

October 19, 2018

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor, Box 55  
Toronto, Ontario M5H 3S8  
Fax: 416-593-2318  
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, Square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3  
Fax : 514-864-6381  
consultation-en-cours@lautorite.qc.ca

**RE: Proposed Amendments to National Instrument 31-103 and to Companion Policy 31-103CP -- Reforms to Enhance the Client-Registrant Relationship (Client-Focused Reforms)**

We are writing in response to the CSA's request for comments on the Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* -- Reforms to Enhance the Client-Registrant Relationship (Client-Focused Reforms)

About the Responsible Investment Association

We are a Canadian investment industry association composed of approximately 100 institutional members and more than 200 individual members who practice and support responsible investing (RI) – defined as investments that incorporate environmental, social and governance (ESG) issues. Our institutional members represent more than C\$10 trillion in assets under management. A list of our members is available online at [www.riacanada.ca](http://www.riacanada.ca).

Responsible investing has grown rapidly in recent years, driven largely by the growing business case for considering a portfolio's exposure to material ESG risks and opportunities. Executive compensation, board diversity, climate change, cybersecurity, and human rights are just a few examples of ESG issues that are increasingly shaping investment decisions as they can have serious financial implications for companies and portfolios. Many investors are also interested in aligning their investments with their values; for example, by avoiding companies that manufacture tobacco or weapons.

Proposed Appendment

We support the CSA's initiative to clarify and enhance "Know Your Client" (KYC) requirements in section 13.2 and the corresponding guidance provided in the Companion Policy. However, we believe the KYC requirements should be strengthened to ensure that registrants are obtaining important information about clients' *investment needs and objectives*. We propose the following appendment to subparagraph 13.2(2)(c)(iii) [proposed appendment in **red**]:

- *Subparagraph 13.2(2)(c)(iii) requires the registrant to ensure that it has sufficient information on the client's investment needs and objectives. A client's investment objectives are the results they want to achieve when investing, such as capital preservation, income generated by invested capital, capital growth or speculation. A client's investment objectives help establish what particular type of investments are needed to fulfill the purpose of the account or portfolio. Investment needs and objectives are determined based on the client's financial goals, financial needs, and any applicable investment constraints and preferences **including environmental, social, and governance considerations.***

Such an appendment would help to clarify the nature and scope of a client's investment needs and objectives. Moreover, since a large proportion of Canadian investors are interested in responsible investing, it would also help to improve outcomes for clients – which is a stated objective of the CSA's *Proposed Amendments*.

### Supporting Evidence and Rationale

The enclosed 2017 RIA Investor Opinion Survey shows that Canadian investor preferences are increasingly shaped by ESG considerations. The survey is based on data collected by a third-party research firm from 1,084 Canadian investors who own mutual funds, ETFs, stocks, bonds, or other securities. The data shows the vast majority of Canadian investors (77%) are interested in RI, but most (73%) know little or nothing about RI. This highlights a significant gap between investors' interest in and awareness of RI. The survey also found that Canadian investors view their financial advisor as their primary source for information about RI: Investors indicated they would be more likely to choose responsible investments if their financial advisor suggested suitable RI options.

In short, a majority of Canadian investors are interested in RI and they rely on financial professionals for information about RI; but they are not receiving that information from their financial advisors. **Therefore, it is reasonable to conclude that many clients' investment needs and objectives are not being served within the current regulatory framework.**

If an investor is interested in aligning their investments with their values or managing exposure to ESG risks and opportunities, then the registrant should know this aspect about their client. **If the registrant does not know that their client is interested in RI or ESG issues, then the registrant may not know their client well enough to make suitable investment recommendations.**

Dialogues around ESG issues have already been mandated by one pension regulator in Canada. As of January 1<sup>st</sup>, 2016, the Financial Services Commission of Ontario (FSCO) stipulates that "a plan's statement of investment policies and procedures (SIPP) is required to include information as to whether environmental, social, and governance (ESG) factors are incorporated into the plan's investment policies and procedures and, if so, how those factors are incorporated."<sup>1</sup> FSCO's regulation sets a precedent for similar dialogues to occur between registrants and individual investors. There is no reason why individual investors should not be entitled to a comparable level of diligence regarding their views on ESG issues.

