



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

August 24, 2015

Brian Mills
Chief Executive Officer & Superintendent, Financial Services (Interim)
Pension Policy Unit
Financial Services Commission of Ontario
5160 Yonge Street
Toronto ON M2N 6L9
Via email: pensionconsultation@fSCO.gov.on.ca

Dear Mr. Mills,

Re: Investment Guidance Note IGN-004 on ESG Factors

This submission is made by the Pension Investment Association of Canada (“PIAC”) in response to a request for comments on The Financial Services Commission of Ontario’s (FSCO) Investment Guidance Note IGN-004 on ESG Factors.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC’s member funds are responsible for the oversight and management of over \$1.5 trillion in assets on behalf of millions of Canadians. PIAC’s mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

SIPP Filing and Disclosure

PIAC welcomes this opportunity to provide additional comments on the important subject of responsible, long-term investment policy for Ontario pension plans. This letter is further to our original submissions to the Ministry of Finance on the proposed regulation dated June 16, 2014 and October 23, 2014. In these submissions, we indicated support for a requirement for pension plan administrators to file their SIPP with FSCO and for the proposal to make SIPPs more readily available to pension plan members.

Investment Guidance Note IGN-004 on ESG Factors

With respect to IGN-004, in our view, certain sections of the guidance note either present too narrow a view of how plans may incorporate ESG or are too prescriptive.

Section 3 “ESG Factors”

The guidance does not provide a definition of ESG factors, explaining that there is a lack of a standard definition that has been accepted by the investment community. While it is true that providing a definitive list of what are ESG factors is difficult, we feel that a general, principles-based explanation of ESG factors would be helpful for plan administrators, especially those with a nascent understanding of what ESG is.

In the absence of a definition of ESG factors, the guidance instead provides a description of two opposite approaches to ESG integration. We feel that this section presents a false dichotomy of ESG approaches rooted in historical definitions of “responsible investment” or “socially responsible investment” and are not indicative of current market practices. Current practices are much more dynamic and include a broader continuum of potential approaches than those described (ESG integration and exclusion). As a result of the new regulation, many pension administrators will be reviewing their approaches to the incorporation of ESG factors or even looking at it for the first time. We are concerned that this section of the guidance does not accurately describe the various and flexible approaches plans may take and artificially narrows the options to smaller, resource constrained plans. Therefore we suggest including some approaches from the middle of the spectrum, such as best-in-class or ESG tilting.

Section 4 “ESG Factors Incorporated”

PIAC finds Section 4, “ESG Factors Incorporated” to be too prescriptive and potentially constraining for Ontario registered plans, large and small. We feel it suggests that administrators should provide a complete listing of ESG categories or factors that will be incorporated into the program. This approach could be problematic since, according to current legal opinions of fiduciary duty, any ESG factor must be considered where it may be material to the investment. ESG integration is dynamic and complex and requires customization by asset class and potentially each investment.

Therefore, PIAC believes a high level approach is preferable, particularly in the first year, in order to give the plan administrators the opportunity to determine, among other things, what kinds of information they are able to obtain from their investment managers and/or consultants and to give FSCO a chance to assess how plans generally are approaching the issue.

Conclusion

Finally, we note that as investors’ understanding of ESG factors and their impacts on investments grow, the scope and approach to ESG integration will evolve and we encourage FSCO to review and revise these guidelines in the future.

Thank you for this opportunity to comment on the guidance. Please do not hesitate to contact Katharine Preston, Chair of the Corporate Governance Committee (416-681-2944, kpreston@optrust.com), if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dan Goguen', with a long horizontal flourish extending to the right.

Dan Goguen
Chair