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Davin Hall
Policy Manager (A)
CAPSA Secretariat
C/o Joint Forum Project Office
5160 Yonge St.
17th floor Box 85
North York ON M2N 6L9

Dear Mr. Hall:

Re: Proposed Guidelines for Capital Accumulation Plans

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 guidelines on Capital Accumulation Plans.

First, let me commend the Joint Forum on working to address a major policy gap in this area. The proliferation of defined contribution pension plans, group RRSPs and other capital accumulation plans has created an urgent need for additional disclosure and transparency by CAP sponsors. As well, it is clear that CAP members need additional educational opportunities to make themselves aware of the particular features of their own CAPs, as well as other investment options available to them. Your proposed guidelines address an important need for plan disclosure and member education.

However, we believe that your guidelines fail to address an important need for additional investment disclosure related to social responsibility and environmental sustainability. It is clear that CAP members need a level of disclosure from their CAPs so that they can make an informed assessment of how their plans address social and environmental issues, if at all. With growing awareness of the connection between social responsibility, environmental sustainability and long-term shareholder return, it is becoming increasingly important for investors to be aware of the social and environmental investment policies of their retirement savings and other capital accumulation plans.

The Case for Social and Environmental Disclosure

We believe that social and environmental analysis is an integral part of a well-managed portfolio. There is a growing body of evidence showing that corporations with positive social and environmental records have superior stock performance. According to the most recent figures, the Domini Social Index, the world's oldest social responsibility stock index, has earned 10-year annualized returns of 11.2%, compared with 10.3% for the S&P 500, a comparable non-screened index. Other indexes have also significantly outperformed their conventional benchmarks. It is clear that companies with codes of conduct, sustainable environmental practices, equitable employee operations and other responsible policies enhance shareholder return over time.

In order to assess their investment options on social and environmental issues, investors must be given information on the extent to which their investment options take into consideration socially responsible investment (SRI) factors. As a result, numerous jurisdictions are recognizing the importance of social and environmental disclosure in regard to investment policies. Governments and securities commissions are coming to the view that SRI disclosure represents an important new form of consumer protection for investors.

In July 2000, the UK Pensions Act was amended to require trustees of occupational pension plans to disclose their policy on socially responsible investment as part of their Statement of Investment Principles (SIP). Before this amendment, pension fund trustees were under no obligation to inform their members of their SRI stance.

Amendments to the 2001 Australian Financial Services Reform Act stipulate that all products with an investment component – including pension funds and mutual funds -- must include disclosure of “the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention and realisation of the investment”. More recently, the Australian Securities and Investments Commission (ASIC) released Practice Statement 175, which requires advisors providing personal financial advice to enquire whether environmental, social or ethical considerations are important to their clients.

Social investment disclosure by pension funds is quickly becoming the standard for public policy around the world. Along with the UK and Australia, similar disclosure regulations are in place in France and Germany. It is expected that this policy will soon become quite commonplace among countries of the Organization for Economic Development and Co-operation (OECD). As social investment disclosure regulation spreads around the world, we expect growing numbers of pension funds to disclose their social investment practices as this policy increasingly becomes the industry standard.

Yet Canadian securities administrators have failed to act on this important policy area.

This comes in spite of the fact that there is public support for such disclosure. According to a December 2001 Vector Research survey, a majority of Canadians, as pension plan members and beneficiaries, support pension plans that invest in socially responsible companies. The survey found 51% of all Canadians want their pension plans to invest in companies with a good record of social responsibility. Support for this view is greater amongst shareholders (54%), and even higher amongst wealthy shareholders (i.e. \$100,000+) (59%).

Canada risks falling behind its OECD partners on this important policy initiative. Action by securities commissions and other financial regulators could help to establish disclosure rules to keep Canada current with international practice in this area. As well, such disclosure would help investors better assess their investment options from a social responsibility and sustainability viewpoint.

Recommendation

In the background paper to the Joint Forum report on the proposed guidelines, you state: “The mandate of the Joint Forum is to proactively facilitate and coordinate the development of harmonized, cross-sectoral and cross-jurisdictional solutions to financial services regulatory issues. Since its inception, the Joint Forum has focused on strengthening consumer protection through regulatory harmonization and enhanced consumer disclosure, and through coordinated and improved intermediary proficiency standards.

In the spirit of improving consumer protection through enhanced SRI disclosure, we offer the following recommendation for your proposed guidelines for Capital Accumulation Plans.

In Section 4.2.1 on Investment Funds, to ensure transparency and accountability, that investment funds available to CAP members disclose the extent (if at all) to which social, ethical and environmental (SEE) issues are taken into account in the selection retention and management of investments; and their policy (if any) relating to the exercise of rights (including voting rights) attaching to investments.

This wording is drawn from the disclosure rules now governing pension plans in the UK, and is similar to other SRI disclosure rules in other jurisdictions. The rationale for this recommendation is to provide an additional level of consumer protection by making CAP members aware of the social and environmental investment policies of the investment funds available to them. By including this simple disclosure, CAP members will have significant additional information to assess the investment worthiness of their investment options.

Conclusion

By the Joint Forum's estimates, three million Canadians belong to more than 60,000 CAPs, and over 70% of these CAPs permit members to make investment choices. Given the importance of investor education and protection in relation to capital accumulation plans, it is essential that investors be provided with simple and clearly understood tools to properly assess their investment options. SRI disclosure is one of these tools.

By requiring CAPs to provide SRI disclosure on their investment options, the Joint Forum will enhance consumer protection and provide a higher level of investor education and awareness.

Sincerely,

Eugene Ellmen
Executive Director