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ONTARIO SECURITIES COMMISSION

ROUNDTABLE ON
ESG-RELATED REGULATORY ISSUES IN ASSET MANAGEMENT

HELD ON: Monday, September 27, 2021

HELD: Via Videoconference

MODERATOR:

Wendy Berman Vice-Chair, Ontario Securities Commission

OPENING REMARKS:

Wendy Berman, OSC

Hugo Lacroix, Autorité des marchés financiers

1 PANELLISTS:

2

3 Melanie Adams Vice-President and Head, Corporate
4 Governance and Responsible
5 Investment, RBC Global Asset
6 Management

7

8 Mari Brossard Senior Manager, Sustainable
9 Investment, National Bank Investments

10

11 Jean-Paul Bureaud Executive Director, FAIR Canada

12

13 Michelle Edkins Managing Director, BlackRock
14 Investment Stewardship, BlackRock

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16 Ian Howard Executive Director Commercial,
17 Corporation Solutions, Morningstar
18 Sustainalytics

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20 David Rutherford Vice-President, ESG Services, NEI
21 Investments

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23 EVENT PRODUCER:

24

25 Clara Robinson

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1 --- Upon commencing at 1:00 p.m.

2 CSA ROUNDTABLE ON ESG-RELATED REGULATORY ISSUES IN
3 ASSET MANAGEMENT:

4 MS. ROBINSON: Hello, everyone, and welcome to the CSA
5 Roundtable on ESG-Related Regulatory Issues in Asset Management.

6 Before we get started, I would like to go over a few
7 items so you know how to participate in today's event. You have
8 joined the presentation listening using your computer speaker
9 system by default. If you would prefer to join over the
10 telephone, just select "phone call" in the audio pane and the
11 dial-in information will be displayed.

12 All attendees are in listen-only mode.

13 You will have the opportunity to submit text questions
14 to today's panellists by typing your questions into the questions
15 pane of the control panel. You may send in your questions at
16 any time during the roundtable and we will collect these and
17 address as many as possible during the Q and A session at the
18 end of today's discussion.

19 Today's virtual roundtable is being recorded. All
20 registered participants will be e-mailed a link to the recording
21 within a few days.

22 And with that, I would now like to introduce Wendy
23 Berman, Vice-Chair of the Ontario Securities Commission, who
24 will be the moderator for today's roundtable discussion. Go
25 ahead, Wendy.

26 OPENING REMARKS:

27 MS. BERMAN: Thank you. And thank you all for joining
28 us today.

1 Today's event is the first of many conversations we
2 will be having in the coming months to foster dialogue on
3 important issues affecting our capital markets, including
4 disclosures on sustainable finance and diversity. We look
5 forward to today's discussion and to continuing the dialogue,
6 and we welcome all of you to the CSA Roundtable on ESG-Related
7 Regulatory Issues in Asset Management.

8 I'd like to begin first with a land acknowledgement.
9 This land acknowledgement has been developed by staff of the
10 Ontario Securities Commission in close consultation with local
11 Indigenous groups. It is also fitting for today's discussion,
12 which touches on environmental and social stewardship issues and
13 given that this week, we mark a week of events across this
14 country in recognition of the National Day for Truth and
15 Reconciliation this Thursday, September 30th.

16 Indigenous peoples of Canada have been stewards of
17 this land. It is important to understand the longstanding
18 history of the lands and waters many of us now call home. Much
19 like the Indigenous Wampum Belts, where particular bead patterns
20 symbolize alliances, kinships and land arrangements between
21 different peoples, we, too, respectfully recognize the
22 traditional territory of Indigenous peoples.

23 We acknowledge the Two Row Wampum Belt and we
24 recognize that the beaded pattern signifies that neither group
25 will force its traditions or customs on each other, but will
26 co-exist peacefully as each group follows its own path.

27 With that, I want to acknowledge that Toronto and the
28 Ontario Securities Commission are in the Dish With One Spoon

1 Territory, a treaty between several nations, including the
2 Mississaugas of the Credit, the Anishinabek, the Chippewa, the
3 Haudenosaunee and the Wendat peoples.

4 The dish represents the land that is to be shared
5 peacefully and the spoon represents the individuals living on and
6 using the resources of the land in a spirit of mutual
7 co-operation and in a manner that does not harm the land.

8 I also acknowledge that Toronto is covered by Treaty
9 13, signed with the Mississaugas of the Credit, and by the
10 Williams Treaty, signed with multiple Mississauga and Chippewa
11 bands.

12 Today, as we join each on other on this land, we
13 continue to seek meaningful ways to protect the earth and future
14 benefactors for the peace, reconciliation, and healthy
15 environments being heralded by this land acknowledgement. Thank
16 you.

17 At this time, I would like to welcome my colleagues
18 from the CSA who are in attendance today: John Hinze, Director
19 of Corporate Finance at the British Columbia Securities
20 Commission, Chad Conrad, Senior Legal Counsel at the Alberta
21 Securities Commission, and Hugo Lacroix, Superintendent of
22 Securities Markets at the Autorité des marchés financiers. I
23 would also like to welcome the Chair and CEO of the Ontario
24 Securities Commission, Grant Vingoe. Finally, I will also
25 welcome our roundtable of expert panellists, who I will introduce
26 a bit later.

27 Today, we will be discussing a number of regulatory
28 issues arising from the increased interest in ESG investing,

1 including the benefits and challenges associated with
2 ESG-related disclosure, as well as marketing and other issues
3 from the perspective of asset managers, ESG rating providers,
4 and investors.

5 It is also a really important and timely discussion,
6 given the paradigm shift we are all witnessing in the allocation
7 of capital to ESG-related investments in Canada as well as
8 globally. In Canada, the value of sustainable funds at the end
9 of the first quarter this year was 18 billion, representing a
10 160 percent increase from 2020, with a more than 50 percent
11 increase in the number of sustainable funds. Inflows globally
12 into sustainable funds increased by 88 percent in 2020 to \$152
13 billion U.S., and as of the second quarter of 2021, had
14 increased to 185 billion. This type of shift, while clearly
15 exciting, has its own growing pains, as well as magnifying some
16 crucial challenges, many of which will be discussed later by our
17 panel.

18 From the regulatory viewpoint, this race to green,
19 both creating new ESG funds and incorporating ESG considerations
20 into existing funds, creates increased potential for
21 greenwashing, which is when a fund's disclosure or marketing
22 inadvertently or intentionally misleads investors about the
23 ESG-related aspects of the fund. All of this causes investor
24 confusion and can negatively impact investor confidence in ESG
25 funds and dilute the genuine efforts by responsible industry
26 players.

27 The CSA recognizes the urgency to address these
28 challenges and the critical role we play in promoting

1 disclosures that yield decision-useful information for investors
2 and foster capital formation in Canada's unique market. This
3 roundtable is part of our broader work to enhance ESG-related
4 disclosure in the Canadian market.

5 Internationally, Canadian securities regulators have
6 also taken leadership roles on various ESG initiatives. Both
7 the OSC and the AMF are members of the Sustainable Finance Task
8 Force created by the International Organization of Securities
9 Commissions, IOSCO, in 2020. The OSC co-leads the task force
10 work stream focused on improving sustainability-related
11 practices, and disclosure in the asset management industry.
12 This work stream published a consultation report on June 30th,
13 this year, with a final report anticipated in early November.

14 The consultation report contains five proposed
15 recommendations for securities regulators and policymakers,
16 covering asset managers' practices, disclosure, product level
17 disclosure, supervision, enforcement, ESG terminology, and
18 investor education.

19 In addition, the OSC is a member of another IOSCO task
20 force, a work stream that is focused on sustainability-related
21 disclosures for corporate issuers, and the AMF is a member of
22 the third IOSCO task force work stream that is focused on ESG
23 ratings and data providers.

24 And now I'd like to turn it to my colleague, Hugo
25 Lacroix, who will provide an overview of domestic developments
26 in this area. Thank you.

27 MR. LACROIX: Thank you, Wendy. It's a pleasure to
28 work closely with you on ESG matters.

1 Bienvenue... (French not transcribed)

2 As Wendy indicated, I will focus my remarks on recent
3 and ongoing CSA initiatives. CSA staff have been busy looking
4 more closely at the very active ESG Canadian fund segment. We
5 are certainly monitoring this trend with enthusiasm, but as a
6 regulator, we need to stay on our toes. Greenwashing would
7 certainly be detrimental to the entire ecosystem.

8 Not surprisingly, in the past years, we have seen the
9 launch of several new funds picking up on retail investors'
10 growing interest for ESG products. We have also seen a number
11 of existing funds modifying their prospectus to add reference to
12 ESG factors.

13 I don't want to be too technical, but I will highlight
14 that some of these funds have tried to add reference to ESG in
15 their name without referencing ESG in their investment
16 objectives at all. They have quickly realized that this
17 triggered regulator scrutiny.

18 In the past months, CSA staff have conducted reviews
19 of regulatory disclosure documents and sales communications whose
20 investment objectives -- sorry, for funds whose investment
21 objectives referred to ESG factors, funds that indicated using
22 ESG strategies, or funds that market themselves as ESG funds.

23 The purpose of this review was to assess the quality
24 of the disclosure, including whether self-communications are
25 misleading. The reviews were also aimed at evaluating how well
26 our current disclosure requirements address ESG funds and
27 ESG-related disclosure.

28 In general, staff found that although our current

1 disclosure framework does not have ESG-specific requirements, it
2 is broad enough in its scope to address effectively ESG funds
3 and their disclosure. However, our reviews indicated that ESG
4 fund disclosure would benefit from greater detail or clarity,
5 particularly with regards to investment strategies and proxy
6 voting disclosure.

7 Let me tell you today that CSA staff are well advanced
8 in the drafting of a Staff Notice on ESG-related investment fund
9 disclosure. This guidance will clarify our current disclosure
10 requirements applied to ESG funds and will cover a number of
11 areas including fund names, investment objectives and
12 strategies, proxy voting and shareholder engagement, risk
13 disclosure, sales communications and ESG-related changes to
14 existing funds. The guidance will aim to enhance the
15 ESG-related aspect of disclosure documents and ensure that
16 sales communications are not untrue, misleading or inconsistent.

17 As Wendy mentioned, this is a very exciting time for
18 ESG investing. We strongly believe that improving ESG-related
19 disclosure and sales communications can help prevent greenwashing
20 and enable an investor to make a more informed investment
21 decision.

22 At this point, I will hand it back to Wendy to
23 introduce our panellists for today. Thank you.

24 MS. BERMAN: Thank you, Hugo.

25 INTRODUCTION TO PANELLISTS:

26 MS. BERMAN: So I'll turn now to introducing our
27 panellists.

28 First, I'll start with Melanie Adams, who is the

1 Vice-President and Head of Corporate Governance and Responsible
2 Investment for RBC Global Asset Management. Welcome, Melanie.

3 Next, I will introduce Mari Brossard, who is the
4 Senior Manager of Sustainable Investment at National Bank
5 Investments. Welcome, Mari.

6 And next we have Jean-Paul Bureaud, who is the
7 Executive Director of FAIR Canada. Welcome, Jean-Paul.

8 And next we have Michelle Edkins, who is the Managing
9 Director of BlackRock Investment Stewardship. There we go.
10 Hello, Michelle. Welcome.