---

<sup>1</sup> Financial Services Commission of Ontario. Investment Guidance Notes. Accessed October 19<sup>th</sup>, 2018. <https://www.fSCO.gov.on.ca/en/pensions/policies/active/Documents/IGN-004-2017.pdf>

## Conclusion

The CSA's stated objectives for the proposed amendments are "to better align the interests of securities advisers, dealers and representatives (registrants) with the interests of their clients, to improve outcomes for clients, and to make clearer to clients the nature and the terms of their relationship with registrants." By clarifying that an investor's *needs and objectives* may include environmental, social and governance considerations, regulators would help registrants gather meaningful information to determine suitable investments for their clients. A discussion about RI, ESG issues and suitable responsible investment options will enhance client-registrant relationships and lead to a better outcome for the large proportion of clients who are interested in responsible investing and ESG issues.

I appreciate the opportunity to provide comments, and I would be pleased to discuss this further.

Sincerely,



**Dustyn Lanz**  
Chief Executive Officer  
Responsible Investment Association  
215 Spadina Ave. Suite 300  
Toronto, Ontario, M5T 2C7  
(416) 421-461-6042 x3  
[dustyn@riacanada.ca](mailto:dustyn@riacanada.ca)

Enclosed:  
2017 RIA Investor Opinion Survey



Responsible Investment Association

# 2017 RIA INVESTOR OPINION SURVEY

## IN FOCUS: GENDER DIVERSITY

JUNE 2017

---

SPONSOR

**OCEANROCK**  
INVESTMENTS INC.

## Background

Responsible investment (RI) refers to the incorporation of environmental, social and governance (ESG) factors into the selection and management of investments. RI has been growing rapidly in recent years in Canada and globally, largely as a result of the growing business case for assessing ESG risks and opportunities.

The Responsible Investment Association (RIA) conducts market research as part of our ongoing effort to promote education and awareness about responsible investing. In 2016 we released the report, *Millennials, Women and the Future of Responsible Investing*, which provided valuable insights on Millennial and women investors' perspectives on RI. The *2017 RIA Investor Opinion Survey* marks our second annual survey of Canadian investors' perspectives on responsible investment.

This survey provides the investment industry with vital data on investor attitudes towards RI. The first part of this report examines investor perspectives on RI in general. The second part, *In Focus*, hones in on investor attitudes towards two important gender diversity issues—women on boards and gender pay equity.

### Related Research

- [Millennials, Women and the Future of RI](#)
- [Canadian RI Trends Report](#)
- [Canadian Impact Investment Trends Report](#)
- [Canadian RI Mutual Funds Risk / Return Characteristics Study Findings](#)

## About the RIA

The Responsible Investment Association (RIA) is Canada's membership association for Responsible Investment (RI). Members include mutual fund companies, financial institutions, asset management firms, advisors, consultants, investment research firms, asset owners, individual investors and others interested in RI. Our members believe that the integration of environmental, social and governance (ESG) factors into the selection and management of investments can provide superior risk adjusted returns and positive societal impact.

## Foreword

*By Fred Pinto, CEO, OceanRock Investments and Senior VP, Head of Wealth & Asset Management, Qtrade Financial Group.*

OceanRock's family of Meritas SRI Funds embodies a compelling value proposition: Do well, doing good®. In other words, invest for competitive financial returns while making a positive impact on companies, communities, people and the environment.

As pioneers of Responsible Investing in Canada, we have long believed that the best companies to invest in are those that are committed to strong environmental, social and governance (ESG) business practices. It stands to reason that those companies tend to be more efficient and productive, more respected, better able to mitigate risk, and more likely to create sustainable value over the long term. The strong financial performance of Responsible Investments (RI) over the past decade demonstrates that they can deliver returns comparable to non-RI investments.

In addition to valuable insights on Canadian investors' perceptions of Responsible Investing, this new study includes an *In Focus* section on the issue of gender diversity and gender pay equity. Based on the responses, Canadian investors are intolerant of gender pay discrimination and want to see more women in leadership positions and on corporate boards.

OceanRock has been pursuing this issue with corporations on behalf of our investors for the last few years, through our shareholder engagement program.

It's important to note that having more women on boards and in senior management is not only about gender equity; it also makes good business sense. A greater diversity of views from independent directors is a check against group-think. And drawing from a larger pool of talent leads to better leadership and corporate governance. It's good for companies and it's what investors want.

We invite you to review these findings and help contribute to the growing understanding that ESG considerations should be incorporated into every long-term investment decision.

## Executive Summary

This report examines individual investors' interest in responsible investments that incorporate environmental, social and governance (ESG) factors. Survey data shows that client preferences are increasingly shaped by ESG considerations including gender diversity – a focus area of this study. As a result, the report provides valuable insights for advisors and other client-facing investment professionals.

