The Ethical Funds Company®

June 3, 2008

Ms. Jo-Anne Matear
Assistant Manager, Corporate Finance

Ms. Neeti Varma,
Accountant, Corporate Finance

Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto ON M5H 3S8

Re: OSC Staff Notice 51-716 - Environmental Reporting

Dear Ms. Matear and Ms. Varma,

The Ethical Funds Company® is an investment firm with $2.7 billion in assets under management. Our approach to investing is based on the thesis that companies externalizing the costs of their strategy and operations to society have no sustainable long term competitive advantage. Companies incorporating best environmental, social and governance (ESG) practices into their strategy and operations will provide higher risk-adjusted returns over the long term.

We are writing to comment on Ontario Securities Commission (OSC) *Staff Notice 51-716 - Environmental Reporting*, which assesses compliance with, and provides further guidance on, *National Instrument 51-102 - Continuous Disclosure Obligations*.

We commend the OSC for releasing this Staff Notice. We support your position that environmental disclosure is essential for investor decision-making. We believe that poor corporate disclosure inhibits the ability of investors to assess the impacts of environmental matters on security-specific risk thus undermining the fair and efficient operation of capital markets.

Research conducted last year by **The Ethical Funds Company®** supports your main finding: the current practice of most equity issuers regarding environmental disclosure is inadequate.

In a 2007 research paper, *Head in the Oil Sands,* we assessed the readiness of 50 oil and gas companies operating in Canada to meet the challenges posed by climate change. We studied continuous disclosure documentation including Annual Information Forms and

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Annual Reports, as well as corporate social responsibility (CSR) reporting and Carbon Disclosure Project (CDP) submissions where available. In cases where data were lacking, we contacted companies directly and asked for more information to assist our evaluation.[1]

We found:

- 37 of the 50 companies we analyzed failed to disclose greenhouse gas (GHG) emissions;
- 43 companies failed to disclose any information about how they were factoring the cost of carbon into capital allocation decisions;
- 47 companies failed to disclose estimated costs of meeting potential emissions targets and;
- 18 companies failed to mention climate change in forward-looking statements; the remaining 32 acknowledged climate risk in forward-looking statements, but used boilerplate language, useless for the purposes of assessing firm-specific risk.

Our preliminary assessment of 2007 company data indicates that disclosure has not improved significantly.

The fact that the Canadian sector most heavily exposed to climate risk discloses so little on the topic is both noteworthy and disturbing. Increasingly, investors believe there is an intersection between climate change and corporate financial performance. According to a February 2007 report by Lehman Brothers, *The Business of Climate Change*, "companies which are aware of the impact their business practices have on the overall environment, including climate change, and proactively take actions to mitigate any unfavorable impact, may create a significant competitive advantage compared with companies which, through a lack of awareness, become blindsided by regulations."

Globally, most investment institutions agree: institutional investors with more than US$57 trillion in assets under management have joined together under the banner of the Carbon Disclosure Project, asking companies to disclose their risks and opportunities associated with climate change. In 2006, the CDP teamed up with the Conference Board of Canada and **The Ethical Funds Company®** to make a specific disclosure request to 200 Canadian companies. Response levels have been poor. In 2007, 45% of Canadian companies responded. In the second year of this effort, the response rate increased to just 49% as of May 16, 2008.

In light of the growing consensus that greenhouse gas emissions will be regulated and that companies may be exposed to material risks, corporate disclosure of greenhouse gas emissions and climate change policies is essential for investors looking to assess the strengths and weaknesses of corporate securities.

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[1] www.ethicalfunds.com/SiteCollectionDocuments/docs/Head_in_the_Oil_Sands_Final.pdf

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Canadian issuers do not lack for guidance on these matters. The CDP questionnaire, our paper, *Head in the Oil Sands*, and an excellent document published by the Canadian Institute for Chartered Accountants entitled *MD&A Disclosure About the Financial Impact of Climate Change and Other Environmental Issues*, provide clear guidance on the information companies should be disclosing.

Again, **The Ethical Funds Company®** would like to thank the OSC for allocating time and energy towards this project. Improved environmental disclosure in Canada is sorely needed. Please feel free to contact us for further discussion and to explore opportunities for advancing improved environmental, social, and governance disclosure in Canada.

Sincerely,

The Ethical Funds Company

Robert Walker
Vice President, Sustainability