11 And then Ian Howard, who is the Executive Director
12 Commercial, Corporate Solutions, at Morningstar Sustainalytics.
13 So I think, Ian, we have you. We just don't have your camera
14 on. Oh, there. We have you and now we can see you. Welcome,
15 Ian.

16 And finally, we have finally, least, but not last, we
17 have David Rutherford, who is Vice-President of ESG Services at
18 NEI Investments, and we'll just wait, David, while you turn your
19 camera on.

20 Apologies, everyone. There's always going to be a
21 technical glitch in virtual attendances. I'm going to try very
22 hard not to speak while my mic is on mute. That's my goal for
23 today. My goal for -- I was going to have a goal in 2021, which
24 was nobody was ever going to say to me, "You're on mute," but
25 I've failed that miserably, so now that's my goal for 2022.

26 Maybe what we'll do while we're waiting for David to
27 join us is I might just turn to our first topic. Oh, David
28 joined. There we go, David. We can see you. Welcome.

1 INVESTOR RISKS AND NEEDS:

2 MS. BERMAN: Good. All right. So I'm just going to
3 get right into it because we've got a lot of meaty topics to
4 cover in a very short period of time.

5 So our first topic is probably the biggest one, the
6 most challenging one, which is what are investors' risks and
7 needs in this marketplace. So, you know, as we've talked about
8 the growing interest in and the increased number of ESG funds in
9 the Canadian market and globally, really appreciate hearing your
10 views on what you see as the key risks to investors, given this
11 growth, and the types of information that investors need in
12 order to make fully informed decisions.

13 I thought maybe I'd start off with you, Jean-Paul, if
14 you could provide us your views.

15 MR. BUREAUD: Thank you, Wendy, and thank you, Hugo.
16 Thank you for inviting FAIR Canada to this roundtable. It's
17 certainly a very timely roundtable. I think ESG investing has
18 really taken off in recent years and I think it's a great
19 initiative to bring together different perspectives and have
20 this kind of dialogue on these issues. Certainly, I think
21 there's a lot at stake, both for the industry and, more
22 importantly, for investors, so I applaud the efforts, and as
23 well as the efforts by your staff who worked very hard to pull
24 this all together.

25 So, from FAIR Canada's perspective, I think the risks
26 to investors of being greenwashed are very, very high. I think
27 given the speed at which ESG-related investing has grown in
28 recent years, I think it's a very ripe environment for potential

1 greenwashing risks, and I have no doubt it's going on. I
2 believe it's very widespread, and I think it's happening on a
3 daily basis.

4 I think the regulatory sweep that Hugo mentioned is
5 kind of -- will help to kind of reveal the extent of the issues
6 and the challenges. I do add that this is not an issue that's
7 limited to North America. There's a lot of concerns in Europe
8 as well, and the European Union has moved forward with
9 introducing ESG-specific disclosure requirements to try to
10 address some of these concerns. Other countries around the
11 world are also considering these types of steps.

12 There's also live cases, as we speak. I think it was
13 just a few weeks ago that the SEC and the U.S. Attorney's Office
14 announced allegations against Deutsche Bank's asset management
15 arm, raised very serious allegations involving greenwashing. So
16 yes, I do think it's a significant risk for investors.

17 Wendy, you mentioned that some of this might be
18 occurring deliberately, and I do believe that is the case, where
19 people are repositioning their funds as ESG funds or sustainable
20 funds, but really don't have much intention of following through
21 and developing the know-how or acquiring the data to actually
22 measure ESG-related concerns. I do believe, though, that the
23 deliberate type of greenwashing is a very small percentage of
24 the industry, at least I'd like to think so.

25 I think the issue that's happening today is the fact
26 that there's a, and there are, a lot of well-intentioned people
27 in the industry who do truly believe and subscribe to ESG values
28 and are trying to do the right thing in terms of delivering

1 credible products to investors, but like most of us, when it
2 comes to ESG, we are all, essentially, learning on the fly.

3 So from my perspective, the real problem is that the
4 investor demand is outstripping the industry's knowledge and the
5 regulators' responses at this point. So I do think time is of
6 the essence in terms of regulatory and industry response to
7 these kinds of issues, and so I do applaud having this kind of
8 roundtable to really get that discussion underway.

9 MS. BERMAN: I agree with you, Jean-Paul. I think
10 it's really important that we've started the dialogue, and
11 apologies for interrupting. I just thought I'd get a
12 perspective of some of our other panellists.

13 So, Melanie, if I could turn to you and just get
14 your -- if you have additional comments to add on to what
15 Jean-Paul has advised us in terms of what he sees as the
16 investor -- the key investor risks.

17 MS. ADAMS: Yes, absolutely. Thanks very much, Wendy.
18 Thanks for the opportunity to be here on behalf of RBC GAM.
19 Really important subject to cover.

20 Jean-Paul covered a lot of the greenwashing risks, so
21 I'll probably leave that there, but I think that there's another
22 risk that is also incredibly important and probably a little bit
23 more common with what we're seeing with investors, is that
24 there's so many ways to think about ESG and responsible
25 investment and ESG integration that it's really challenging for
26 investors to understand what methods are being employed in a
27 particular investment product.

28 And I'd like to just break it down a little bit. If I

1 could give, you know, if we could talk about the two main ways
2 to think about ESG investing, or responsible investment, one is
3 investors who are looking to invest in line with a certain set
4 of values or beliefs, and on the other side, second way that
5 this is being done is investors who are looking at it from a
6 risk/return perspective, and so they're looking at it because
7 they want to ensure that risks are being managed in the
8 portfolio or they think that there is some benefit to investing
9 in a sustainable way that might impact, you know, the long-term
10 returns.

11 This is really important for investors to know, you
12 know, what they're looking for in this. If you look at an
13 investor -- I'm going to give an example here: Sin stocks. So
14 let's say the investor doesn't want to invest in tobacco,
15 gambling, alcohol, those are a few of the classic sin stocks,
16 because that's in line with their beliefs, that's one way to
17 invest.

18 Now, we do see a little bit of a nuance here where you
19 might divest from these sectors or not invest in these sectors
20 in your portfolio, or not these sectors, but these business
21 involvement areas because you think they're riskier, and so
22 understanding if that's why you are not including them in your
23 portfolio, but understanding the actual impact on the risk of
24 that portfolio. So if it's just a few exclusions in the
25 portfolio, the impact on the risk is going to be smaller. If
26 it's a significant number of exclusions you're looking at,
27 they're going to have a bigger impact on your portfolio. So
28 that's really important to understand what that is.

1 And there's another area where, when you're looking
2 just at the risk, you might start looking at ESG scores. You
3 might start looking at the controversies that the company has
4 been involved in and you might start excluding companies or
5 issuers based on some of those factors, and that's not your
6 values anymore. Now you're talking about the risk of the
7 portfolio, so it's just understanding these different ways of
8 investing.

9 The final way is ESG integration. This is what we do
10 across our teams at RBC GAM. This is when you're not excluding
11 anybody at the outset, but you're doing a case-by-case
12 assessment of an issuer, and so you might invest in a company
13 that has some work to do on its ESG or its sustainability
14 profile, but you're engaging with that company, you're talking
15 with that company, and the company, you expect to see some
16 progress and you expect that then to have a positive, you know,
17 risk/return impact from the portfolio that you're investing in.

18 It's quite complicated, and I think that's where the
19 real difficulty is for investors, is to really understand, you
20 know, what the fund and the investment product is that they're
21 investing in and how it's thinking about responsible investment,
22 whether it's values, value, or a combination of both. I think
23 that's where the biggest challenge that we see is.

24 MS. BERMAN: Certainly have to -- there's a lot of
25 complexity around these products and you've done a great job,
26 Melanie, of setting the scene for those. I don't know -- I turn
27 now to Mari, if you have anything you'd like to add in terms of
28 what you see are key risks and the types of information that

1 investors need.

2 MS. BROSSARD: Sure. To me, I would be more concerned
3 about the lack of visibility than greenwashing, and greenwashing
4 can occur either at the fund, like the security level. At the
5 fund level, I'd like to think that our fellow product
6 manufacturers are professionals. I can reassure you that
7 greenwashing is really a concern for the line of business and
8 there's a clear direction coming from the line of business that
9 we do not want to do greenwashing. Our customers are asking for
10 whether they're having a real impact, and we're listening to
11 this, we're willing to provide, and we know that more rigour is
12 required.

13 So to me, I would be less concerned about greenwashing
14 at the fund level, and at the security level, we've got a safety
15 net coming from active portfolio management when we partner with
16 the best-in-class portfolio managers in order to do some
17 research, potential investment, to write investment reports, and
18 to debate about them in investment committee.

19 There's some quality work that is done over there, and
20 they have the opportunity to have dialogue to ask the right
21 question to issuers, so to me, I would be more worried about
22 lack of visibility than greenwashing.

23 And again, what investors need to know is how are we
24 integrating responsible investment matters in an investment
25 process. So to me, it's increased disclosure, addressing the
26 lack of visibility, and again, for investors, if, as fund
27 manufacturer, we're not able to simply explain in two, three,
28 four sentences how we're creating value, why we're integrating

1 responsible investment matters in investment products, it's not
2 you; it's us.

3 At the end of the day, we've got to be able to provide
4 clearly to investors some clarity on what we are doing, why we
5 are doing it, and what are the goals that we are try to achieve,
6 and if someone is being an expert in this matter, could easily
7 explain to potential investors.

8 So to me, I will be more worried about the lack of
9 visibility, clearer communication on investment processes, than
10 greenwashing which kind of has old and meaningful application.

11 COMMON ESG-RELATED TERMINOLOGY:

12 MS. BERMAN: Thank you very much. So that leads
13 really well into the next area of discussion because that level
14 of transparency, consistency and comparability that investors
15 need that you've spoken about, one of the issues in this field
16 is the lack of consistency in ESG-related terminology and
17 definitions for the whole of the investment fund industry, so
18 that you can see there's that potential for confusion where
19 investors aren't understanding what you're saying because your
20 peers are using different terminology or different jurisdictions
21 use different terminology.

22 You've said many of them: You know, responsible
23 investing, socially responsible investing, you know,
24 exclusionary screening, best in class. There's more terms than
25 I can list in the time we have today.

26 So turning it sort of back to you first, Mari, what do
27 you see is most needed for the fund industry to overcome the
28 hurdles for quality disclosure, comparable disclosure to

1 investors that contain sort of common ESG-related terms and
2 definitions, so we understand the "what are you doing, why are
3 you doing it and how are you doing it," with respect to
4 investment strategies?

5 MS. BROSSARD: So I'll start with a bit of
6 clarification on vocabulary because we use "ESG" and
7 "sustainability" and sometimes it can lead to confusion.

8 So to me, it's pretty clear that ESG integration is a
9 consideration of extra financial elements when you're doing
10 research, so that's a consideration of environmental, social and
11 governance factors within investment process, and then we're
12 moving further into the spectrum and start to discuss about
13 sustainable investment product, but in order to claim a product
14 to be sustainable, it has to be in line with integrated
15 definition of "sustainability", either coming from the product
16 manufacturer or coming from a third-party organization, but
17 would have to disclose how do we define sustainability and then
18 we can set the alignment for the product with that agreed-upon
19 definition.

