SOCIAL INVESTMENT ORGANIZATION

658 Danforth Avenue, Suite 409
Toronto, Ontario M4J 5B9
Tel: 416-461-6042 Fax: 416-461-2481
Email: info@socialinvestment.ca
www.socialinvestment.ca

August 6, 2003

Rosann Youck
Chair of the Continuous Disclosure Harmonization Committee
British Columbia Securities Commission
PO Box 10142 Pacific Centre
701 West Georgia Street
Vancouver BC V7Y 1L2

Denise Brosseau, Secretary
Comission des valeurs mobilieres du Quebec
Stock Exchange Tower
800 Victoria Square
PO Box 246 22nd floor
Montreal QC H4Z 1G3

On behalf of the Canadian Securities Administrators:
British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Newfoundland and Labrador Securities Commission
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

Dear Ms. Youck and Brosseau:

Re: Comments on proposed National Instrument 51-102, Continuous Disclosure

I am writing on behalf of the members of the Social Investment Organization, the national association for socially responsible investment. Our members include more than 400 staff and directors of financial institutions, asset management firms and fund companies, as well as financial advisors and investors. Our members are committed to the development of socially responsible investment, which is the application of social and environmental analysis to investment selection and management. Our members serve more than half a million Canadian depositors and investors.

With this letter, we are responding to your request for comments on proposed new National Instrument 51-102 on continuous disclosure obligations.

Board Responsibility

First, let me commend the CSA for enshrining responsibility for corporate reporting with the Board. One change in your new Guidelines that is very welcome is a clarification around Board approval of Management's Discussion & Analysis (MD&A). Under the new guidelines, the MD&A must be reviewed by the audit committee, if any, and approved by the Board. SIO was one of many commenters that supported this clarification. As representatives of the investors of a company, and as stewards of the company's long-term well-being, it is critical that the Board have responsibility for financial, social and environmental reporting. This is similar to the requirements under the Turnbull system in the UK , which is now recognized as one of the best models in the world.

Disclosure of Social and Environmental Policies

Second, let me commend CSA for recognizing the importance of social and environmental reporting as part of a corporation's continuous disclosure obligations. As we stated in our brief to you in September, 2002:

> *Companies that implement sustainability policies, codes of conduct, employee benefits programs and other corporate citizenship practices are more likely to identify market and production opportunities in the future. In short, corporate reporting on social and environmental issues holds the potential to reduce risk and enhance long-term shareholder return. Social and environmental disclosure is increasingly viewed as an element of good corporate governance*.

Specifically, we welcome your new Guideline for information required in the Annual Information Form (AIF), which will require companies, as part of the general description of their business, to describe their "social and environmental policies and the steps your company is taking to implement them." In the explanatory notes to the guidelines, CSA states: "Reporting issuers will now be required to disclose their social and environmental policies when they describe their business."

We welcome this new Guideline. It will now require companies to disclose their social and environmental policies, if any, and to enable investors and analysts to compare companies across sectors and within sectors on best practices on social and environmental performance.

As well, in your MD&A instructions and interpretation, you state: "Your MD&A must discuss material information that may not be fully reflected in the financial statements. Some examples are environmental, social or cultural matters, contingent liabilities and defaults under debt, off-balance sheet financing arrangements or other contractual obligations." From our point of view, this is a welcome addition to the MD&A instruction. It states that companies should discuss social and environmental issues, which is major step forward from existing practice.

However, we believe that the MD&A instruction should be clear that social and environmental policies should also be included in the MD&A. Since the MD&A is integrated into the financial statements, it is important that companies be required to disclose their social and environmental policies as part of the MD&A, serving to place the financial information in the context of a corporation's social and environmental policies.

Social and Environmental Risk

One area in which we are disappointed in the new policy is in its failure to address the importance of social and environmental risk.

For example, in your AIF instructions, you do not call for a broad disclosure of social and environmental risk factors. The instruction for disclosure of risk factors is very brief, mentioning "environmental and health risks" and "political conditions," but not laying out a broad instruction to disclose risks of a social responsibility or sustainability nature.

This shows that CSA is falling back on traditional notions of health, safety and environmental (HSE) risk, and political (country) risk. But CSA has not accepted our contention that social and environmental risk, broadly speaking, is a fundamentally important part of financial analysis.

In the explanatory notes to the Guidelines, you commented on our brief, which called for specific social and environmental guidance on MD&A risk disclosures. On this issue, you state that the new Guidelines call for environmental, social and cultural disclosure as part of the general description of a business to be disclosed in the AIF. You also point to the Canadian Performance Reporting Board (CPRB) guidelines (the Canadian Institute of Chartered Accountants MD&A guidelines published late last year).

The problem with both the AIF Guidelines and CICA Guidelines on MD&A is that they both ignore the need for social and environmental risk reporting. As noted above, the AIF Guidelines call for disclosure of a company's social and environmental policies. However there is no mention of social and environmental risks. As well, the CICA MD&A Guidelines call on companies to cite "key drivers" such as social and environmental responsibility in their MD&A disclosures. But social and environmental risk factors are not included. Therefore, in both the CSA requirements and CICA guidelines, the concept of social and environmental risk is absent.

Recommendation

To rectify this failing in the new Guideline, we make the same recommendation for the MD&A that we made in our September, 2002 brief to you. Specifically, we recommend that:

> **A new section entitled "Risk Factors" should be added. In this section, companies should be advised: "You should discuss financial and non-financial events, actions or circumstances that will adversely affect your organization's ability to achieve its business objectives. Social and environmental risks should be included. These would include stakeholder issues such as employees (union disputes, OSHA-type data on fatalities and lost time incidence, discrimination and harassment complaints), customers (product quality or safety issues), community involvement (human rights complaints or operational problems in developing countries) and environment (emissions problems or other sustainability risks)."**

Our intention is not to be inordinately prescriptive in detailing the need for social and environmental risk disclosure. We take a principles-based approach to securities regulation, rather than a rules-based approach. That is why we have prescribed the content by way of example, rather than laying out specific data to be disclosed. We feel this permits management and Boards to focus on the issues of most significance. As well, we also recognize that new issues can arise that are unforeseen at present. This recommendation includes enough flexibility to provide for these contingencies.

As well, we recommend that the MD&A instruction include a direction to describe a company's social and environmental policies as part of its MD&A.

Conclusion

As we stated in our September 2002 brief:

> *The members of the Social Investment Organization believe that the current crisis of confidence in world capital markets is more than a problem of financial accounting. It is a problem of short-term thinking that externalizes corporate risks to stakeholders. Recent corporate abuses have cost investors billions of dollars. But other stakeholders have also been injured by other kinds of non-financial corporate harm. These have resulted in numerous examples of hurt to our social welfare and environmental sustainability. These issues have also created untold erosion of long-term share value.*

By clarifying your continuous disclosure guidelines on social and environmental policies and risks, CSA will be helping to improve corporate performance on responsibility and sustainability issues, and to enhance share value over time.

Sincerely,

Eugene Ellmen
Executive Director