Survey data indicates that the vast majority of Canadian investors are interested in responsible investing (RI), yet know little or nothing about it. There is a major gap between investor interest and awareness about RI.

In an effort to close this gap, we asked investors what would make them more likely to choose responsible investments. The leading response was that they would be more likely to choose responsible investments if their advisor suggested suitable RI options. The second most prominent response was that investors would be more likely to choose responsible investments if they were more confident in their performance – a data point which reveals that investors remain largely unaware that RI performs just as well if not better than traditional investments.<sup>1</sup>

These findings indicate that advisors could add significant value to client relationships by informing their clients about suitable RI options and educating them about the long-term financial benefits of incorporating ESG factors into investment decisions.

This report also examines investor sentiments regarding gender pay equity and women on boards. The data shows that an overwhelming majority of Canadian investors want the companies in which they invest to pay women and men equally for equal work. In fact, more than three quarters of investors believe that companies should be required to report annually on how much they pay women compared to men, and more than half said they would consider divesting from a company with inequitable pay practices.

Furthermore, the vast majority of investors believe there should be more women on corporate boards in Canada.

---

<sup>1</sup> [Hebb, Tessa \(2015\). Canadian Responsible Investment Mutual Funds Risk / Return Characteristics.](#)

## Key Findings

**Most Canadian investors are interested in responsible investing, but they know little or nothing about it:**

- 77% of investors are interested in responsible investing, yet a staggering 73% know very little or nothing about it.
- 71% of Canadian investors reported interest in impact investments dedicated specifically to solving social or environmental problems.
- This gap in interest vs. knowledge indicates a tremendous opportunity for advisors to inform clients about suitable responsible investment options. It also suggests there is pent up demand for RI, which is being held back by a lack of awareness.

**Investors want to be informed about RI. Canadian investors said they would be more likely to choose responsible investments if:**

1. Their financial advisor suggested suitable responsible investment options.
2. They were more confident in the financial performance of RI funds.
3. They received more information about RI products from their financial institution or online brokerage.

**The vast majority of Canadian investors want the companies in which they invest to pay men and women equally for equal work. They also want to see more women in leadership:**

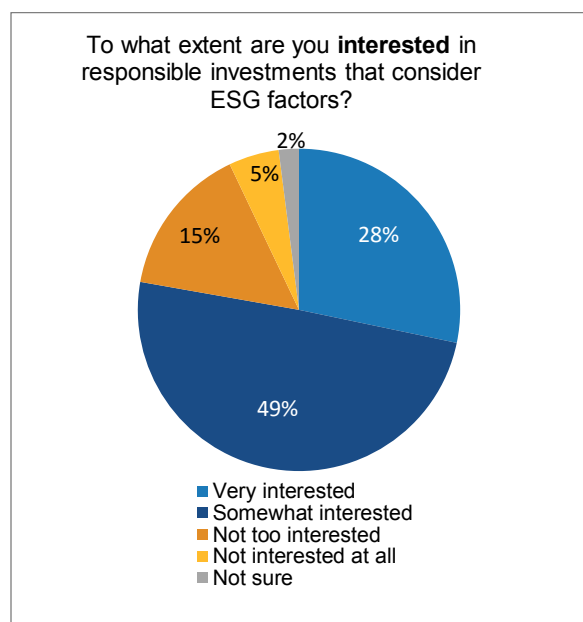
- 92% of investors believe women and men should receive equal pay for equal work.
- 76% of investors believe companies should be required to disclose how much they pay women compared to men.
- 55% of investors said they would be willing to sell their investments if they learned that a company they are invested in does not pay men and women equally for equal work.
- 82% of investors believe that women should be better represented on corporate boards in Canada.

## Methodology

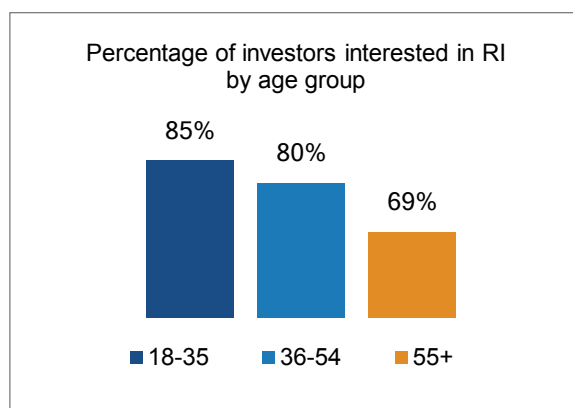
Results are based on an online survey of 1,084 Canadian investors conducted by Insights West from March 21 to March 30, 2017. Investors were defined as individuals who currently own investments such as mutual funds, exchange-traded funds, stocks, bonds, or other securities. The data has been statistically weighted according to Canadian census figures for age, gender and province. The margin of error—which measures sample variability—is +/- 3.0 percentage points.