20 So to me, there is a clear nuance between ESG
21 integration and sustainability, and there is various shades of
22 colour among both of them, but to me on the vocabulary, we're
23 starting to have a bit of a consensus for those two elements.

24 And then one of your questions, Wendy, was, is it the
25 role as regulator, how are we going to come up with a clear
26 definition for the other elements that you've just mentioned.
27 I'll be a bit bold on this one, honestly. I don't think that
28 the burden should be only on the regulator's shoulder in order

1 to develop some common understanding of the vocabulary.

2 The global industry has to come up with some
3 solutions, and it's not only Canadian mutual funds. It's not
4 really mutual funds. It really is part of the work section that
5 has to be done at the global industry level, and we're starting
6 to see some industry-lead initiatives, such as the Canadian
7 taxonomy.

8 And again, in terms of content, I do believe that
9 Canadian regulators do have enough content to enforce the
10 application of disclosure for responsible investment products.
11 So when we're talking about misleading, misrepresentation, say
12 what you do, do what you say, to me, you have all the elements
13 in order to have the right discussion with product manufacturers
14 in terms of responsible investments. You have the credibility.
15 You have the content.

16 And the last element that I would like to touch base
17 is timing. Might be a bit early for regulation at this stage,
18 because our industry is in a daily evolution and we don't want
19 to paint ourselves in the corner. The world needs a bit of time
20 to settle, to come up with a consensus, and meanwhile, the
21 regulator has the content and the credibility with the current
22 existing role in order to handle that discussion.

23 MS. BERMAN: So, you know, you raise a very good point
24 about there being no borders when it comes to ESG investing, and
25 so maybe I'll turn to you, Michelle, to see if you have some
26 comments to add on to this tricky issue of what's what and what
27 are we calling it.

28 MS. EDKINS: Absolutely. And hello, everybody.

1 Yeah, I'd like to build on a couple of points that
2 Melanie made, as well as Mari's points because the other thing
3 that we've found which straddles both these topics is clients have
4 different expectations that they then expect their asset
5 managers to help them implement and they may be using different
6 terminology as they ask for what they are seeking to what their
7 asset manager is -- to the language that their asset manager is
8 using.

9 And so I do believe that there's a real responsibility
10 on practitioners from asset managers to asset owners where the
11 institutional investors who may have the resources to do this, with
12 the regulators both within country and the supranational ones,
13 to work together and create a baseline, common terminology that
14 can then evolve, as Mari was saying, as we all get more
15 experienced in this and put it into practice.

16 BlackRock definitely agrees that it's way too early to
17 be establishing regulation here just because we see it rapidly
18 changing. There's clearly need from a client perspective, from
19 a regulatory perspective for asset managers to be very clear
20 about how the descriptions they are using tie with the mandate
21 they've been given by clients and to the outcomes of the
22 investment strategy and in the reporting to clients.

23 And I think that in achieving that consistency or that
24 link through each of those stages, we help that feedback loop
25 from clients as well because I think there's capacity building
26 happening at the asset owner level to be sure that they are
27 using common terminology themselves.

28 The only thing I would add is, there is a real need

1 for this to be common at an international level just
2 because a lot of investors are international. Even retail
3 investors invest in international strategies with asset managers
4 that are not necessarily domestic, and so the more effort that
5 can be put into a baseline global standard at the outset, I
6 think the better we're all going to be positioned to deliver
7 what we say we're delivering.

8 MS. BERMAN: Thank you, Michelle. And now, David, I'm
9 just wondering, from your perspective, if you have anything
10 you'd like to add on to these comments about consistent
11 terminology.

12 MR. RUTHERFORD: Sure. Sure. Thanks, Wendy, and
13 welcome, everybody.

14 I'm really glad Mari mentioned the whole issue around
15 timing because I do think that most people don't think we're
16 moving fast enough and that we need to reach the unified common
17 understanding as quickly as possible, but if you look at what's
18 been attempted so far from all the organizations that are trying
19 to come up with these common definitions, it's really, really
20 hard.

21 And, you know, just if you isolate what the CFA did,
22 you know, about a year ago, they came in and they had very
23 ambitious intentions, good intentions around trying to create a
24 classification system for ESG investment products, but after
25 they got feedback, they kind of stepped away from that. They
26 looked into the abyss of all this and they decided, "Whoa, this
27 is a little trickier than we thought," and they created a
28 framework where it really just emphasized disclosure around

1 certain themes and left it up to the fund providers and other
2 investment providers to solve that challenge for them.

3 And, you know, I think that that was the right thing
4 to do and it's probably the only choice they had, but what it
5 does is it continues to put the onus on investors to do all the
6 heavy lifting and figure all this out, and that's a bit of an
7 unfair burden, but if the alternative is, you know, rushing to a
8 set of definitions that really shortchanges and misrepresents
9 what we do, then I'm not sure that's a better shake.

10 So I think, ultimately, we've got to remember who this
11 is for. You know, sometimes I think we're imposing our
12 historical structures on something that is actually
13 fundamentally different, and the difference is that investors,
14 and especially retail investors who are our focus at NEI,
15 they're using responsible investing for a very different reason.
16 For many of them, it's not just to grow wealth, and for some, it
17 might not even be primarily to grow wealth. It's all about
18 driving -- using investment approaches to drive change.

19 And so if, in demanding from their investments, you
20 know, that they, you know, might be wanting them to drive this
21 change, they're actually changing the fundamental utility of an
22 investment product, and so maybe the structures that we've had
23 in place for many years around traditional investment products
24 don't fit so well on this.

25 So we really need to understand where investors' heads
26 are at, and making sure that their goals remain front and
27 center, and until we do that, until we give them, you know, the
28 thing they need to make their job of figuring it out much

1 easier, the only thing we can do is be maximum transparent about
2 everything we do.

3 If we can tell them everything they're doing, give
4 them the opportunity to figure out things we haven't figured out
5 yet in ways that work for them, then I think that, you know,
6 we'll be able to move forward and take our time and get the
7 right solution, without leaving investors completely holding the
8 bag on all this and trying to figure it out, but it's all going
9 to take time and, you know, we just have to ensure, I think to
10 Mari's point, we're not rushing into this for our sake, that
11 whatever we create has to work for investors first.

12 REGULATORY GAPS:

13 MS. BERMAN: Well, you've, again, positioned us very
14 nicely for the next topic, which is the notion of what are the
15 regulatory gaps for investors.

16 So appreciate the importance of getting it right,
17 appreciate the importance of the complexity that's around these
18 issues in terms of what are investors actually looking for and
19 what information do they need, but it's also a balance to make
20 sure that they're getting the information they need in a way
21 that's discernable, that there's not an overload of information.

22 So now we take a look at our regulatory disclosure
23 framework for investment funds in Canada, and we have three main
24 areas that we cover: Prospectus offerings, ongoing
25 disclosure for funds, and marketing and sales.

26 And we do share the view, CSA, that this framework is
27 sufficient and adequate and it covers to address the ESG-related
28 risks that you've talked about and also the opportunities that

1 investors are looking for to do with their money, at both the
2 asset manager level and at the ESG or fund product level.

3 So turning to that, you know, setting that scene is --
4 some of you have strong views in terms of what's needed and
5 when, but let's just focus on what's needed. So what are the
6 regulatory gaps, if any, that apply to ESG funds and ESG-related
7 issues, long and short-term? What do we see as the gaps in
8 terms of making sure investors have all of that decision-useful
9 information.

10 So with that, Michelle, if I could ask you to give
11 your thoughts on that first.

12 MS. EDKINS: From BlackRock's perspective where we
13 stand today, we haven't identified any gaps in the framework
14 that exists for funds in Canada. There's focus on ensuring that
15 the prospectus accurately reflects what the investment strategy
16 is going to be, that the investment strategy lines up with that,
17 and then that the disclosures that are provided to clients do
18 represent what the investment -- how the investment strategy was
19 implemented and the inputs that went into the investment strategy
20 should all meet their informational needs.

21 That said, again, getting back to this point about
22 capacity building, I think there probably is scope for ensuring
23 that we're really communicating with clients to make sure we
24 have a common understanding of that terminology, but as I
25 mentioned, we use words in a way that we believe are widely
26 understood, but other people use different words for those same
27 concepts or constructs, and making sure that we're translating
28 our documents to be sure that they truly are understood by the

1 client in those conversations and in those negotiations around
2 the prospectus should allay some of the fears that there is a
3 mismatch there.

4 Then the other thing that we think, you know, will
5 start to take shape more is just more clarity in marketing and more
6 discipline in using the terms that you use consistently as a
7 firm, and ensuring that client-facing colleagues are really
8 deliberate in how they describe products and understand the
9 differences between the different terminology that you use as an
10 asset manager, because I do, you know, experience just this
11 bucketing together with different things when it's intended that
12 they mean -- that they have slightly different outcomes and
13 slightly different objectives.

14 But to a point that David made a minute ago, in our
15 experience, the vast majority of our clients who want to invest
16 in some form of sustainability strategy are doing it on a
17 risk/return assessment. So they believe that companies with
18 strong sustainability credentials or ESG credentials will
19 outperform over the long-term, and so the single outcome they're
20 seeking is long-term financial returns, and so that is all very
21 consistent with existing framework disclosures and requirements
22 in terms of meeting our fiduciary duty to our clients.

23 MS. BERMAN: Thank you, Michelle. And now I just turn
24 to you, Ian, to see if there's anything you'd like to add to
25 that perspective on the effectiveness of the current landscape.

26 MR. HOWARD: Yes. I mean, I think one of the concerns
27 that we at Sustainalytics have is the, you know, it is about
28 what other panellists here have mentioned. It's a global market

1 and so we provide solutions that work in multiple
2 markets in terms of our research and analysis, but certainly,
3 one thing is more standardized disclosures by companies related
4 to ESG factors will make it more economical for all of us to do
5 research on these companies and, ultimately, to have more
6 comparable research between companies.

7 So I think that's one role that I think, over time,
8 that the regulators can play in making sure, and I think that is
9 also one thing that can be done in a particular geography
10 without -- you know, doesn't require -- like, over time, that
11 should be consistent globally, but you can have more disclosures
12 in one market without having to negotiate that in every market.

13 Like, a second thing right now, what we're seeing a
14 lot is -- I think in a way, Hugo, you almost alluded to it. You
15 said current rules and regulations, you feel that they apply to
16 ESG disclosures, and the problem with that view is that it
17 creates uncertainty by issuers, by funds on what disclosures
18 they need and what the regulatory implications are.

19 So, for example, you look at prospectus offerings.
20 There is an open question of whether ratings can be included,
21 and if they are included, would they be regulated, but we also
22 know that there's no regulation, so it's a bit of a Catch-22.

23 So I think that just even that language saying that,
24 you know, "We think it's already covered," implies that it's
25 already regulated, but we're not regulated. So that I think is
26 creating a lot of apprehension. Certainly has the lawyers on my
27 side very concerned with how issuers and funds use ours, and I
28 think that works against the objectives of regulators, right,

1 because what it does is stops people from disclosing ESG
2 research, analysis, information, and so that's created a bit of
3 a problem in the market.

4 MS. BERMAN: Thank you, Ian.

5 MR. LACROIX: On that, I also said that we felt that
6 guidance is warranted. So I guess we will be able with that to
7 address some, at least, of the issues that you've just made.

