March 27, 2015

Kathy Hering
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Climate Change and Environmental Policy Division
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77 Wellesley Street West, Floor 10
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Sent by email to: kathy.hering@ontario.ca

Re: EBR Registry Number 012-3452 (Climate Change Discussion Paper)

Dear Ms. Hering:

We are writing to offer our investor perspective on Ontario's Climate Change Discussion Paper.[1] We appreciate the opportunity to provide input and commend the Government of Ontario for soliciting public input on this issue and for the leadership it is showing in regard to its efforts to develop an effective climate change strategy. We strongly support decisive government action on climate change.

Headquartered in Toronto with approximately C$6.7 billion in assets under management (AUM), NEI Investments' approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will build long-term sustainable value for all stakeholders, and provide higher risk-adjusted returns to shareholders.

We believe that mitigating the risks of climate change should be an imperative for all Canadian investors regardless of what part of the economy they are invested in. Climate change is one of the greatest threats facing the planet and consequently the global economy. Investors who are concerned about long-term financial returns face significant risks from climate-related impacts. Investors also bear a responsibility for actively addressing climate change through their investment decision-making and through engaging with the companies in their portfolio. However, current policies and regulations in Canada (and Ontario) need to improve to spur the energy transition and hasten the shift to investment in low-carbon activities.

[1] http://www.downloads.ene.gov.on.ca/envision/env_reg/er/documents/2015/012-3452.pdf

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Key Principles

We believe Ontario's climate strategy should embody the following key principles, which reflect our own strategic priorities in regard to climate change. We provide more specific feedback on the questions put forth in the discussion paper later on.

A Price on Carbon is Mandatory

We strongly support a price on carbon as the centrepiece of any climate strategy. We do not take a position on which specific market mechanism Ontario should adopt to achieve a price on carbon. However, we agree with the International Monetary Fund that the mechanism should be credible, flexible, broad-based and equitable.[2] We would stress that being equitable does not necessarily mean having the same rules or objectives regardless of the sector. Equitable treatment would allow for recognition of the unique characteristics of different sectors and their ability to transition to a low-carbon economy.

Further, Ontario should work to ensure that at the individual level, carbon-pricing policies are equitable and should seek to minimize adverse impacts on vulnerable populations. We would note the work of the Eco-Fiscal Commission and its focus on policies that increase the cost of negative externalities (such as carbon emissions) while reducing the overall regulatory and tax burden, with particular attention paid to ensuring low-income individuals and families are not unduly impacted.[3] We believe this approach warrants serious consideration.

The Strategy Should Drive Innovation

The case for increased innovation is compelling. There is little disagreement that a greatly increased focus on innovation is required if we are to achieve the step-change improvements we need to see in emissions reductions. This will demand greatly increased research and development spending and more effective commercialization of existing technologies. The pace and scale of innovation needs to increase significantly.

A substantive price on carbon will itself act as an incentive for companies to increase efficiency and find innovative ways to reduce emissions. However, a price on carbon alone will not be enough. Ideally, some of the revenues from the carbon pricing scheme should be used to directly incentivize climate solutions research and development. From an inter-generational equity perspective, it seems clear that some of the profits generated from today's carbon-intensive economy should be put towards ensuring future generations have access to a sustainable low-carbon energy system.

Regardless of the mechanism chosen to incentivize innovation, from tax cuts and subsidies to direct research funding, innovation must be central to the government strategy. Canadian companies have traditionally not performed well in regard to innovation, but it seems clear to us that future prosperity will be materially dependent on how well we stimulate innovation-based cultures.[4] Particular attention should be paid to creative solutions for driving diversification within sectors that have traditionally been tied to emission-intensive industries. We believe Ontario should consider how its new framework could actively encourage this type of diversification. For example, given a choice between

[2] http://www.imf.org/external/np/exr/facts/enviro.htm
[3] http://ecofiscal.ca/
[4] http://www.conferenceboard.ca/hcp/details/innovation.aspx

paying into a compliance fund and providing direct investment capital to a potentially lucrative opportunity (i.e. low carbon solutions), we feel that many companies might choose the latter.

Boreal Conservation Should be an Ongoing Priority

Ontario has made significant commitments to the preservation of the Boreal forest and we strongly support the ongoing commitment to this effort. The Canadian Boreal forest stores an estimated 208 billion tonnes of carbon – almost 300 times Canada's 2012 GHG emissions.[5] We believe any credible climate policy in Canada must include a tangible commitment to preserve this key carbon sink.

NEI is a member of the Boreal Leadership Council (BLC), a multi-stakeholder collaboration of conservation groups, First Nations, resource companies and financial institutions.[6] Members of the BLC are committed to a vision that calls for the establishment of a network of large interconnected conservation areas covering about half of the country's Boreal forest and the use of leading sustainable development practices in the remaining areas. We encourage Ontario to engage with organizations such as the BLC to build momentum towards a national Boreal strategy in line with the BLC's Boreal Forest Conservation Framework.[7] Critical to the success of any Boreal conservation strategy will be the meaningful consultation and participation of local First Nations and Métis communities.