## Strong Interest in RI

Overall, the vast majority of individual investors in Canada are interested in responsible investing, with 77% reporting that they are somewhat interested to very interested in investments that consider environmental, social and governance (ESG) factors. Only 5% said they were not at all interested in RI.

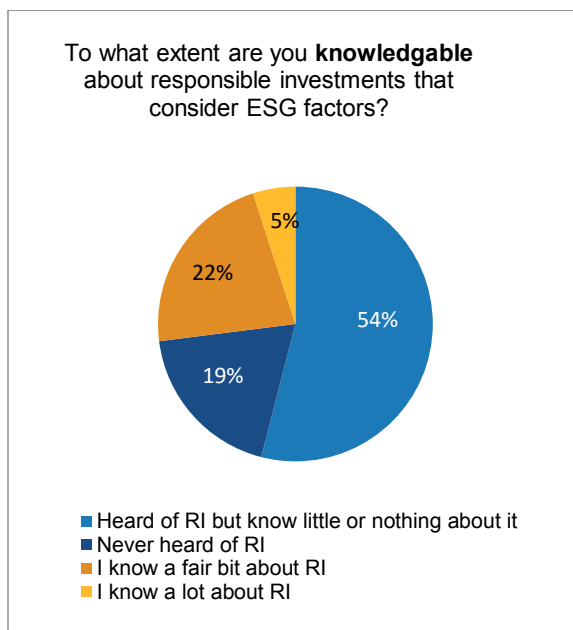


Consistent with findings from the RIA's 2016 report, *Millennials, Women and the Future of Responsible Investing*, our survey data shows younger investors are more interested in RI. 85% of Millennials aged 18-35 reported interest in RI, followed by Generation X (aged 36-54) at 80%, and Baby Boomers (55+) at 69%.



## RI Awareness Gap

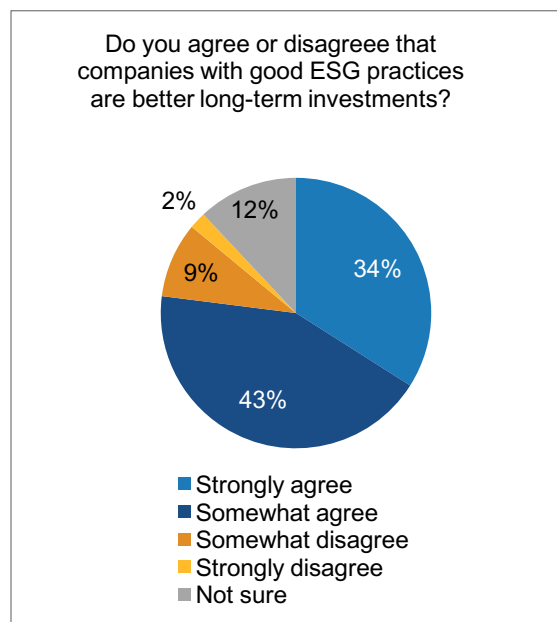
Although 77% of survey respondents reported interest in responsible investing, a sizeable 73% said they know very little or nothing about it. Only 22% of investors said they know a fair bit about RI, and a meager 5% reported knowing a lot about it. This highlights a significant gap between investors' interest vs. awareness of RI.



**73% of respondents buy socially responsible brands or check product labeling for sustainability.**

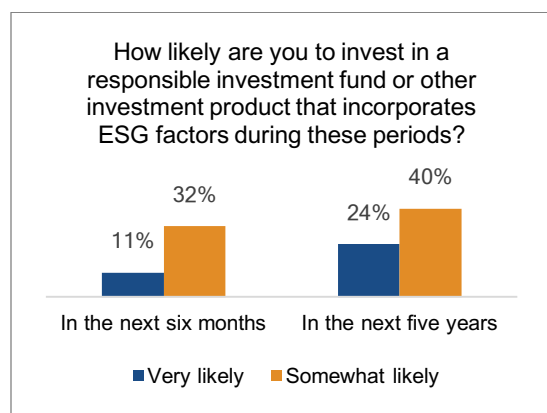
## ESG and Long Term Value

A large proportion of Canadian investors see the long-term benefits of investing in companies with strong ESG performance, with 77% strongly or somewhat agreeing that companies with good ESG practices are better long-term investments.