8 MR. HOWARD: That's great, yeah. It wasn't meant to
9 be a slight against the regulators. We do think that --

10 MR. LACROIX: Oh, no. No worries.

11 MR. HOWARD: -- what you're doing --

12 MR. LACROIX: At the end of the day, I think we, Wendy and I,
13 fully agree
14 with Mari's comment earlier that everything is enforceable at
15 the end.

16 MS. BERMAN: So we feel comfortable, is what we're
17 saying. I'd love to hear a bit more about the investor
18 perspective, Jean-Paul, if you have something to add in terms of
19 this, this question about the effectiveness of the regulatory
20 landscape and whether you and FAIR see gaps.

21 MR. HOWARD: Sorry, Jean-Paul. We can't hear you.

22 MR. BUREAUD: Thank you, Wendy. I think we have to
23 challenge the assumption that the current regulatory regime,
24 which is a very open-ended kind of architecture, is really
25 serving investors well at this time.

26 So I agree that in terms of the, you know, typical
27 requirements in a prospectus to provide full, true and plain
28 disclosure, or to provide timely continuous disclosure or
29 material information to investors is there, and arguably is

1 broad enough to include ESG-specific issues. I don't doubt
2 that. The problem is the practice of providing the kind of
3 transparency that investors want and need today is not yet
4 caught up to the standards we would expect.

5 So I've read a lot of prospectuses that mark
6 themselves as sustainable or ESG or responsible investing focus,
7 and there's very little information that would help me as an
8 investor to really understand how they're going to, through the
9 different strategies they employ, achieve those objectives.

10 And so I would actually challenge the industry that --
11 and I agree. I think David said it earlier, that we do need to
12 maximize the amount of transparency until we can create kind of
13 a global common language around ESG, but until that time
14 happens, I think we could all be -- we could all use some
15 guidance from regulators and other organizations to help raise
16 the calibre, raise the quality of that transparency because, you
17 know, based on a review I did on SEDAR, I just randomly picked a
18 number of prospectuses and MRFPs and things like that, I didn't
19 have a lot of information that I could work from in terms of the
20 issues that I would be concerned as, as an ESG-focused investor.

21 And I think Melanie made the point earlier that a lot
22 of the -- they're focusing a lot in terms of how ESG factors
23 impact portfolio risk, and that is important, but what investors
24 I think -- what's unique about ESG-focused investors is, and
25 David did mention this, is they're not solely focused on
26 financial performance or risks to the portfolio in terms of
27 financial performance. They're also very interested in knowing
28 that their investments are making a difference on ESG-related

1 factors.

2 And to-date, I have not seen very much, if at all, any
3 kind of disclosure that really helps investors understand how
4 their investments are achieving their ESG-related objectives as
5 opposed to purely their financial objectives.

6 So I would really challenge industry to raise the
7 bar in terms of delivering enhanced disclosure based on the
8 existing broken architecture. Some jurisdictions, and the EU is
9 the most notable one, have taken the view ESG-specific
10 information is indeed needed because the existing framework is
11 not sufficient to get us there.

12 MS. BERMAN: The guidance that Hugo mentioned will
13 address many of the issues that all of you have raised today,
14 and so it's just a question of whether -- it's that balancing
15 between prescriptive rules and guidance that will achieve the
16 best for investors. So I appreciate the candour of your
17 comments.

18 PROXY VOTING AND SHAREHOLDER ENGAGEMENT DISCLOSURE:

19 MS. BERMAN: But I turn to yet another complexity with
20 ESG investments and, you know, so as regulators, we look to see
21 what's new, what are the evolving, developing types of
22 investment products that have unique characteristics, and this
23 one has lots, ESG funds or ESG investment strategies, because
24 one distinction we've seen is that ESG funds, some ESG funds
25 will use proxy voting and shareholder engagement as part of
26 their overall investment strategy or tool to achieve the
27 ESG-related investment objectives that the fund has set out to
28 do. So that's a unique feature.

1 So in your view, if you could think about this, what
2 elements of disclosure should be provided to investors about
3 proxy voting and shareholder engagement? Should the disclosure
4 include things like, you know, the particular fund's proxy
5 voting and shareholder engagement policies or procedures with
6 their past record of proxy voting and shareholder record, you
7 know, and shareholder action that aligns with the investment
8 objectives, so somebody can measure how effective that strategy
9 is.

10 And then, you know, in three minutes, you'll each have
11 three minutes, just address the difficulties and challenges
12 associated with that as well as whether or not that disclosure
13 should be at the asset manager level or the product level or
14 both.

15 So that's a lot to unpack, and I thought I'd put it in
16 Melanie's lap first and see if you can try -- if you can give us
17 some of your views on this.

18 MS. ADAMS: Yeah, thanks. I'd be happy to do that,
19 Wendy.

20 So I think when we think about proxy voting and
21 engagement in the context of ESG, we have to remember that
22 voting our proxies is part of the fiduciary duty to do it in the
23 best interest of the unitholders. It is already an obligation
24 we have as asset managers.

25 And, similarly, with engagement, engaging in a way
26 that's in the best interests of unit holders is part of our
27 fiduciary duty. So this is already an obligation that we have.

28 If these methods are being used to promote

1 sustainability or proxy voting, then I think that that is
2 disclosure that's important to be made as part of the material
3 prospectus of the fund, but I would like to talk about some of
4 the difficulties or some of the nuances involved with each one
5 of these and some of the oversimplification that's happening.

6 When thinking about proxy voting, we get often
7 asked from our clients to disclose our proxy voting records,
8 which we do on a quarterly basis. It's all on our website. You
9 can see any proxy vote that we've done and, you know, we're
10 obliged to report it.

11 What we started to do in the past year is we have also
12 put up our rationale for voting the way we have. Partly, this
13 is due to client demand, and partly, it's just to be really
14 clear about why we voted the way we did, because I think that
15 there's sometimes a simplification where you see something on
16 the ballot and it's ESG-related. You know, for example, it's a
17 climate-related shareholder proposal.

18 As, you know, active managers and stewards of our
19 clients' assets, we look at each one of those and we assess them
20 case by case on their merits, and so we might not -- we might
21 agree with the ballot item in principle. We might think that
22 that type of, you know, climate reporting, if that's what the
23 case is, is important, but we look at what the company is
24 already disclosing.

25 If the company is already doing it, we're not going to
26 vote in favour of it because we think that's really confusing
27 for management to wonder and question what are they missing in
28 the reporting. If we think it's already adequate, we vote

1 against it, and so we try to -- you know, we put that on our
2 website, you know, the rationale for why we vote on our Canadian
3 website.

4 The other reason we might vote against a shareholder
5 proposal is we might generally agree with it in principle, but
6 there's something really prescriptive in the language where it's
7 asking the company to produce a report with specific metrics.
8 Sometimes this comes up in the diversity and inclusion area, where
9 we don't want to be so prescriptive on the company. We want the
10 company to do it in a way that actually is reflective of their
11 business and their strategy.

12 And so to say that, you know, there are these ESG ones
13 and to lump them all together, sometimes we see this, you know,
14 where we're evaluated on how we do on our proxy voting. It's
15 really nuanced and we have to be really thoughtful and careful
16 about that.

17 Just on the side of -- and actually, I could, just in
18 terms of scale, we voted for 30,000 a year. I'm sure Michelle
19 and BlackRock have much more than that as well. So the scale
20 and the scope of what we're disclosing there is enormous, and
21 it's enormous amount of resources for us to put that out there,
22 what we put out on a quarterly basis.

23 Just on the engagement side, I think it's really
24 important to disclose engagement, but I think, again, there's a
25 scale issue. For us at RBC GAM, we had over 1,200 ESG
26 engagements in 2020, and so I'm not sure how helpful it is for
27 investors to have pages and pages and pages of all the different
28 engagements. We do disclose them, but we pick, you know, on an

1 annual basis some highlights that we'd like to disclose.

2 But I think one really important point is that we have
3 a relationship. If we disclose every time we meet with
4 management or the board or if we over-disclose it, we won't be
5 invited back in to talk to boards and management about these
6 different issues. It's going to change the relationship that we
7 have there, and so I think we want to be really mindful of that
8 as well.

9 MS. BERMAN: Thank you, Melanie. I mean, again,
10 we're -- the theme I'm hearing is how tricky and nuanced this is
11 in the ESG space in terms of what investors need to understand
12 the strategy that's being employed when it comes to proxy voting
13 or shareholder engagement.

14 So, David, I don't know if you have something that you
15 can add to this.

16 MR. RUTHERFORD: Sure. I mean, a lot of what Melanie
17 said is exactly the approach we take and, you know, that's where
18 it gets tricky around transparency. Even though you can, as we
19 do, have, you know, maximum transparency as an operating
20 principle, you've got to -- you have to protect your engagement
21 relationships. You can't be disclosing things that are going to
22 damage that relationship. You're trying to accomplish something
23 with a company.

24 On the other hand, we're finding more and more
25 companies really want their investors to know that they're
26 talking about ESG risk, so it's getting easier to disclose
27 everything, but I think to Melanie's point, the key is why.
28 It's very easy to say, "This is what we did," but, "Why did you

1 do it?"

2 And so, you know, you might have people scratching
3 their heads about why you voted a certain way. They will expect
4 you to do the opposite, but if you start to get into the reasons
5 why, then that gets into your understanding of the company and
6 the relationship you have with that company, and then it all
7 makes sense, but that takes a lot of work to disclose all that
8 and, you know, there are scale issues for sure. Even, you know,
9 if RBC has scale issues, then we really have scale issues
10 because, you know, they have more resources at their hands to do
11 this kind of thing, but, ultimately, it shouldn't be hard for
12 any asset manager to try and to really commit themselves to
13 being as transparent as possible.

14 What I will say, though, is it might be tempting when
15 you do this to only present the good news or wait for those real
16 tangible results from these activities, and my advice is don't
17 do that. Engagements, they rarely move in a straight line and,
18 you know, there's lots of downtime where the company's thinking
19 about what you told them, but they haven't done anything yet,
20 and so it can take a long time to reach meaningful results, and
21 it doesn't mean you're not making progress and investors want to
22 know that you're in there, doing that work.

23 There was a study a couple of years back by an
24 organization called Oxford Risk, and they interviewed investors
25 who were really interested in sustainable investing, and the key
26 for those investors was, they wanted the investment providers
27 they were partnering with to actually be working to make
28 companies that were sustainability laggards into

1 sustainability leaders, and so they were willing to invest in
2 companies that weren't doing as well on sustainability factors,
3 provided you were in there having those conversations.

4 So they need to know you're having those
5 conversations, even if you're not able to say, "Look, we
6 accomplished this, this quarter and we're going to accomplish
7 this next quarter." It just doesn't work like that, but I think
8 it's important that you tell investors that and what you're
9 doing, and so if we talk about it more, if we prioritize that
10 disclosure of the process over the results, or at least as
11 important as the results, then investors are going to understand
12 better what we do and how it benefits them.

13 So there's an educational benefit there as well,
14 but as I said, the most important thing for many investors is
15 that we're in, or at the table in the boardrooms of the
16 companies that we own, and we're talking to them about how
17 they're making change. We have to give investors that voice and
18 to know that their voice is being heard, we have to tell them
19 what we're doing.

