



Canadian Ecumenical
Justice Initiatives /
Initiatives œcuméniques
canadiennes pour
la justice

Members

Anglican Church of Canada
Canadian Catholic Organization for
Development and Peace
Canadian Conference of
Catholic Bishops
Canadian Religious Conference
Christian Reformed Church in
North America (Canada Corporation)
Evangelical Lutheran Church
in Canada
Mennonite Central Committee
of Canada
The Presbyterian Church in Canada
The Primate's World Relief and
Development Fund (PWRDF)
Religious Society of Friends (Quakers)
United Church of Canada

Membres

L'Assemblée annuelle canadienne
de la Société religieuse des amis
La Conférence des évêques
catholiques du Canada
Le Comité Mennonite Central
La Conférence religieuse canadienne
Développement et paix
L'Église anglicane du Canada
L'Église évangélique luthérienne
du Canada
L'Église presbytérienne au Canada
L'Église réformée chrétienne en
Amérique du Nord
(Société canadienne)
L'Église unie du Canada
Le fonds du primat pour le secours
et le développement mondial

129 St. Clair Ave. W.
Toronto Ontario
Canada M4V 1N5
tel: 416.463.5312
toll-free: 1.877.403.8933
fax: 416.463.5569
www.kairoscanada.org

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
E-mail: jstevenson@osc.gov.on.ca

July 26, 2004

Dear Mr. Stevenson,

I am writing you in response to your *Request for Comment - Changes to Proposed National Instrument 81-106 Investment Fund Continuous Disclosure*. This brief will give you some background information on our organization, and then discuss our main interests in your recommendations regarding proxy voting.

KAIROS: Canadian Ecumenical Justice Initiatives

Our organization, KAIROS, unites churches and religious organizations in a faithful ecumenical response to the call to “do justice and to love kindness and to walk humbly with your God” (Micah 6:8). We deliberate on issues of common concern, advocate for social change and join with people of faith and goodwill in action for social transformation.

KAIROS members include the following national churches and faith-based institutions:

- Anglican Church of Canada
- Canadian Catholic Organization for Development and Peace
- Canadian Conference of Catholic Bishops
- Canadian Religious Conference
- Christian Reformed Church in North America
- Evangelical Lutheran Church in Canada
- Mennonite Central Committee of Canada
- Presbyterian Church in Canada
- Primate's World Relief and Development Fund
- Religious Society of Friends (Quakers)
- United Church of Canada

Collectively these members maintain significant investments in Canadian corporations and mutual funds, and it is on their behalf as institutional investors that we would like to comment on your proposed amendments to National Instrument 81-106.

KAIROS was formed three years ago from the amalgamation of ten ecumenical coalitions, each working with a network of affiliates in a different area of social justice. One of those coalitions was the Taskforce on the Churches and Corporate Responsibility (TCCR), which focused on the area of socially responsible investment and corporate social responsibility.

TCCR was a Canadian pioneer in shareholder activism. Representing faith-based institutional investors, it engaged in a number of successful campaigns over the years to encourage Canadian corporations to be more socially responsible. From the movement to divest from apartheid South Africa, to addressing pollution issues by mining operations, TCCR has been at the forefront of corporate engagement for almost thirty years.

In addition to the research on issues and corporate dialogue, TCCR sought to increase participation by investors in the affairs of those companies in which they hold shares. To this end, TCCR and its counterpart organizations in the US and UK in 1998 created Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance, a set of standards for evaluating corporate behaviour using a range of social and environmental criteria. In 2002, in collaboration with the Social Investment Organization, it produced Socially Responsible Shareholdership in Canada: a Handbook for Institutional Investors, which outlined the various steps required of investors to become actively involved in influencing corporate policy.

KAIROS, through its Corporate Social Responsibility Program, continues to engage with corporate leaders and to increase awareness and participation in socially responsible shareholdership.

We would like to express our appreciation for the solid progress you have made to date in amending the regulations for continuous disclosure. In particular, you are to be congratulated on promoting transparency in proxy voting by Canadian investment funds. Such transparency is a key ingredient in an effective system of shareholder democracy.

Proposed Proxy Voting Disclosure Requirements

The proposed requirement for investment funds to establish proxy voting policies and procedures is heartily endorsed by us. As author of the aforementioned Socially Responsible Shareholdership in Canada, I encouraged institutional shareholders to develop proxy voting guidelines for the following reasons:

“It is an exercise in fiduciary responsibility.

A prudent investor will take into account all corporate behaviour that affects the

well-being of the corporation, including those activities with social and environmental impacts. Though in Canada the laws governing fiduciary responsibility are not explicit regarding socially responsible investment practices, in other countries it is quite clear that institutional investors are permitted to take ethical as well as financial criteria into account in their investment decisions.