## Interest in RI by Time Horizon

The likelihood of investing in responsible investment funds rises with a longer time horizon. Whereas 43% of investors said they are very likely or somewhat likely to invest in an RI fund or product in the next six months, that number rises to 64% over the next five years.



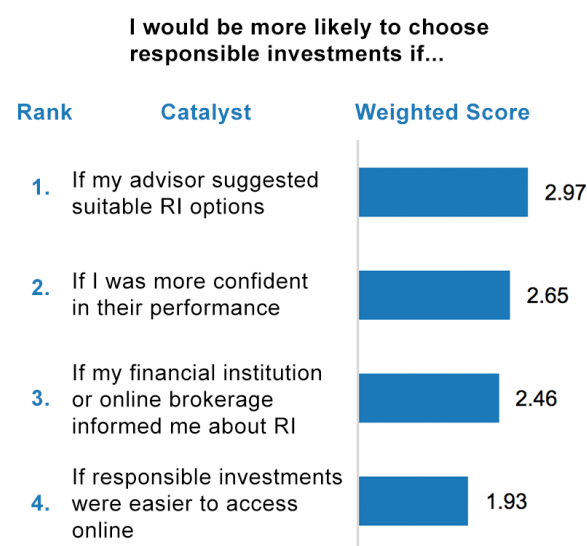
Over the 5-year period, 81% of Millennials indicated they are likely to invest in an RI product vs 49% of Baby Boomers. This suggests Millennials are 60% more likely to choose RI.

<sup>2</sup> Carleton University (2015). Canadian SRI Mutual Funds Risk / Return Characteristics.

## Turning Interest into Action

Many Canadian investors are interested in responsible investing, but what would help turn that interest into action?

Upon being asked what would make them more likely to choose responsible investments, investors spoke loud and clear: They would be more likely to choose RI if their financial advisor suggested suitable RI options for them. That was the top response, followed by greater confidence in the performance of RI products, more information from financial institutions or online brokerages, and ease of access online.



Notes: Respondents ranked their choices from 1 to 4. Scores for each option were calculated by weighting each rank by the number of respondents selecting it and summing those weighted totals. The score for each option equals (number that ranked it first x 4) + (number that ranked it second x 3) + (number that ranked it third x 2) + (number that ranked it fourth x 1).

In the chart above, the first and third-place responses highlight the importance of informing clients about RI, as investors largely indicated that they rely on financial professionals for advice about RI. Financial advisors could add significant value to client relationships by informing clients about suitable RI options.

It is important to inform clients that RI performs just as well if not better than traditional investments. A 2015 Carleton University study commissioned by OceanRock Investments found that Canadian RI equity funds provided financial outperformance while simultaneously reducing risk.<sup>2</sup> A 2015 study by the Morgan Stanley Institute for Sustainable Investing found similar results in the US.<sup>3</sup>

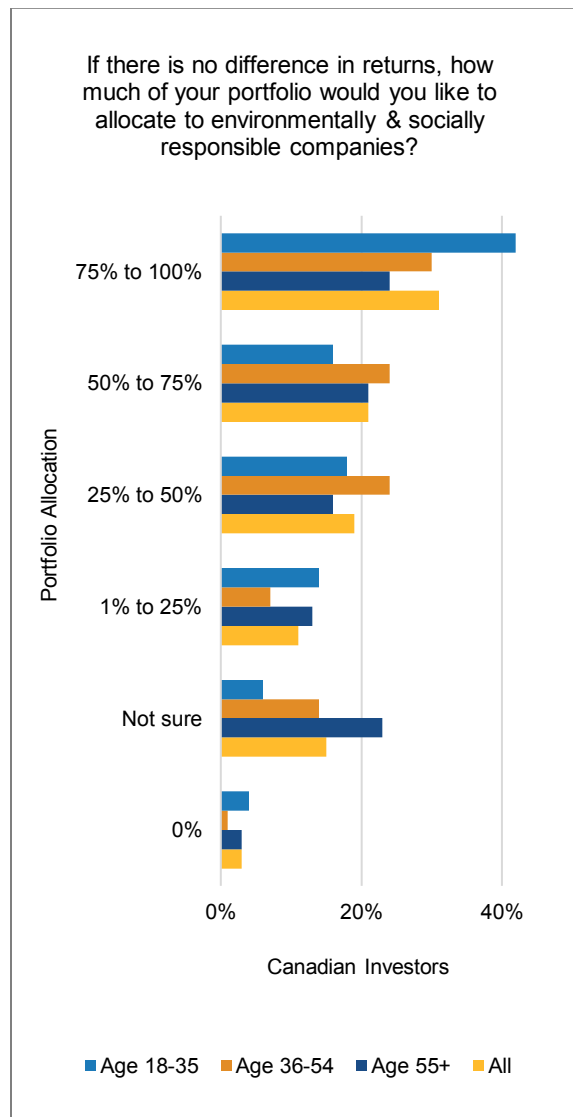
<sup>3</sup> Morgan Stanley Institute for Sustainable Investing (2015). Sustainable Reality.