20 MS. BERMAN: Michelle, do you have anything you'd like
21 to add to that topic? We just have a few more minutes. Sorry.

22 MS. EDKINS: Sure. Thanks, Wendy. A couple of things
23 I'd like to add.

24 I do think it is very straightforward for asset
25 managers to be clear about how they think about stewardship, as
26 we would call it, which is the proxy voting and the engagement,
27 and how that ties to their predominant investment strategies,
28 because for a hedge fund, really an engagement may not be

1 essential to their strategy. For an index fund, such as many of
2 the funds that BlackRock invests in for clients, it's a core
3 part of our service to clients and long-term shareholders in
4 companies, and so linking what you're doing with your strategies
5 I think is pretty straightforward and quite important to ensure
6 that your clients truly understand what you're doing on their
7 behalf in this area.

8 The other big gap that we see in stewardship reporting
9 is talking about the resources you apply to it, because it is
10 resource-intensive if you're doing it well, and I think a lot of
11 clients may not appreciate that. It isn't something that just
12 gets done in and of itself. If you're truly integrating
13 stewardship activities into your investment strategies, you need a
14 significant amount of resource in terms of both people and data
15 and analytical tools and reporting capabilities because -- and
16 as others have said, transparency or reporting to clients is
17 hugely important.

18 In our view, publishing your voting record at least
19 annually is, you know, just baseline reporting. I think client
20 portfolio-specific voting and engagement reporting is also now a
21 core part of the client service.

22 And again, moving to quarterly reporting and voting is,
23 I think, becoming quite common across the market because clients
24 want to know how you've been voting in a timeframe that makes
25 most sense when things are still fresh for them.

26 But as Melanie said, if you are an asset owner
27 invested in an index strategy, you will have holdings in
28 hundreds if not thousands of companies, and so there really is a

1 need for the asset managers to provide reporting that really
2 highlights the key developments over a time period, whether it's
3 quarterly or annual, just because an awful lot of what we do on
4 stewardship is ensuring that we're providing feedback to
5 companies, ensuring they understand our thinking on various
6 things, but it isn't necessarily about change and driving
7 change. Sometimes it is, but not always.

8 And then the other thing, sort of building on a point
9 that Melanie made about shareholder proposals, shareholder
10 proposals are just one very thin or small component of the
11 feedback mechanisms that we have for companies, and for
12 BlackRock, voting on shareholder proposals was under one percent
13 of the voting that we did last year. We vote on many, many more
14 directors than we vote on shareholder proposals, and we believe
15 that director accountability is a core part of that mechanism.

16 But that said, I think when it comes to voting and
17 engagement from a regulatory point of view and from a
18 practitioner point of view, as an asset owner or as an asset
19 manager, you have to really think through whether sometimes
20 individual entities are overclaiming the role that they had in
21 bringing that change.

22 Shareholders provide companies with feedback, whether
23 it's through engagement conversation or through voting, but it's
24 for the board and management to determine the right course of
25 action for the company, and they shouldn't do something just
26 because they hear from one shareholder. They should do
27 something because there's clearly growing sentiment amongst
28 their investor base mindset on issues and it's clearly in the

1 long-term interest of the company to change.

2 MS. BERMAN: The corporate governance structure could
3 be an entire roundtable on its own, and the role of investors in
4 that structure and other stakeholders, especially when it comes
5 to ESG-related.

6 ESG-RELATED CONTINUOUS DISCLOSURE:

7 MS. BERMAN: So I'm just going to turn to our next
8 topic and ask, David, if you could start off on it, but we talk
9 about, you know, the continuous disclosure regime and that will
10 typically involve a fund reporting on its financial performance
11 in periodic reports or timely reports.

12 But as we've said, ESG funds also -- their performance
13 as against their ESG objectives is critically important to
14 investors, not just from a financial perspective, but maybe from
15 a social perspective.

16 And so what do you think is needed, like what
17 information is needed to assist investors in evaluating how well
18 a particular fund or a product is meeting its ESG-related
19 objectives?

20 MR. RUTHERFORD: Yeah. I mean, this is tricky because
21 sometimes it's hard to evaluate how well an ESG fund is doing in
22 meeting its objectives just because, and we've been discussing
23 it over the last 10 minutes, there are certain responsible
24 investment approaches like corporate engagement, like policy
25 advocacy, which we haven't talked about, that don't always lend
26 themselves well to measurement.

27 So you can be making an impact, but it might take a
28 long time to be tangible enough to be reported in some kind of

1 defined disclosure framework and, you know, to me, that can have
2 two implications.

3 In a framework that's very tightly defined, a fund
4 might look like an ESG laggard when, in fact, it could be making
5 a big impact on a significant systemic risk like climate change,
6 for example, just through corporate engagement work alone, but
7 you might not see it because of the tangibility of the standards
8 you've set.

9 The other outcome, and we're seeing this, is a shift
10 towards true impact mandates and mandates that have measurable,
11 social and economic outcomes in addition to financial outcomes,
12 and they're built right into their investment objectives and,
13 you know, impact investments of this type, you know, the pure
14 impact investing, they're super convenient to talk about,
15 they're easy to explain, and you can be very precise on the
16 issue you're targeting, and reporting on the targeted impact is
17 built right into the model. So structurally, they look a lot
18 like some of the traditional financial products that we've all
19 been used to.

20 My worry is, because of the convenience of the
21 structure, they'll become the default approach for ESG solutions
22 in a more tightly regulated world and, you know, undeniably,
23 they're easier to sell and we know our industry is really good
24 at selling neatly packaged solutions and we know from the
25 struggles we've had, especially in the early days of responsible
26 investing and we've been doing this for years, you know,
27 sometimes it was hard to engage advisors around what we were
28 talking about because it wasn't very neatly packaged.

1 Still isn't very neatly packaged, and there's a lot to
2 talk about, but that, you know, default towards solutions that
3 are simpler, easier to explain, have absolute defined
4 measurability to them, that has the potential to leave a lot of
5 very effective, responsible investment approaches like we're
6 talking about off the table because they don't neatly fit into
7 that model.

8 And so as we've discussed already, investors want these
9 approaches because they want their providers to drive change at
10 the companies they invest in. So, as I said at the outset, I
11 think we have to remember who this is for and make sure that the
12 structures and the regulations that we put in place really do
13 benefit investors and really do give them a clear understanding
14 of all the approaches available to them.

15 MS. BERMAN: Thank you, David. And Mari, it would be
16 helpful to hear your -- if you have any additional thoughts on
17 top of David's thoughts on this issue.

18 MS. BROSSARD: So yes. Thanks, Wendy, for thinking
19 about me.

20 I do have four elements I would like to highlight in
21 terms of continuous disclosure. It's going to be a very simple
22 recipe: Four elements, the first one being your objective.

23 What are you trying to achieve with your responsible
24 investment practice? Are you trying to finance a project that
25 will have a positive impact for environment by investing
26 primarily into quick bonds? Well, that's a clear objective.
27 Can be explained in simple words. Or trying to enhance the
28 long-term value portfolio company by having a constant dialogue

1 with them, ensuring best practices. That's also a simple
2 objective that could be highlighted.

3 Then the second element would be, how are you going to
4 achieve that objective? What are your processes that you have
5 in place in order to integrate responsible investment? And the
6 fact that we might not have standardized vocabulary in order to
7 describe those processes shouldn't be an issue so far. We should be
8 able to explain them in simple words.

9 So we've excluded certain segments of the investment
10 universe based on our values. Whatever we call this, negative
11 screening or exclusion, doesn't matter. That's not the focal
12 point necessarily. Like I said, we should be explaining the responsible
13 investment process to investors.

14 Another example would be, let's say we will be
15 maintaining the exposure to all the sectors of the benchmark.
16 So we'll be investing in energy, but we will make a particular
17 effort in order to choose the best company in each of those
18 sectors.

19 So whether we call this "best in class" or "leaders",
20 doesn't matter. We will agree on vocabulary over time, but the
21 most important is as of today, to start having that discussion
22 with investors and being able to explain this clearly.

23 The third element in terms of disclosure is data, and
24 I will be cautious on the data side. I'm sure that some of my
25 co-panellists will provide more insight on data. We have some
26 data experts on the panel with us today, but we've got to be
27 cautious on what we communicate in terms of data because we have
28 to choose the key metrics that are in line with our objectives

1 and analysis.

2 And the communication channel with investors is
3 already very busy as of today, and investors do not have an
4 infinite amount of time and not everyone has the same knowledge.
5 So by providing a huge buffet of data points to investors and
6 say, "cherry-pick what you like in this," is just creating more
7 confusion.

8 So we're the experts in the matter. We know which data
9 points are relevant for investment processes and practices, so
10 we've got to be able to clearly highlight those to clients, say,
11 "We've got a fund that has this objective and we'll be
12 supporting over time with three data points their contribution
13 towards the objective."

14 And the fourth element that I would love to see in
15 terms of disclosure is whenever we refer to that global, the big
16 house definition or the global definition, they come from a
17 working group, being able to point out the source of the
18 framework and the definition that we'll be using.

19 MS. BERMAN: Thank you, Mari. Jean-Paul, we've heard
20 the view of investment fund managers, asset managers, and now it
21 will be interesting to hear your perspective on what investors
22 need to evaluate the performances against ESG.

23 MR. BUREAUD: Thank you, Wendy, and I think Mari
24 just
25 laid out an interesting four-point set of objectives.

26 The one thing -- and I just -- just to pick up on
27 David's comment about impact investing, and impacts are hard to

1 measure and they take time and I think most people, especially
2 when you're dealing with, you know, climate change or social
3 change, I think most people understand that, intuitively, that
4 these are difficult things to measure and stuff.

5 But I think there's a lot of disclosure that could be
6 provided to investors short of that, that would be very helpful,
7 and I think some of it is, just explain to the investors what you
8 did in terms of your investment strategy.

9 So if you have an investment strategy to reduce your
10 holdings in fossil fuel producers, then explain what steps you
11 took to do that and, you know, clarify whether the portfolio is
12 free of any exposure to carbon or fossil fuel producers, things
13 like that. I think that's missing.

14 I think, you know, in terms of the randomly-selected
15 management reports of financial performance that I looked at, it
16 was all about financial performance, and these were all funds
17 that all set out in their prospectus that they are either
18 responsible investors and follow different metrics and different
19 strategies, sustainable funds, and yet there wasn't a single
20 piece of information in that document to explain to the investor
21 what they did in the past year in terms of taking action on
22 those strategies.

23 So I think there's a lot that could be done that falls
24 short of actually trying to assess the actual impact, and so I
25 would encourage people to think about increasing the amount of
26 transparency in terms of how you've executed the strategy.

27 ESG INFORMATION IN MARKETING MATERIALS:

28 MS. BERMAN: That's really helpful. Thank you,

1 Jean-Paul. And I'm going to move us along to our next area of
2 discussion, and that's teeing off of -- moving from prospectus
3 and continuous disclosure to marketing and sales communications.

4 So that is an area of concern for many investors as
5 they try to wade through materials and we see, you know, it's
6 obviously very important to regulators that that sales
7 communications and marketing information is accurate and not
8 misleading, and we're seeing a number of jurisdictions globally
9 that are evaluating investment fund best practices in that area,
10 as I spoke about briefly in my opening.

