be subject to assurance, as with financial data. We suggest a phased introduction.
- Corporations should report using common performance metrics– in particular, by industry, portfolio and across time series – so that data is easily comparable.
- Corporations should disclose company-specific ESG risks and opportunities.

In doing so, the OSC would help enable asset owners subject to the Ontario Pension Benefits Act, Regulation 909 to incorporate ESG issues into investment allocation and manager selection by improving access to data on ESG risks and opportunities. Furthermore, the OSC would build on the Financial Services Commission of Ontario's leadership and momentum in advancing the responsible investment policy framework in Canada.

We urge the OSC to start a dialogue on mandatory reporting of material ESG issues within IOSCO. One of the challenges investors, companies and stock exchanges face, is the proliferation of reporting standards and codes. While such standards have been crucial in facilitating the ESG disclosures investors currently analyze, further clarity is needed on the market expectation for ESG reporting using these various standards. We believe IOSCO has a clear role in assessing these reporting standards, as market and investor initiatives on this topic proliferate. In 2014, a group of PRI signatories representing over $12 trillion CAD assets under management wrote to the Secretary General of IOSCO in support of IOSCO taking on this role. Given the relevance of ESG factors to emerging risks, we believe OSC is well placed to take on this role as the staff chair of the IOSCO committee on Emerging Risk.

Disclosure of gender metrics

We support the OSC's intention to review the disclosures resulting from recent requirements for women on boards and in leadership as part of its broader effort to deliver responsive regulation. To enhance corporate performance on gender and diversity, as part of this review, we encourage the OSC to consider requiring further corporate reporting on gender and diversity.

In line with International Women's Day, the UN Sustainable Stock Exchanges, launched a practical guide on *How Stock Exchanges Can Advance Gender Equality*, which has been shared with TSX. It provides a series of recommendations for exchanges, including requiring listed companies to report a number of diversity metrics such as percentage of women across all levels of the organisation, pay gap and turnover rates by gender, action taken to enforce gender requirements across the supply chain, and expenditure on training by gender. Studies by Morgan Stanley, McKinsey, EY, the International Monetary Fund and others repeatedly find that addressing gender equality will unlock trillions of dollars of currently unrealised economic value.[11]

We recommend that the OSC include in its 2017-2018 priorities an analysis of which additional gender metrics would be appropriate and impactful to regulate in the Canadian market in an effort to address inequality. We also support SHARE's suggestion to broaden the scope of the board diversity requirements to include other diversity criteria, such as Aboriginal heritage as well as to require disclosure of board diversity targets.[12]

If you would like to receive more information about our work, we can discuss at your convenience.

Yours sincerely,

Fiona Reynolds
Managing Director
Principles for Responsible Investment

[11] SSE's How Stock Exchanges Can Advance Gender Equality: https://www.unpri.org/download_report/28929

[12] SHARE's consultation response: http://www.osc.gov.on.ca/documents/en/Securities-Category1-Comments/com_20170508_11-777_chapmanp.pdf