## Allocation to RI

How much of their investment portfolio would Canadian investors like to allocate to responsible investments? A sizeable 82% of Canadian investors said they would like to dedicate a portion of their portfolio to RI. While 15% were unsure, only 3% said they would not allocate any of their investments to RI.

While investors showed interest in varying levels of allocation to RI, a majority (52%) of investors said they would like more than half of their portfolio allocated to RI. When broken down by age groups, younger investors are significantly more likely than older generations to allocate their entire portfolio to responsible investments.



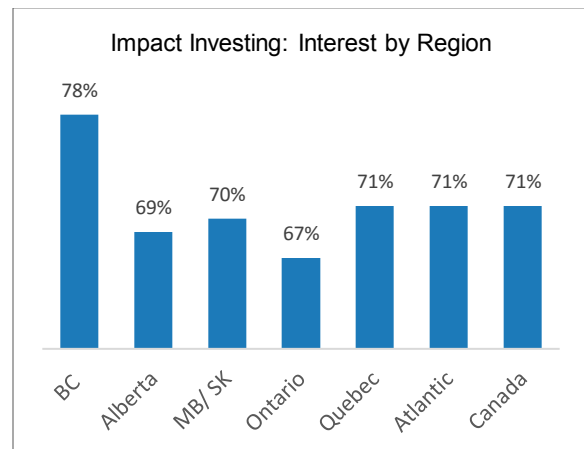
## Impact Investing

Impact investing is defined as “investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact alongside a financial return.”<sup>4</sup> Impact investing is distinct as it aims specifically at solving societal challenges, straddling a line between philanthropy and investing. An example of impact investing would be a fund that supports affordable housing or provides micro loans to entrepreneurs in low income countries.

There is growing interest in impact investing among foundations and mission-driven organizations in Canada and internationally, but what about individual investors in Canada?

The data shows that Canadian investors are indeed interested in impact investments, with 25% reporting they are very interested and 46% reporting they are somewhat interested. Combined, 71% of Canadian investors reported a level of interest in impact investments.

Millennials showed stronger interest in impact investing at 80% versus Baby Boomers at 60%. Across Canada, West Coast investors led in regional interest with 78% of investors reporting interest in impact investing.



**A majority of Canadian investors would like to allocate more than half of their portfolio to RI.**

<sup>4</sup> [Global Impact Investing Network \(2017\)](#).

IN FOCUS:

## Gender Diversity

Canada has a long way to go to achieve gender pay parity, or equal pay for equal work regardless of gender. Recent data from Statistics Canada reveals that, in annual earnings, women working full time in Canada earn 74 cents for every dollar that men make. Another measure, the hourly wage rate, shows that women earn just 87 cents on the dollar.<sup>5</sup>

Canada has an even more dismal record when it comes to gender parity in corporate leadership. Data collected by securities regulators shows women hold only 12% of all seats on corporate boards in Canada. Nearly half (45%) of publicly traded companies have all-male boards.<sup>6</sup>

This inequality is not only a societal issue; it's also a business issue that represents an opportunity. Companies with greater gender equity tend to outperform their competitors on a number of financial measures, including:

- return on equity
- return on sales
- return on capital
- share performance
- stock price growth<sup>7</sup>

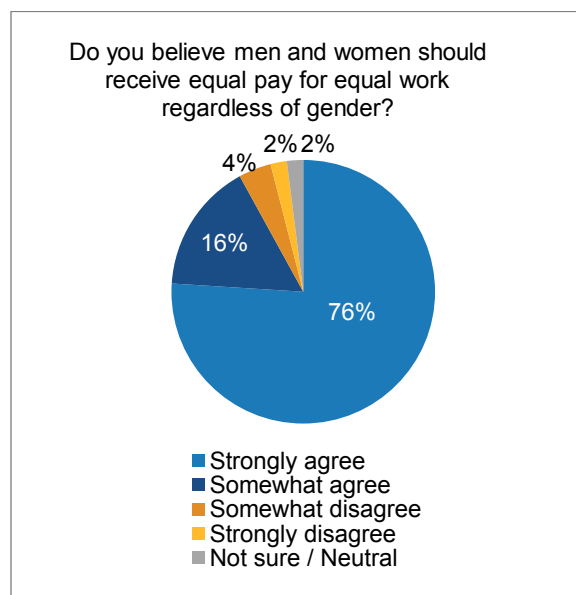
Internationally, boards with gender diversity above and beyond regulatory mandates tend to have fewer instances of governance-related scandals such as bribery, corruption, fraud, and shareholder battles.<sup>8</sup> Research also suggests that more women on boards helps to improve innovation, corporate reputation, and corporate social responsibility.<sup>9</sup>