11 So not letting you quite off the hot seat yet,
12 Jean-Paul, I'm going to ask you if you -- you know, in addition
13 to your prospectus, your ad hoc prospectus review, if you have a
14 view on the types of ESG information being included in marketing
15 materials that you see as being potentially misleading for
16 investors and is there information that's missing from these
17 marketing materials like you saw in the prospectus disclosure
18 that you think creates a risk of misleading and confusing
19 investors.

20 MR. BUREAUD: Thanks, Wendy. I did peruse a number of
21 asset manager's websites for information, just to get an idea
22 what people are disclosing, and it's certainly not an exhaustive
23 review by any stretch.

24 A few observations.

25 There's not always a clear connect between what the
26 asset management says on its website and some of the products
27 it's offering. So, lots of general statements about, "we're
28 aligned to the Paris Climate Accord," or, "we align with the UN

1 Stainability Development Goals," "we consider all responsible
2 investing factors in our decisions," and things like that, but
3 those are very broad, general statements, that it's not entirely
4 clear. So there's some of that.

5 What I found really interesting and, again, just a
6 quick review of a number of them, they all appear to be leaders
7 in their fields. That was a statement that came up in many
8 websites, so I found that interesting.

9 A number of them include not ESG ratings, per se, but
10 they've been awarded A+ ESG awards by some organizations, and
11 one website actually included the name of the organization and
12 it was actually an industry organization. So it really kind of
13 created the appearance that, you know, this investment manager
14 was A+ in terms of ESG ratings, but I'm not sure how many people
15 would actually read the fine print to really appreciate and
16 judge for themselves how much weight they want to give that.

17 So I do think, actually, in all the areas, I think the
18 marketing materials is the area that I find is the more -- most
19 worrisome in terms of the amount of claims that are being made,
20 in very general terms, and I don't know if it's providing very
21 helpful information to investors in terms of helping them decide
22 whether this is the asset manager they want to, you know,
23 partner with, and so I think there's a lot of issues that we
24 should be concerned about.

25 In terms of missing information, again, there's not
26 always a straight-line understanding of, "we take this very
27 general approach to ESG kind of investing," but there's no real
28 information about what you do in practice and how you actually

1 consider those factors in your investment decisions.

2 MS. BERMAN: Thank you. So then I'm going to turn it
3 over to you, Ian, and I appreciate any views you have on what's
4 in that's problematic, what's out that's problematic.

5 MR. HOWARD: I already highlighted that there is some
6 issues right now on what issuers can disclose and where they can
7 disclose it based on concerns around regulation that has not yet
8 been clarified, but I think the other thing is, if you think
9 through the whole value chain of ESG research, right, you start
10 at the issuer disclosing information, which often is too
11 limited, right, which means that the quality of ESG research
12 is limited by what data is available across an industry, so
13 there is an issue there in terms of what information is
14 available that limits sort of the start of this ESG data
15 production line.

16 Next, what companies can disclose and how that data is
17 then used in a rating, and then used by investment or funds to
18 then create the next thing. I think there needs to be greater
19 transparency through the whole value chain of, you know, where
20 did that data come from and how was it manipulated through.

21 So I would say that that would be kind of, for us,
22 there's great concern about the availability of data from a
23 rating, ESG ratings provider perspective and what that data then
24 gets used for later in the chain.

25 MS. BERMAN: Thank you. Mari, do you have any
26 additional views you'd like to add to this issue?

27 MS. BROSSARD: Sure. Well, on the what should be
28 included side, you know my position: clear communication on

1 investment processes. That's the base of all the communication that would
2 help the investor.

3 And you were referring to misleading, Wendy, on the question.
4 "Misleading" is a bold statement. It has a legal implication.
5 At this point, I would be more worried about misunderstanding or
6 misunderstood information than misleading statements because not
7 all investors have the same knowledge and our industry is, in
8 fact, in evolution. See some new trends emerging every week,
9 and investors do receive a lot of information from us, from
10 everywhere. So to me, I would be more worried about
11 misunderstanding than misleading statements.

12 And so part of the panel, we've discussed about what
13 we can do in terms of us, fund manufacturers, and we've also
14 taken the position of a public representative with knowledge
15 that our job is not easy to make sense of all of this, but we
16 haven't discussed about the value of investment advisors,
17 financial planners, and to me, there's a great opportunity for
18 financial advice in that space.

19 So recognize that it's a complex world. There's a lot
20 of product, there's a lot of statements, there's no
21 standardization, but there is also a great niche opportunity for
22 financial planners, investment advisors who are willing to learn
23 and to bridge that gap before we come up with more clarity.

24 So there's really value-added with the funds in the
25 responsible investment space.

26 ESG RATINGS AND DATA PROVIDERS:

27 MS. BERMAN: So now I'm going to just turn us to our
28 last and final topic before we turn to questions, which Ian has

1 introduced very nicely in his answer to the last panel which is
2 the use of ESG ratings and data providers and, obviously,
3 there's a huge and growing interest in, and reliance on, ESG
4 ratings we start to see in the space, and data providers, both,
5 by asset managers, by product developers and by investors. So
6 we see that key role that ESG ratings and data is providing.

7 So this is the big question: In your view, is there a
8 role for regulators in ESG ratings and data providers, and is
9 this role one where we regulate around the disclosure aspect
10 related to the ratings or the data that's used, or the actual
11 providers themselves, similar to credit rating agencies, for
12 example.

13 MR. HOWARD: So first, full disclosure: I'm a
14 salesperson who sells ESG solutions, so take what I say with a
15 grain of salt here, but I do, I do see -- I mean, I think if I
16 can refer to what David was talking about, he said, you know,
17 it's going to take time and it's hard. I think that's true,
18 right?

19 And the thing with ESG, it's a very broad topic,
20 right? We're covering many different things, and I do, I do,
21 you know -- what has been a trend in investment management for
22 the last few years, the panellists here would be more expert on,
23 has been, you know, the squeeze on management fees.

24 So I wonder, like I do worry about, you know, what is
25 the economic model to improve ESG, right? Are we -- is there
26 sufficient funding to have the quality of ESG that we're talking
27 about here today?

28 So, you know, I do think that there is a role that the

1 regulator may play in terms of creating, you know, the economic
2 conditions that would allow us to get to that goal. I would
3 have suggestions, but it would really be too focused on my own
4 interests, so I'll leave those for now.

5 But I do think that is one question that we need to
6 answer as an industry. Like, how do we fund this? Who's going
7 to pay for it, right? Now, I would say -- and you mentioned the
8 credit rating industry. One of the ways that the regulator
9 changed the economic model, right, was to put a lot of onus on
10 the issuer, right, both in terms of disclosure, right?
11 Jean-Paul, you were talking about SEDAR and, you know, we've got
12 these disclosure requirements, that that cost is borne by the
13 issuer.

14 I think that's -- there are some things like that
15 which are needed, right, to shift some of those costs to the
16 issuer, so that they can be used in many different ways by
17 investors, by investment managers, by the broader industry. So
18 I think that --

19 MS. BERMAN: I think on the cost point, you're -- I
20 think what I hear you saying is that, you know, detail around
21 the rating or the data provider, maybe that will be the issuer's
22 responsibility to get that information from that third party
23 provider, but are you saying -- do you have an issue with that
24 type of information being important for investors? You know,
25 who is the rating provider, the data provider? What methodology
26 did they use and what are the limitations on their assumption?

27 MR. HOWARD: Yeah. I think -- no, I mean, I do think
28 there is something that was kind of alluded to or said a few

1 times here, which is, you know, a common understanding of a
2 particular term, right? It kind of speaks to what is the method
3 for coming up with that particular indicator that you're talking
4 about.

5 And that there should be some -- I think we're
6 talking about consistency in language. Like, when I say a
7 certain thing, it has to be consistent from the investment
8 manager to that investor to the ESG ratings company and to the
9 data provider, and so I think that that is certainly something
10 that we need to do and, you know, who is the actor in the market
11 that creates the consistency? That -- maybe the regulator has
12 some role there, particularly on very important things that need
13 to come to consensus.

14 MS. BERMAN: And David, do you have views from, you
15 know, an asset manager perspective on ESG ratings and data
16 providers and --

17 MR. RUTHERFORD: Sure. I mean, we, like a lot of
18 firms, have our own kind of proprietary ESG evaluation
19 framework, but we use multiple data providers and we know that
20 the data is a bit spotty and it's inconsistent, and yet we want
21 more and more data, you know, and even though there's challenges
22 with it, and I think Ian spoke to the challenges, I don't really
23 care about, you know, your rating or what you think of it. I
24 want to know the methodology behind how you formed your opinion,
25 because it's that methodology that's really going to tell you
26 how you think about materiality.

27 So, you know, if we have to regulate anything, let's
28 make sure that we regulate disclosure of methodology, for

1 example, but I don't know that regulating data matters is
2 really the route to go down. I think we need to regulate
3 disclosure with companies and make sure they're providing data
4 that we can all use, because right now, a lot of it is voluntary
5 and it's all over the place and it varies by industry, and you
6 have to kind of weed your way through it.

7 And for us, that's where we derive the value in all
8 this work around data, is that because of the situation we're
9 in, you really require human intervention. You really require
10 qualitative analysis to figure out what it all means, and it's
11 in that qualitative analysis that you're really starting to
12 drive the value for investors.

13 So, you know, I'm always a little bit, you know,
14 reticent about going down the road where I feel like we're too
15 quickly commoditizing what ESG is all about, because I think the
16 value for investors is in people who are really familiar with
17 this space looking at companies, looking at the data, and
18 figuring out for themselves, you know, is this company an ESG
19 leader? Is this a laggard? Why is this company doing -- saying
20 this, but doing something else? That all requires human
21 intervention and human analysis, but I really think that's where
22 the value lies in a lot of this.

23 So yes, we want better quality data, but we still want
24 to be able to figure it out for ourselves in terms of what all
25 this data means because in that qualitative analysis, that's
26 where the value lies.

27 So give us more data, give us more transparency on the
28 methodologies, make companies disclose data, really focus there,

1 and then let us do the work in terms of uncovering the value for
2 investors.

3 MS. BERMAN: Very clear. Thank you, David.

4 So Melanie, we'd love to hear your comments and
5 thoughts on, you know, this topic of ESG providers and data
6 providers.

7 MS. ADAMS: Yeah. And actually, I think Ian and David
8 have done a really good job of summarizing some, you know, the
9 key points, some of the hurdles that we're addressing in the
10 space.

11 We know that methodology, I agree completely with
12 David on that, is so important. We don't put a lot of weight
13 into the different ESG scores from the different data providers,
14 but we look at them and we look at the methodology and care
15 about that, care when we change. So it's certainly something
16 that we look at as one part of it. I do think if -- you know,
17 if we are disclosing externally to investors, there should be
18 information on what that methodology is because that's so
19 critical.

20 The issues with the data coverage, there are very real
21 issues, and my concern is always that as asset managers, what is
22 our role in putting out there very detailed ESG metrics when we
23 don't have the data from the underlying companies in all cases.

24 And we are seeing this type of regulation is happening
25 in other regions where if we're required to report on, let's
26 say, a -- do the metric water, for example. It's very, you
27 know, very sparse data underlying that.

