May 28, 2018

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

INPUT ON THE ONTARIO SECURITIES COMMISSION (OSC) 2018-2019 DRAFT STATEMENT OF PRIORITIES

Dear Mr. Day:

We are pleased to submit a comment letter to the Ontario Securities Commission (OSC) regarding the Statement of Priorities for 2018-2019. We also want to express our support for SHARE's response.[1]

Since our submission to the 2017-2018 Draft Statement of Priorities, six additional Ontario investment managers have joined the PRI. We are encouraged by recent actions from the Canadian government, such as the establishment of the Expert Panel on Sustainable Finance and the Canadian Securities Administrators' (CSA) announcement that it will publish new guidance for investors on climate-related disclosure requirements, which will support responsible investment in the region.

ABOUT THE PRI

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI represents more than 1900 signatories globally that collectively have $81 trillion in assets under management. More than 100 of our signatories are based in Canada.

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, the PRI published our Canada Roadmap with UNEP Finance Initiative and The Generation Foundation. The report put forth recommendations to better support responsible investment in Canada and is based on interviews with over 30 stakeholders. This work has helped inform our response to the OSC Statement of Priorities.

SUMMARY OF RESPONSE

The PRI recommends that the OSC consider the following:

- Introducing mandatory "say on pay" votes for Ontario public companies, consistent with international capital markets.

[1] http://www.osc.gov.on.ca/documents/en/Securities-Category1-Comments/com_20180523_11-780_share.pdf

- 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 would like to echo our comments from our response to the OSC's 2017-2018 priorities on the adoption of mandatory "say on pay" votes at Canadian public companies.[2] We strongly recommend that the OSC require an annual shareholder advisory vote on executive compensation.

Mandatory "say on pay" votes are a common feature of mature markets, such as the US[3] and the UK[4] , but are not obligatory in Canadian capital markets. In fact, Canada is the only G7 member that does not have such a requirement. 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 of critical importance 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 .[5] 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. We hope you will lead by example and prioritize mandatory "say on pay" for issuers as you finalize the priorities.

EXPAND REPORTING FRAMEWORK AND GUIDANCE ON THE REPORTING OF MATERIAL ESG FACTORS

Last year, the PRI and Baker McKenzie published recommendations on the Task Force on Climate-Related Financial Disclosures (TCFD) for Canada as part of a review of local relevance. Following a review of the market, we proposed three practical actions for better disclosure in Canada:

- Government: The Government of Canada, and federal and provincial regulators (including the CSA) should endorse the TCFD's recommendations.

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[2] https://www.unpri.org/Uploads/w/h/o/PRI-OSC-Statement-of-Priorities-Consultation-2017.pdf
[3] SEC adopts say on pay: https://www.sec.gov/news/press/2011/2011-25.htm
[4] Say on Pay around the World: http://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=6133&context=law_lawreview
[5] Boardroom Resources: http://www.boardroomresources.com/how-say-on-pay-has-affected-shareholder-engagement/

- Stock exchanges: The Toronto Stock Exchange and TSX Venture Exchange should consider referencing the TCFD's recommendations in reporting guidance and in addition, consider the Sustainable Stock Exchange Initiatives.
- Companies and investors should adopt the TCFD's recommendations as useful voluntary framework for climate-related financial disclosures. Collaboration on implementation changes: sharing of good practices could assist in overcoming initial challenges, with convergence in reporting frameworks needed in the longer-term.

With that in mind, the PRI very much welcomed the recent CSA announcement that it will publish new guidance for investors on climate-related risks.[6] Standardized disclosure requirements will provide investors with more reliable and necessary information to enable better risk management. Consistent reporting practices also lowers the cost of production and analysis of such information and increases its usefulness to investors. This year, for the first time, the PRI included voluntary climate-related indicators in its Reporting Framework aligned with the TCFD recommendations.

In addition to climate-related risks, we recommend you consider disclosures for broader ESG issues in your Statement of Priorities. The PRI finds increased demand for ESG information[7] and has published a series of case studies looking at ESG integration practices for listed equity investing[8]. Additionally, Bloomberg reports[9] that the number of customers using its ESG data increased eightfold between 2009 and 2015. Credit ratings agencies are also increasingly incorporating ESG information into ratings[10].

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.

Further, we appreciate your statement that it is important for OSC to participate in international regulatory forums, including 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 analyse, further clarity is needed on the market expectation for ESG reporting using these various standards.

We believe that IOSCO has a clear role in assessing these reporting standards, as market and investor initiatives on this topic proliferate. Led by the PRI, a group of 75 institutional investors and

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[6] Canadian Securities Regulators Report on Climate Change-Related Disclosure Project: https://www.securities-administrators.ca/aboutcsa.aspx?id=1677

[7] PRI: How Asset Owners Can Drive Responsible Investment

[8] PRI: A practical guide to ESG integration for equity investing

[9] See Bloomberg data

[10] PRI: ESG in Credit Ratings Initiative

stock exchanges from 24 countries recently wrote to the Secretary General of IOSCO. The letter stated support for IOSCO's review of ESG issues in Committee 1 and the Growth and Emerging Markets Committee. It also requested that the body endorse the TCFD recommendations and support a globally harmonized approach for investor-friendly ESG reporting.

DISCLOSURE OF GENDER METRICS

We support the OSC's intention to review the disclosures resulting from recent requirements for women on boards and in executive officer positions 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.

As we did last year, we recommend that the OSC include in its 2018-2019 priorities an analysis of which additional gender metrics would be appropriate and impactful to regulate in the Canadian market to address inequality.

Thank you for the opportunity to comment on the OSC's priorities. We would be happy to discuss our response with you. For additional information, please contact Jenny Waits at jenny.waits@unpri.org.

Yours sincerely,

Fiona Reynolds
CEO
Principles for Responsible Investment