These statistics highlight a significant opportunity for companies and investors to promote and reap the rewards from greater gender diversity. We surveyed Canadian investors to better understand their perspectives on gender diversity in corporate Canada, and to find out how these perspectives could influence investment decisions.

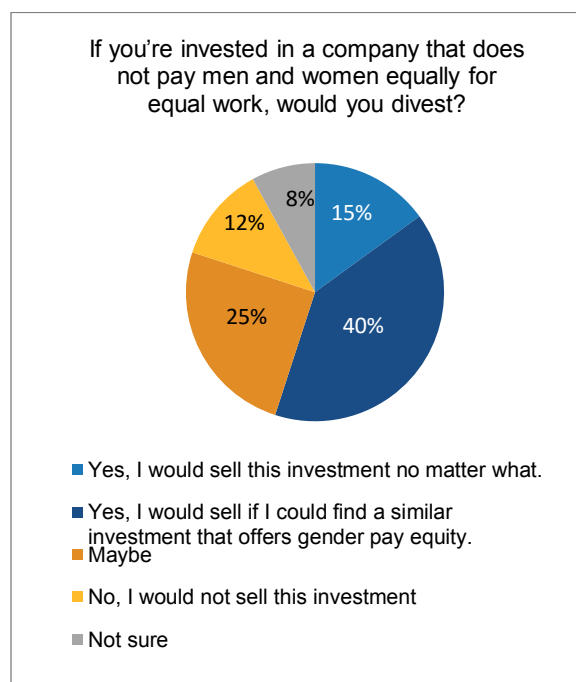
**92% of investors believe men and women should receive equal pay for equal work.**

### Investor Perspectives on Gender Pay Parity

Nearly all Canadian investors (92%) agree that women and men should receive equal pay for equal work, with 74% strongly agreeing and 16% somewhat agreeing.



A majority (55%) of investors would be willing to divest from a company that does not pay men and women equally for equal work, while 25% said they may do so.



<sup>5</sup> Statistics Canada (2017). *Women and Paid Work*.

<sup>6</sup> Ontario Securities Commission (2016).

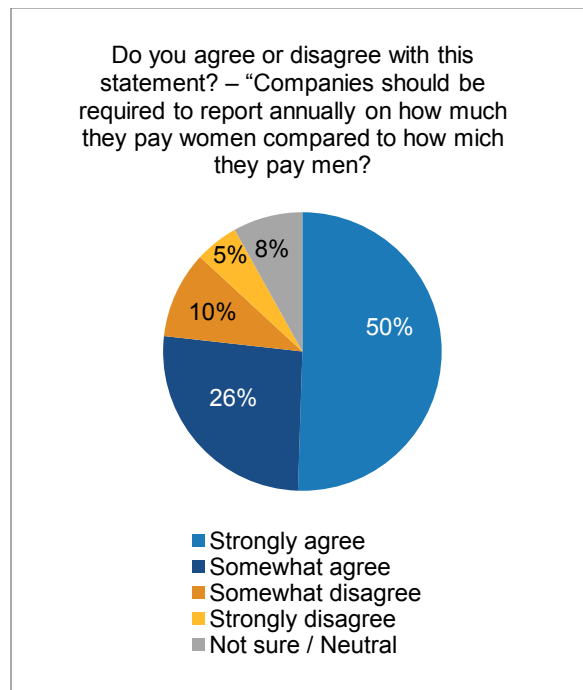
<sup>7</sup> Government of Canada (2016).

<sup>8</sup> MSCI ESG Research (2014). *Survey of Women on Boards*.

<sup>9</sup> *Why Diversity Matters*. Catalyst, 2012

### Disclosure of Gender Pay Statistics

More than three-quarters (76%) of Canadian investors believe that companies should be required to report annually on how much they pay women compared to men. More women than men would like to see these disclosures at 83% versus 67%, respectively.