28 And so my concern is, if we're required to report out

1 on some of these metrics on the portfolio level, do investors
2 understand how much of that data is estimated by a third-party
3 data vendor which, you know, they're doing whatever the best
4 they can as the third-party data vendor in estimating it, but
5 it's not coming from the company. It's not the same.

6 And so if we understand these difficulties, you know,
7 with quality, that's -- it's just a really important
8 component of that because I worry that we push capital and we
9 have all these capital flows that are actually being pushed into
10 areas when really, if the underlying basis or the reason for
11 which this capital is being put into this area is not great
12 data, then we're not doing -- you know, we're not servicing our
13 investors very well at all or our end clients.

14 So it's complicated and I think we have to be really
15 careful about, you know, stacking our house of cards on
16 something that maybe is a little bit, you know, not stable at
17 the bottom.

18 MS. BERMAN: Thank you. Those are really good
19 analogies and I might use them going forward. I'll try to give
20 you good credit, Melanie, about the stack of cards.

21 So I really appreciate and want to thank the panellists
22 for this very interesting discussion, providing insights on the
23 beginning of what's going to be a very, very important dialogue
24 to the Canadian capital markets and to the capital markets
25 globally. So thank you.

26 QUESTIONS FROM THE AUDIENCE:

27 MS. BERMAN: I think it's important -- now, we've got
28 a large number of questions and I really wish I'd went out and

1 bought better reading glasses with more magnification, but I
2 shall do my best. We've got a lot of questions coming in from
3 the attendees and I think it's important we give you an
4 opportunity to answer those questions and them to have their
5 questions answered. So I'm going to turn to some questions.

6 So I might start off with Jean-Paul. Can you give --
7 sorry, just lost it. That's terrible. Sorry.

8 Can you give a sense of the types of questions or
9 concerns that you're hearing from retail investors on ESG
10 products or ESG-related investment strategies? Are they more
11 generic or are you seeing concerns about specific types of
12 investments, for example, oil and gas pipelines?

13 MR. BUREAUD: I think the concerns are more generic in
14 terms of confusion, not really understanding what the different
15 products are really offering. I think a lot of retail investors
16 who are motivated by ESG kind of considerations do want to feel
17 that they are making a difference, but I think there's a lot of
18 confusion out there and a lot of possibility for being
19 greenwashed for a lot of the reasons we talked about today.

20 So it's not specific in terms of an industry. I think
21 it's a more general response of -- and I think it's -- listen,
22 the number of funds that have been created in recent years has
23 really taken off. There's a lot of -- it's still a relatively
24 small number of funds relative to the total number of funds out
25 there, but it's a fast-growing area of focus and interest for
26 retail investors, and I think they, like all of us, are really
27 kind of scrambling to keep up and understand.

28 So I think some of it is just more transparency,

1 clearer communication. You know, Melanie, you talked about
2 risks with data, and a lot of it is unreliable or whatever. You
3 know, I think some of it, in terms of risk disclosure, you know,
4 how reliable is the data that you use in terms of product
5 selection, things like that, would help address some of those
6 concerns.

7 MS. BERMAN: I'm on mute. Thank you, Jean-Paul.

8 Another question is, I'd appreciate hearing from panel
9 members on Indigenous issues and ESG issues, both from a values
10 and the risk management perspective, and that this is something,
11 obviously, that's very important in Canada, given UNDRIP that
12 has been adopted by the federal government, which requires a
13 free, prior and informed consent of Indigenous peoples for
14 economic activities, and that this can have -- and the possible
15 impact on resource development in Canada, both from a value and
16 risk perspective, given the overlay of those two issues.

17 So I don't know, Melanie, I might throw it out to you
18 if you think that's something you can respond to, and then
19 anybody else that wants to, can add to it.

20 MS. ADAMS: Yes. I'm happy to kick us off on this.
21 This is a really important issue. You know, as you mentioned,
22 Wendy, in Canada, it's of particular importance.

23 From an asset management perspective, what we're doing
24 is we meet with the companies that we're invested in and we talk
25 to them about how they're addressing, you know, the Indigenous
26 communities that their work is impacting.

27 It's a really important part of the engagement where
28 this is material. It's a whole part of our proxy voting to make

1 sure that we're getting the information we need to understand
2 what the impact is. And so, you know, we obviously advocate for
3 full engagement and addressing any concerns that are raised by
4 Indigenous communities impacted by companies, we're fully
5 supportive of that, and we -- you know, the main point from our
6 perspective is understanding that the company is also committed
7 to that, and understanding specifically the steps that they're
8 taking, not just as their overall firm-wide approach, but at a
9 project level. Where there's really specific concerns, we talk
10 to the company and we really want to understand what -- you
11 know, how those are being addressed and we want to make sure
12 that that they're being addressed appropriately.

13 MS. BERMAN: And any of the other asset managers?
14 David, Michelle, would you like to add on to that issue?

15 MR. RUTHERFORD: Well, okay. I'll say it's a
16 classic -- sorry, Michelle. I'll say it's a classic social risk
17 in the sense that, you know, if you're a resource company and
18 you don't have a strategy or a policy around dealing with
19 Indigenous issues, then your company is really at risk in this
20 world.

21 But the other side of it and the other side of every
22 "S" issue is, you know, why aren't you, as a corporate citizen,
23 considering Indigenous issues in your business operations?
24 Where have you been and you know, how out of touch are
25 you, you know, especially this week, that you're not considering
26 the impact of Indigenous rights in the communities that you
27 operate?

28 And so we would ask companies to think about

1 Indigenous issues from both perspectives, both from the
2 perspective of, you know, how can this impact your company as a
3 risk, but how can you also be a, you know, a part of this
4 movement in terms of social change? How can you be part of the
5 truth and reconciliation process as a company that operates in
6 Canada?

7 Sorry, Michelle.

8 MS. EDKINS: No. I was just going to build a little
9 bit and say our expectation is that companies identify in their
10 disclosures who their key stakeholders are, and clearly, for
11 many businesses, Indigenous peoples will be one of those
12 stakeholders, and how they're understanding in meeting the
13 expectations of those key stakeholders, because I think when
14 companies disclose this in their reporting, it really helps
15 create that baseline for the conversation of a follow-up
16 engagement that Melanie and David mentioned.

17 MS. BERMAN: Thank you. And Ian, from your
18 perspective, appreciate your views on this topic.

19 MR. HOWARD: Yeah. I'd say from a Sustainalytics
20 perspective, there isn't a great -- you know, our -- we do
21 ratings on a global level that are -- we look for data sets that
22 are -- that we can find in many jurisdictions, and so that
23 presents a problem in terms of what is available for us to use
24 in our ratings.

25 That being said, there are some things related to
26 engagement with local communities in our ratings, and I think
27 also that it does show up in what we call "controversies", so when
28 companies get involved in disagreements such as the things that

1 David and Michelle were alluding to with local communities, and
2 that can show up and affect a rating.

3 But yeah, I think that that's -- you know, another
4 thing for us, you know, diversity and inclusion is another
5 related topic where the data availability is very different from
6 country to country for those. So it makes it very difficult to
7 come up with comparisons, you know, in the standardized
8 framework such as ESG ratings.

9 MS. BERMAN: Another area where we've got
10 information-gathering issues when it comes to ESG-related
11 funds.

12 So another question: There have been some
13 announcements about investigations by some regulators. I think,
14 Jean-Paul, you mentioned one involving a major bank, financial
15 institution, regarding their firm's disclosures. Do you think
16 that this kind of activity is premature or helpful when you see
17 there are egregious examples? Does it help ensure a level
18 playing field for those firms that are more diligent? And is
19 that something you think is premature that regulators are
20 stepping into the fray or is it something that's overall helpful
21 for the industry? And so --

22 MR. BUREAUD: Is that for me?

23 MS. BERMAN: Yes. No, I think I know your answer, but
24 why don't you start off, Jean-Paul.

25 MR. BUREAUD: Well, I was going to say from industry's
26 perspective, I'm sure it's premature for all the good and valid
27 reasons we talked about today in terms of, you know, the lack of
28 common understanding and standards and things like that.

1 On the other hand, I think if you take the view that
2 the existing regulatory requirements are sufficient to address
3 ESG issues, then maybe this is the kind of nudge that industry
4 needs to raise the quality of their disclosure.

5 MS. BERMAN: Is anyone brave enough to take the
6 contrary view?

7 MS. ADAMS: Well, I could just maybe add to that. It's not
8 so much a contrary view, but, you know, just for the comment
9 from Jean-Paul that maybe industry would disagree, I actually
10 think that that's not how I feel. I feel very much like I want
11 people, if they're greenwashing out there, if my competitors are
12 greenwashing, I want them caught out because I think that's not
13 doing anybody a service.

14 You know, we're all, you know, investors and in that
15 ourselves, but we're all trying to, you know, operate within a
16 set of parameters, and if people are operating outside of those
17 parameters, then it's not a fair playing field, and so, you
18 know, it's not fair to investors, and I think that that is
19 appropriate.

20 So I don't really have any concerns if there's
21 egregious behaviour out there that is being appropriately, you
22 know, regulated and, you know, and addressed. I think that's
23 really important. It's important in this industry. We're a
24 highly regulated industry, and we need that and there's a reason
25 for that because at the end of the day, these are investors.
26 This is retirement money that we're, you know, that we're
27 managing on behalf of end clients. So I think it's fully
28 appropriate that anything outside, you know, what we're set out

1 to do, we should be called out if we're not doing it.

2 MS. EDKINS: Yeah. I'm going to echo Melanie and
3 Jean-Paul's points, but I do think it comes back to where we
4 started the conversation. This is an area, because we're all
5 using the same terminology, sometimes to mean different things,
6 we're overcommunicating what you mean by what you -- by when
7 you use a certain phrase, then we can sort of limit the risk of
8 falling foul of regulation, but you know, I don't think there's
9 any asset manager who isn't acutely aware that we're a heavily
10 regulated industry, and that there are very high standards that
11 we're expected to meet.

12 MS. BERMAN: So keying off of that, the next question
13 is quite appropriate, and it's a question again for David,
14 Michelle, Melanie and Mari to just describe what are the sort of
15 processes, what system do you have in place at your firms to
16 make sure that funds are not being greenwashed and
17 misrepresented by your marketing departments and/or others that
18 are involved in the channel?

19 MS. ADAMS: I can -- I'm happy to start. Again, we
20 might all start talking at the same time.

21 I'm wanting to start and give a few examples of some
22 of the stuff we're doing. One is, all of our global investment
23 teams have fully documented processes for how they integrate
24 ESG. We don't require all of our investment teams to do the
25 exact same thing, but what we do have is a very strong oversight
26 where all these processes are documented. They go up to the
27 CIO. They're evaluated on it. They're -- it's part of their
28 compensation process at the annual year-end.

1 And we also talk with the teams about look at
2 data and look at resources to make sure that throughout the
3 year, we're able to help address any issues they're having in
4 pulling in the information.

5 We also do really detailed analysis on climate. We do
6 climate scenario analysis for over 70 of our funds. Really, you
7 know, we look at the 1.5 degree, 2 degree, 4 degree scenarios.
8 We run all our portfolios through that, and we sit down with the
9 investment teams on a quarterly basis. We talk about climate
10 implications of all the different portfolios.

11 We look at -- you know, it's a very integrated process
12 and we're talking about engagement and proxy voting and how we
13 think about these. So these are just some of the steps that
14 we're taking and I'll leave time for others to maybe weigh in as
15 well.

