



Pension Policy Unit
Financial Services Commission of Ontario
5160 Yonge Street
Toronto, ON M2N 6L9

Email: pensionconsultation@fsco.gov.on.ca

Dear Sir/Madam:

RE: IGN-004 Environmental, Social and Governance (ESG) Factors

The Association of Canadian Pension Management (ACPM) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

We appreciate the opportunity to comment on draft IGN 004 “Environmental, Social and Governance (ESG) Factors”.

Investment Guidance Notes

FSCO issued two Investment Guidance Notes in 2014 and has now issued draft IGN 004. It would be helpful if FSCO would articulate what a guidance note is and how they are intended to fit with the Superintendent’s administration and enforcement of the *Pension Benefits Act* (the “PBA”) and supervision of the regulated sectors as required by the *Financial Services Commission of Ontario Act, 1997*. In particular, it would be useful to understand how investment guidance notes are intended to differ from the Superintendent’s published policies.

IGN 004 Environmental, Social and Governance (ESG) Factors

The starting point for IGN 004 appears to be the OECF. Its recommendation 8-23 stated that “Plan statements of investment policy should reveal whether, and if so, how, socially responsible investment practices are reflected in the plan’s approach to investment decisions.” It appears that statement gave rise to the requirement in s. 78(3) of the Regulation that the SIPP “shall include information as to whether environmental, social and governance factors are incorporated into the plan’s investment policies and procedures and, if so, how those factors are incorporated.”

The commentary to OECF recommendation 8-23 included a cautionary note that “It remains somewhat uncertain precisely how, in practical and legal terms the decisions of trustees and administrators to pursue socially responsible investment (SRI) can be reconciled with their duty to maximize the plan’s investment returns.”

The Regulation substantially reiterates recommendation 8-23 but refers to ESG rather than SRI. In that regard, the Regulation is unusual because it does not direct the administrator to do or refrain from doing something. Instead, it directs the administrator to advise whether and how it considers a particular point. As the draft observes, neither the PBA nor the Regulations defines ESG factors and there is no standard definition accepted in the investment community. That absence of a definition would seem to present significant challenges from a regulatory perspective. Given that fundamental difficulty, it is laudable that FSCO proposes to offer guidance to plan administrators.

The discussion in Section 3 highlights the multiplicity of approaches that an administrator might take and, in turn, the problems that all administrators will face with respect to ESG. We encourage FSCO to approach this area with a light touch while the investment community in Canada and elsewhere continues to refine its thinking about what ESG is and what it means. A light touch could entail welcoming a wide range of approaches to ESG which may legitimately include that the administrator does not take ESG into account, particularly when there is no accepted meaning of the term.

The second paragraph of section 3 refers to integrating factors to the extent that they are material. We suggest that it would be preferable to refer to “relevant” rather than “material”.

With respect to the administrators that wish to incorporate ESG factors, more clarity is required. It is not clear what FSCO expects concerning an administrator explaining the methodology used to incorporate ESG factors or the concern around proprietary information being disclosed. Perhaps these should be expanded and separate paragraphs for clarity.

The Regulation requires only that the administrator disclose whether it takes ESG factors into account. If the administrator does not take ESG into account, Section 4 of IGN 004 invites the administrator to provide a brief explanation of its rationale for not taking ESG factors into account, “in the interest of transparency to members and beneficiaries”.

To reiterate, the SIPP is an operational document. Suggesting that the administrator provide an explanation if it does not take ESG factors into account seems to go beyond what the Regulation requires.

ACPM appreciates the opportunity to comment on these issues. Should you have any questions or wish to discuss the content of this letter, please feel free to contact us at any time.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Bryan D. Hocking', is written over a faint, light blue circular stamp or watermark.

Bryan D. Hocking
Chief Executive Officer