In the US, investors are allowed to consider social and environmental implications as long as it will not result in a subsequently lower rate of return. In the UK, the Pensions Disclosure Regulation requires that pension fund trustees disclose in their Statement of Investment Principles the extent to which social, environmental or ethical considerations are taken into account in their investment strategies.

What this means to Canadian investors is that a strong case can be made that setting proxy voting guidelines based on socially responsible investment criteria is a prudent thing to do, and the fiduciary is therefore acting in a responsible manner in creating and abiding by them.

Socially responsible institutional investors realize that their beneficiaries can indirectly benefit from the social effects of their investments as well as directly from the financial returns. Non-financial benefits such as clean air and water, job security, and decent working conditions, while worthwhile ends in themselves, are also increasingly seen to be correlated with a healthier bottom line. This makes it likelier that the beneficiaries will expect their money to be used in socially responsible ways. Clarifying the values of beneficiaries will help in the development of proxy guidelines, ensuring that the guidelines encompass social goals that resonate with the investing constituency. Such clarification can be viewed as adherence to fiduciary duty, as it helps avoid guidelines that run contrary to the interests of the membership.

It simplifies decision-making.

Most institutional investors have investments in a multitude of companies. At times, there may be hundreds of proxy proposals to consider, and not enough time to adequately assess each one individually. Without guidelines, many investors end up defaulting to the views of company managers out of expediency. With them, most routine voting matters can be pre-decided, leaving valuable discussion time for more complex and important issues.

It sends a signal to company management.

Any investor that develops guidelines should send a copy of those guidelines to the management of the companies in which they invest. This will help corporate management get a better understanding of the views and values of their shareholders, as well as direct them in developing policies and operational strategy pertinent to issues of social responsibility.

It provides guidance to the investment manager.

Many institutional investors make use of investment management firms to handle their investments. Giving them a set of guidelines will allow them to automatically vote the vast majority of proxies on behalf of their client while filtering out and passing along only those few shareholder proposals that require active deliberation on the part of the institutional investor.”

[see <http://www.socialinvestment.ca/shareholdership/handbook.html>]

Maintaining a proxy voting record is vital as a means of ensuring that fund managers vote their proxies in accordance with proxy voting guidelines. KAIROS approves of this proposed requirement, especially that detail of disclosing whether the votes were cast “for or against the recommendations of management of the issuer”.

Proposed Use of Websites

We also feel it is an excellent idea to have a fund’s proxy voting guidelines, and its voting records, made publicly accessible via the fund’s website as well as SEDAR, as you propose.

I personally was involved in the project that first saw the laws and regulations of the Canadian government placed on the World Wide Web. In the more than ten years since then, this innovation not only has saved Canadians millions of dollars in publication costs, it has resulted in a great deal more involvement in policy-making procedures by concerned citizens. It has now become commonplace for comments on proposed regulatory changes to be solicited via the Internet, as evidenced by this process for 81-106.

The use of the Internet as a means of public dissemination of voting practices and their rationales is part of the democratic process. Transparency in such matters is required to ensure that investors are able to evaluate their fiduciaries’ performance of duties. It is also important to be able to tell those fiduciaries what is expected of them. Democracy is not a spectator sport.

Expedient public dissemination of a fund’s voting record is also important. However, in order to encourage more active involvement in corporate governance by investment beneficiaries, ***we would like to recommend that investment fund managers post how they intend to vote in advance of the actual vote being committed.*** Making voting intentions available a minimum of two weeks in advance of a company’s AGM would give their investors time to deliberate on the issue at hand, providing further guidance to those who vote proxies on their behalf.

Such a requirement may be seen as contributing to an unmanageable cacophony of opinions, but we feel that investment companies, like all other public corporations, must nonetheless become more responsive to the will of their investors. By establishing

procedures that foster dialogue on issues, people will be better able to exert democratic control over the corporations they invest in. This is increasingly important in an era where many global corporations are more powerful than nation-states. Over time, mechanisms for facilitating investor participation will evolve, resolving some of the more potentially problematic aspects of large-group interactions.

Overall, we are pleased with the new requirements concerning proxy voting policies and procedures that the Canadian Securities Administrators are proposing and look forward to their coming into effect.

Yours truly,

Rory O'Brien

Coordinator
Corporate Social Responsibility Program
KAIROS - Canadian Ecumenical Justice Initiatives

Tel: 416.463.5312, ext. 229

E-mail: robrien@kairoscanada.org