16 MS. BERMAN: David, do you want to weigh it?

17 MR. RUTHERFORD: Sure. I mean, a lot of this, similar
18 things that Melanie talked about; in particular, making sure
19 that our ESG team's at the table when we're scoping new
20 managers, when we're, you know, evaluating our managers and
21 their ESG capabilities, so for sure there.

22 We also, for a subset of our funds, it's our ESG team
23 that evaluates the company universe and then determines for that
24 sub-advisor the companies that that sub-advisor can invest in.
25 So it's a very prescriptive process, making sure that the
26 companies that are in our funds pass a certain level of ESG
27 credibility.

28 Doesn't mean they're all ESG leaders because we use

1 that evaluation process to identify candidates for corporate
2 engagement because if we can find an organization within, within
3 an industry that might be lagging on a couple of ESG factors,
4 but is an industry leader, and if we can get that organization
5 to move, it can lift the entire industry.

6 So that tight connection between ESG evaluation and
7 corporate engagement and then our policy work on top of that is
8 really critical to making sure that all the funds that we offer
9 in some way speak to our responsible investment value
10 proposition.

11 MS. BERMAN: Thank you, David. I'll just turn it to
12 you, Mari, if you have anything you'd like to add to Melanie and
13 David's comments.

14 MS. BROSSARD: So he has plenty of time to create
15 marketing material. It's not a secret that we operate under a
16 business model called open architecture, so we'll always have
17 the analysts that have been part of the external manager
18 research to be involved in the content integration, and have open
19 dialogue with external managers also. So sometimes we'll send
20 material to Melanie's team saying as our external manager, "are you
21 comfortable with this?" So it's having the buy-in of the fund
22 research analysts and being in constant discussion with the external
23 manager to make sure
24 they're also comfortable with how represented their investment strategy.
25 [Inaudible]

26 MS. BERMAN: Thank you. I think if it's okay,
27 Michelle, unless there was something you wanted to add, I'll
28 move on because questions are coming in.

29 So one is on ESG ratings, and so, you know, big

1 question, which is, how can you really avoid greenwashing or

1 inaccuracies if you rely on ESG data or scoring, that one is
2 subjective, or if you're relying on it from an outside provider
3 that there are so many assumptions built into it as well as
4 nuance, and all of the nuances we talked about when it comes to
5 ESG-related issues for different funds.

6 So how can you avoid it being misleading or not an
7 appropriate "one size fits all" for investors to compare?

8 And in terms of -- Ian, why don't I let you lead off
9 on that.

10 MR. HOWARD: I think -- I mean, it is true, right,
11 there is not sufficient data availability or disclosure by
12 companies and that really is what limits our research, right?
13 We can only really use data that is available across a broad set
14 of companies in an industry, right?

15 So when we do have data, I mean, the big exercise for
16 us as a ratings provider is to make sure that that set of data
17 is reliable and available, right? And then, so a bigger problem
18 for us is not having data to cover things that are still
19 important, right, to investors. Often, we cannot satisfy that.
20 So we're left with what we can analyze.

21 So when we do get those, that data, it is -- usually
22 meets certain -- always meets certain standards for us, and in
23 terms of the question, you know, how can -- you know, I think a rating
24 provider, what we do is provide structure to the decision-making
25 of how to evaluate these maybe subjective pieces of information
26 like a policy, and when it is -- are things that are not
27 quantitative and they're qualitative, the exercise often comes
28 down to how does a company perform relative to its peers.

1 So it may not be to the same degree of comparability
2 of a quantitative figure, but you at least start to get, you
3 know, a comparability and across companies, so that's really the
4 process.

5 So I think the methodologies, as we call them within
6 our firm, are an answer to the problem of how do you assess
7 these non-quantitative things in a structured way.

8 And so I think that is on the path, right? And, you
9 know, certainly room for improvement, but I think it, in part,
10 addresses some of those concerns.

11 MS. BERMAN: And I don't know if Michelle or any of
12 those have a comment on those issues in terms of the reliability,
13 the reliance on ratings and data providers?

14 MS. EDKINS: I would just add, you know, I think it is
15 important that you describe how you use it in your process, and
16 a lot of asset managers, particularly in the active investment
17 strategies, use a rating as a flag because there is that
18 peer-to-peer comparability, even if you might question how
19 thorough the data gathering is underneath because of, you know,
20 gaps in corporate reporting.

21 But if you're looking at a sector and you see some
22 companies have, and just going to be really simplistic here, the
23 equivalent of a green flag and others have the equivalent of a
24 red flag, do you understand what's driving that and is that an
25 issue that needs to be taken into consideration in your
26 investment analysis.

27 The only other thing I would add is there's a role for
28 asset managers to be developing their own tools and analytics

1 and also working with the data providers on feedback on how to
2 improve or where ratings may fall short of the use case from an
3 investment management point of view, but it is hugely important
4 because increasing numbers of clients, especially clients in
5 Europe, are setting portfolio restrictions on companies that
6 don't achieve a minimum rating. So while an asset manager may
7 not be using it in investment decision-making, some asset owners
8 are including that in their mandate.

9 MR. BUREAUD: Wendy?

10 MS. BERMAN: Yes?

11 MR. BUREAUD: I just want to add: I think it's a very
12 important issue. Hopefully, some of it can be cured by
13 disclosure and transparency and actually being very specific
14 about the unreliability or the risk of too much reliance on the
15 data and trying to explain the reasons for that.

16 Just one: I came across a study done by MIT, which
17 actually looked at different ESG ratings, and it was a very
18 interesting conclusion. They found that there was actually a
19 low degree of correlation as amongst the different ratings on
20 the same companies. In other words, one rating organization
21 scored at a high, gave it a high rating, the other one scored a
22 very low rating, and to me that just underscores the importance
23 of full disclosure, talking about the challenges.

24 And maybe just David's point earlier about talking
25 about the methodologies because I think, in that way, it's
26 probably the only way that people can kind of draw their own
27 conclusions about how much reliance they want to put on a
28 different rating.

1 MR. HOWARD: Yeah. I think, if I can just respond to
2 that, the ratings -- because ESG is such a broad topic,
3 different companies measure different things with their rating,
4 right? And have different availabilities of data on which to
5 base their ratings, right? I think as our asset manager
6 colleagues here have mentioned, they use not just our rating,
7 right? The rating becomes a flag. So I think it is maybe
8 overstated, the reliance on the ratings in the investment
9 community, right? As Michelle was mentioning, it's used as a
10 flag, and then the data, right, that underlies our rating can
11 also be used, but those things often are used as the first step
12 into deeper analysis, right?

13 So I would question whether ratings are truly used to
14 the level that is alluded and, you know, I think, you know, in
15 terms of ratings, most investment managers have a different
16 approach to using ESG and different data and using multiple data
17 sources.

18 And I think that study and many like it didn't say
19 that there was a complete disagreement, right. That study said one
20 provider might say, you know, have a greater emphasis in the
21 other, another, and that is a common complaint of ESG ratings,
22 that they aren't consistent, and I think it usually comes from
23 those who come from the credit world, right, and like
24 traditional investors, that they want something very consistent
25 and I think we have -- we're not against that, but it's going to
26 take years before we come to agreement, right?

27 So that, you know, I don't think anyone's against the
28 idea of us being -- having an agreed-upon way to evaluate ESG to

1 allow rating providers to have more comparable ratings, but it's
2 going to take years of discussion, negotiation,
3 consensus-building to get there and, you know, we've only really
4 just started that.

5 MR. LACROIX: Wendy, if I may say maybe two things on
6 that. The first one is, I think we've heard a lot in that
7 discussion and the previous one for the question period the need
8 for more comparability and more data coming from companies, from
9 issuers that are included.

10 Like, I think I can say, Wendy, in both our names and
11 CSA colleagues that we are certainly not working on ESG matters
12 solely from the perspective of asset management, but also
13 considering other perspectives, and certainly, we can, in the
14 near future, give more clarity and help on that front as well.

15 The second thing that I want to mention is that we've
16 heard a lot in that discussion the use of data and ratings from
17 an investment management or professional investment management
18 viewpoint.

19 If we look at the recent data from Investor Economics,
20 that the growth in the ETF sector is -- the growth of the ESG
21 ETF sector for the past 12 months is 241 percent. So it may
22 take a lot of time to reach the level of consensus and
23 comparability, but as we speak, there are investors feeling in
24 the position to make investment decisions.

25 And they are also using ratings and product ratings,
26 fund ratings and analytics, and I am actually wondering how much
27 are they -- how many investors are taking their decision looking
28 at the website from investment managers, and how much are they

1 making that decision using a website platform providing
2 weightings, ratings and metrics.

3 So, it is -- for me, we spoke less of that, but in my
4 mind, to have it right and to tackle the risks that we outlined,
5 we need to keep that in mind in the solution.

6 MR. HOWARD: Yes. On the retail investor, I mean,
7 it's been interesting for us as we've merged into Morningstar,
8 who plays a big role in the retail side, for us, up until a
9 couple of years ago, the only clients of ESG research were
10 investors, investment managers in the equity public markets, and
11 so the ESG research that we have is pretty much focused on what
12 the needs of the institutional investors have, right?

13 So I think there is a lot that needs to be done on the
14 debt markets, a lot needs to be done in the -- for the retail
15 market in terms of improving ESG, and I think, you know, I would
16 say that one of the biggest topics from this discussion today
17 has been about consensus and understanding of terminology. It's
18 going to take us a while, but really, really important when it
19 comes down to the retail investor that we get there, so it's
20 very consistent use.

21 And I think that will be a role for you, Hugo and
22 Wendy and your organizations, to assure that there is
23 consistency, so that retail investors can, you know, understand
24 more clearly. So...

25 CLOSING REMARKS:

26 MS. BERMAN: Well, thank you all. I think we still
27 have a ton of really interesting questions, but unfortunately,
28 we've run out of time, but that's okay, because this is just the

1 beginning of the dialogue, so we will have an opportunity to
2 continue the discussion. We've got a lot of very complex issues
3 to sort out and a great sense of urgency to get them sorted out.

4 And so I really appreciate the opportunity. It's been
5 a pleasure to host this roundtable, and to thank you all again
6 for participating in the panel and for sharing so candidly your
7 thoughts on what we're facing and the challenges that we have to
8 overcome.

9 I want to thank everyone who attended today, including
10 my colleagues around the CSA, and a special thank you to Hugo
11 Lacroix for being my co-chair on this today. I really
12 appreciate it. As Hugo said in the beginning, we're very much
13 enjoying working together on ESG issues, and so it's been --
14 it's great, and that's all I can say about that.

15 And I can say as well that as working together across
16 provincial borders, not just Ontario and Quebec, but across the
17 country, I am very pleased by the commitment of Canadian
18 securities regulators to addressing these issues and to engaging
19 in these types of important dialogue to make sure we get it
20 right and we do what's best for the investing public and for the
21 security of our capital markets.

22 Lots will be changing, lots of moving parts, and
23 little time, so that's the big challenge facing all of us.

24 So thank you all very much and I hope everyone has a
25 great afternoon. Take care.

26 --- Whereupon the roundtable adjourned at 2:58 p.m.

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to be a true and accurate
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Beverley Killen, CSR
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