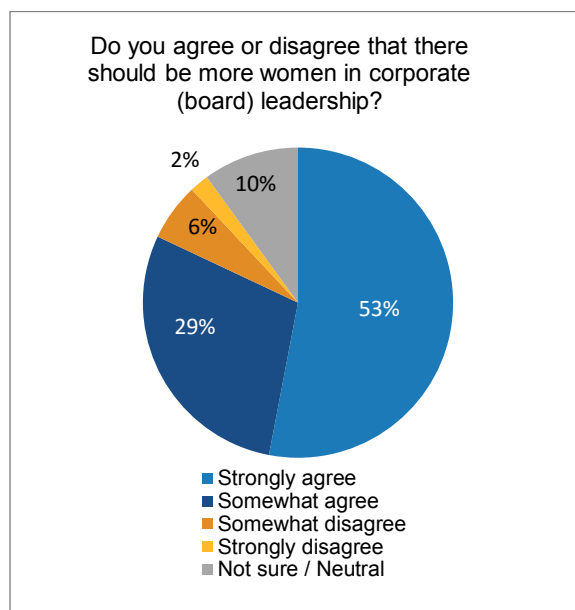


### Investor Perspectives on Women on Boards

Women in corporate leadership is an issue of growing concern that has been in the spotlight lately as responsible institutional investors have been pushing for greater representation of women on boards.

The survey reveals that a large majority of individual investors in Canada believe that women should be better represented on corporate boards, with 82% of investors reporting that they strongly or somewhat agree there should be more women in these leadership positions.

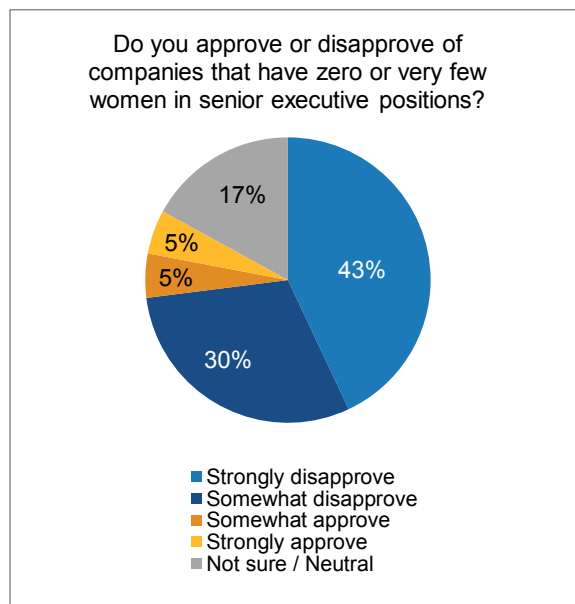
**82% of Canadian investors believe that women should be better represented on corporate boards.**



### Gender Diversity and Corporate Reputation

The survey data suggests that companies with significant underrepresentation of women in leadership may be exposed to reputational risks: 73% of Canadian investors disapprove of companies with zero or very few women on their boards.

This is a signal to companies that excluding women from boards can lead to a tainted reputation among the majority of Canadian investors.



## Conclusion

This study shows that investor preferences are increasingly shaped by ESG considerations. The data indicates that a large majority of Canadian investors are interested in responsible investing, yet know little or nothing about it.

There is a significant awareness gap that presents a tremendous opportunity for client-facing investment professionals.

Since Canadian investors rely on financial professionals for investment advice, advisors who are knowledgeable about responsible investing can add value to client relationships by suggesting suitable RI options for them. This can help to differentiate advisors' practice and strengthen client retention.

When discussing RI with clients, it would be beneficial for investment professionals to educate clients about the long-term financial benefits of incorporating ESG factors into investment decisions.

In addition, this study shows that Canadian investors are concerned about gender diversity issues including pay equity and women on boards.

Canadian investors want to see greater gender pay parity. To support this, more than three quarters of investors believe that companies should be required to report annually on how much they pay women compared to men. More than half of investors stated that they would be willing to divest of a company that does not pay women and men equally for equal work.

The vast majority of investors believe there should be more women on boards. Improved financial performance, innovation and reputation are all benefits of a gender-diverse board. Companies with underrepresentation of women on boards should consider adopting a formal board diversity policy, as doing so would have broad appeal among the investing public. In addition, companies could reduce their exposure to reputational risks by disclosing plans for increasing gender diversity in corporate leadership roles.

*The RIA website provides a large selection of resources to support RI education at [www.riacanada.ca](http://www.riacanada.ca)*