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Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
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RE: CSA Notice and Request for Comment – Proposed Modernization of the Continuous Disclosure Regime for Investment Funds – Fund Report: ESG-Related Disclosure Requirements

The Responsible Investment Association (RIA) welcomes the opportunity to provide feedback to the Canadian Securities Administrators (the "CSA") in the public consultation regarding ESG-Related Disclosure Requirements contained in the CSA Notice and Request for Comment - Proposed Modernization of the Continuous Disclosure Regime for Investment Funds (the "CSA Notice and Request for Comment").

The RIA is a Canadian investment industry association comprising more than 165 institutional members and over 400 individual members who practice and support responsible investing (RI)—defined as investments that incorporate environmental, social and governance (ESG) factors. Individual members include financial advisors, consultants and others, while our institutional members are mainly asset management firms and asset owners, including pension funds. The RIA's institutional members collectively represent more than C$40 trillion in global assets under management (AUM). A list of our members is available online at www.riacanada.ca.

RI in Canada totals almost $4.5 trillion in AUM, which represents 71% of all professionally managed assets in Canada. The growth in RI reflects the business case for considering a portfolio's exposure to material ESG risks and opportunities, and illustrates that ESG factors, including concerns regarding environmental impact, can have serious financial implications for companies and portfolios.

Summary of RIA Member Perspectives

The RIA engaged in member consultations to inform its submission. Respondents included investment fund managers and representatives from a legal consultant. Note that these submissions do not reflect the views of all RIA members; rather, they represent the views articulated by several members who responded to the member consultation (herein referred to as "consultations"). References to the RIA's view should therefore be interpreted accordingly.

In the CSA Notice and Request for Comment, regarding ESG-Related Disclosure Requirements, the following question was posed: "*Please comment on whether these detailed instructions would make it challenging to provide concise disclosure in the Investment Objectives and Investment Strategies section of the Fund Report. If a challenge is identified, please provide details and suggest an alternative approach*." Below are detailed responses to the relevant provisions for consultation.

Overall, consultations indicated members were in favour of disclosures that support investment decision-making and enable more accurate reporting of fund-level metrics. However, the consultation feedback highlights several key concerns and recommendations regarding the proposed ESG-specific disclosure requirements.

General Comments

The proposed ESG-specific disclosure requirements could create an additional burden for ESG funds. The disclosure for ESG funds should focus on overall performance and alignment with their stated objectives and strategies, rather than solely on ESG-specific performance. This would mean that for a fund that has a focus on ESG in its stated objectives, such fund's performance and alignment to its stated objectives would be addressed without the need for any additional ESG-specific disclosure.

Furthermore, including ESG-specific disclosure in the Fund Report risks codifying the CSA's ESG-related guidance without a more rigorous rule-making process. There are also liability concerns with stating that a fund has not achieved its investment objectives, especially since many ESG-related objectives are measured over longer timeframes. It may be more helpful to comment on progress towards ESG objectives rather than a binary evaluation of success.

Application to CSA Staff Notice 81-334 (Revised)

The instructions frequently reference investment strategies and ESG-related funds beyond ESG Objective Funds. This broad applicability of the instructions to all ESG-related funds is problematic. Quantitative indicators may not be relevant for certain strategies, such as funds with limited ESG consideration or strategies that use ESG integration or exclusion criteria which may not have clear quantitative measures. Such aggregation of arbitrary metrics is not meaningful, as ESG criteria vary for each company and the weight given to these criteria can differ. CSA Staff Notice 81-334 (Revised) indicates that certain disclosures of quantitative metrics only apply to ESG Objective Funds and ESG Strategy Funds. To the extent that this is the case, this should be prominently disclosed to avoid confusion and/or overemphasis on ESG-related objectives.

Challenges with Quantitative Indicators

There are significant challenges in using quantitative indicators for ESG funds due to issues with data quality, availability, cost, comparability and methodologies. Relying on external suppliers and proprietary methodologies can prevent meaningful comparisons between funds. Mandatory disclosure of quantitative metrics may lead to over-reliance on subjective ESG data providers, which are not regulated in Canada. Further, quantitative metrics may not be meaningful for certain ESG Objective Funds, such as those applying ESG-related exclusions.

Corporate sustainability disclosure is not yet mandatory in Canada and lacks standardization, further affecting the accuracy of fund-level metrics. It is also important to consider that a single ESG-related metric may not be available for use on an entire portfolio. Similarly, quantitative metrics may be considered at the issuer level, but not be material at the portfolio level. Further, aggregating a small number of quantitative metrics that may be relevant to specific industries may not be representative of the portfolio.

Consideration must also be given to the significant time lag that often exists for the disclosure of company ESG-related metrics. This can negatively impact the ability of investment fund managers to disclose the achievement of investment objectives during specific time frames.

These issues complicate the ability to publish quantitative indicators and may only be appropriate for funds with measurable ESG objectives. Adopting mandatory corporate sustainability disclosure requirements would support investment decision-making and enable more accurate reporting of fund-level metrics. It is recommended to wait to implement the proposed CSA Fund Report requirements until the Canadian Sustainability Disclosure Standards (CSDS) recently issued by the Canadian Sustainability Standards Board (CSSB) are applied in the market. This would lead to higher quality reporting and would also reduce the number of caveats and explanations needed about the quality of the data and assumptions made in the disclosure.

Other Considerations

The CSA Notice and Request for Comment identifies reporting considerations for various topics, including portfolio composition changes, ESG-related outcomes, proxy voting and engagement. Providing concise disclosure for ESG Objective Funds is challenging, especially when discussing portfolio changes driven by ESG criteria. The Fund Report should include reporting requirements on these topics, and the CSA should provide disclosure examples with respect to each topic to clarify expectations.

Further, there is potential for confusion in the application of instructions related to proxy voting and engagement as principal investment strategies. In this regard, it should be clarified whether principal investment strategies relate solely to ESG Objective Funds and ESG Strategy Funds. It should also be clarified that when proxy voting and engagement are not principal strategies, there is no expectation for disclosure unless a material event occurs. With respect to engagement, a strictly quantitative approach fails to reflect the objectives pursued by engagement strategies. Further, allocating stewardship outcomes to a strategy may also be difficult due to firmwide stewardship programs focusing on systematic issues.

Conclusion

The RIA would welcome the opportunity to continue dialogue and provide further guidance as the CSA progresses through the consultation. If you have any questions regarding the above, please feel free to contact Patricia Fletcher, Chief Executive Officer (patricia@riacanada.ca) or Glen Pichanick, Head of Advocacy and Industry Insights (glen@riacanada.ca).

Yours truly,

[redacted]

Patricia Fletcher, ICD.D
Chief Executive Officer