Responsible Investment Association

Director General
Marketplace Framework Policy Branch
Industry Canada
235 Queen Street, 10th Floor
Ottawa, Ontario
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May 13, 2014

Re: Industry Canada's CBCA Consultation

Please find the Responsible Investment Association's submission to this consultation below.

Sincerely,

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Responsible Investment Association

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Submission to Industry Canada
Canada Business Corporations Act

Introduction

The Responsible Investment Association (RIA) welcomes Industry Canada's public consultation on the Canada Business Corporations Act (CBCA). We believe that the CBCA could be an important policy tool to promote corporate social responsibility (CSR) and responsible investment (RI). We also believe that, if correctly implemented and widely practiced, CSR and RI can engender a more sustainable future for the Canadian economy.

This document contains several recommendations to promote the adoption of CSR and RI in Canada. It responds to select areas highlighted within the CBCA discussion paper.

Background

The RIA is a national, nonprofit, membership-based organization composed of financial institutions, mutual fund companies, investment firms, financial advisors, and various organizations and individuals who practice and support responsible investing. The RIA and its members strongly believe that responsible investment is a valuable investment tool to enhance returns, reduce risk, and catalyze positive societal change.

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I. Recommendations

Based on the rationale outlined in section II below, the RIA makes the following recommendations:

- Consistent with the "Say on Pay" approach, the CBCA should contain a policy requiring companies to allow shareholders to conduct regular reviews of executive compensation. This practice would help to protect the rights of shareholders, and could help to address the problem of growing income inequality.

- The RIA recommends that the CBCA oblige large companies over 500 employees to adopt a "report or explain" approach to CSR reporting. Large companies should be required either to report on their social and environmental performance using standardized guidelines such as the Global Reporting Initiative (GRI), or to publish an explanation for their decision to abstain. This practice, which is widely-used internationally, helps investors and consumers make informed decisions *vis-a-vis* social and environmental challenges.

- The RIA reiterates the importance of corporate governance to corporate social responsibility. Consistent with the 2014 EU directive on disclosure, the RIA emphasizes the need for mandatory reporting on the diversity of Boards of Directors for Canadian companies through the CBCA.

- The CBCA should explicitly acknowledge the key drivers for CSR and sustainability reporting in Canada. These include: the respect for human rights; the need to address climate change and other environmental problems; and the need to combat corruption, among other responsibilities aligned with Canadian principles and standards.

- Although we recommend that the CBCA require mandatory practices such as CSR reporting and "Say on Pay", the policy framework should not overburden companies with costs and bureaucracy. The CBCA should integrate a transition period before the policy comes into full force in order to enable companies to first establish the practice as a part of their internal management practices.

- The RIA further recommends that the CBCA consider the growing body of international norms and standards that promote CSR. These include: the UN Guiding Principles on Business and Human Rights; the OECD Guidelines for Multinational Enterprises including Canadian companies working abroad, and the Voluntary Principles on Security and Human Rights.

II. Rationale

a. Building a sustainable future for the Canadian economy

We believe that CSR plays an important role in creating a sustainable Canadian economy. A growing body of evidence suggests that climate change presents a significant threat to our economies and livelihoods. By improving companies' social and environmental outcomes, responsible investment and business practices produce a 'win-win' scenario for people, the planet, and the economy.

b. Aligning with international norms and standards

According to the OECD Directorate for Financial and Enterprise Affairs, stronger business climates must be enabled by strong national policy frameworks that design investment policy tools and initiatives, many of which focus on enhancing CSR frameworks for smarter and more sustainable investment. Canada is a signatory of the OECD Guidelines for Multinational Enterprises, which outline voluntary principles of responsible business conduct in areas such as environmental stewardship, human rights as well as labour standards. Moreover, many governments refer to the international organization, Voluntary Principles within their CSR objectives including the protection of human rights, promoting development, and avoiding or mitigating conflict. The language and objectives of CSR highlighted in these guidelines is not yet fully integrated within federal policy, which must first be clearly stated by the CBCA as part of a policy initiative to effectively promote CSR.

Furthermore, many international and multilateral platforms engaging in CSR practices refer to the Global Reporting Initiative (GRI) or the Integrated Reporting Council (IIRC) for information on sustainability and for their widely accepted methodologies for information and non-financial reporting.

Finally, Canadian participation in the Organization of American States supports enhanced programs and activities related to CSR in the Americas through the OAS Executive Secretariat for Integral Development.

c. Mandatory CSR disclosure enhances investors' access to information that is vital for shifting the economy toward a sustainable pathway

Governments around the world are requiring companies to disclose their ESG performance or elaborate on not disclosing, called the "report or explain" policy. Mandatory ESG reporting better enables investors to integrate ESG criteria into their investment strategies. Improving investors’ access to information on ESG issues is consistent with the societal goal of achieving a socially and environmentally sustainable economy.

The accessibility of such information is especially important with respect to companies facing social challenges at the community-level - both at home and abroad. The Center for Excellence in CSR refers to a (non-exhaustive) list of Canadian companies who publish sustainability goals and progress information directly on their website. Yet mandatory reporting would ensure an extensive database for investors and dispute resolution specialists alike.

In June 2013, Norway passed legislation requiring large companies to provide information on how they pursue social responsibility within their business strategies. The move was widely viewed as a milestone in corporate transparency.