Discussion Questions

We provide the following comments in response to the discussion questions on page 37 of the Climate Change Discussion Paper. We have focused our feedback to those issues we feel are most germane to driving an appropriate market response from investors.

Traditional Knowledge

As noted in our discussion of Boreal conservation above, we believe that First Nations and Métis communities need to be partners in ensuring the Boreal forest remains a vital carbon sink. This means maintaining the right and ability of First Nations and Métis communities to continue with traditional livelihoods, while also ensuring opportunities for the their participation in the sustainable economic development of the Boreal. Specifically, traditional ecological knowledge should be incorporated into robust and effective land use planning processes. We would suggest that the immediate opportunity to do this would be to embrace the concept of regional strategic environmental assessment (RSEA) as a land use planning tool, as recommended by the Canadian Council of Ministers of the Environment.[8] An RSEA process that is designed with First Nations and Métis input as a central tenet of operation would enable the province to best incorporate traditional knowledge into future development plans.

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[5] http://www.borealbirds.org/sites/default/files/pubs/report-full.pdf
[6] http://borealcouncil.ca/
[7] http://borealcouncil.ca/wp-content/uploads/2015/03/Framework-2015ENG.pdf
[8] http://www.ccme.ca/files/Resources/enviro_assessment/rsea_principles_guidance_e.pdf

Actions in Key Sectors

We believe one of the key sectors that Ontario can influence, and that can contribute materially to achieving both Ontario and Canada's climate targets, is the financial sector – specifically investment institutions. Investors have the ability to drive market shifts through their allocation of capital, but they also represent a largely untapped resource to effect change through their status as key corporate stakeholders. We believe there are several opportunities to enhance the role of investors in driving the transition to a low-carbon economy. Note that the most significant action the province can take to enable this role is to remove the current uncertainty around climate policy. This includes working effectively with the other provinces, territories and the federal government to ensure that companies face a consistent policy environment across the country. Having a robust framework with clearly articulated targets and enforcement will enable investors to take a proactive and measured approach in addressing the resultant carbon risks in their portfolios. The current uncertainty in regard to climate policy partly explains the reluctance of investors to begin reallocating capital.

Aside from implementing a long-term climate policy framework, the following areas are further opportunities for Ontario to enable investors to drive the transition. As an investment institution that has been engaging companies on climate change strategies for over a decade, NEI can attest to the influence that investors can and do have on corporate ESG performance. Corporate engagement is a fundamental aspect of our investment thesis and we have been able to effect real change on this issue. However, our experience has also alerted us to the challenges that have at times hindered progress for investors looking to drive ESG performance improvements. This experience has informed our following comments and suggestions.

Utilize the Ontario Securities Commission to drive improved corporate disclosure on climate change
Ontario has a unique leverage point in regard to corporate issuers as a result of the prominence of the Ontario Securities Commission (OSC) in the Canadian market. As the Toronto Stock Exchange listing requirements oblige listed companies to report under OSC rules, the OSC's resulting influence over corporate practice in Canada is significant. Given that the OSC is under the jurisdiction of the Ontario legislature, it should be a key actor in furthering Ontario's climate strategy.

We note that the current state of corporate climate disclosure is uneven at best. From an investor perspective it can be very difficult to assess and compare companies on their carbon management strategies and performance - disclosure on this performance is non-existent for large portions of the market. As we believe that climate change is a material issue for investors, we find this lack of disclosure to be alarming. Voluntary disclosure has certainly improved, in large part due to the pressure of investors asking for this information.[9] However, voluntary disclosure has not been uniformly adopted by corporate actors.

We recommend that Ontario ask the OSC to develop strict, enforceable guidelines that mandate a *comply or explain* disclosure expectation on the core material risks and opportunities of climate change. The OSC already requires the disclosure of material ESG information, though compliance with this obligation has been spotty.[10] Further, under the current OSC disclosure requirements, companies are clearly not identifying climate change as a material risk, as evidenced by the lack of disclosure on this topic. Under a *comply or explain* approach, companies would have to provide the required disclosure or explain why climate change is not a material risk for the company. We would point

[9] NEI is one of three Canadian investor members (all based in Ontario) of the CDP, an organization backed by investors representing over US$95 trillion in AUM. www.cdp.net
[10] https://www.osc.gov.on.ca/documents/en/Securities-Category5/sn_20080229_51-716_enviro-rpt.pdf

to the work that the Sustainability Accounting Standards Board (SASB) has done to define material ESG risks, including climate related risks, as a possible template for this requirement.[11]

Companies should be providing investors with adequate disclosure on material issues such as corporate strategy, emissions management systems and emissions performance. Investors can then use this information to drive companies to improve performance through the tools available to investors, such as corporate engagement and exclusion of poor performers. Companies that are unable to provide proof of an adequate climate strategy will become progressively risky investments, and this will in turn impact on their ability to raise capital through the public markets. Our experience has shown us that improved disclosure ultimately leads to improved performance, and this is the same tenet that underlies traditional financial disclosure rules.

We would point to the OSC's recent adoption of diversity disclosure requirements as evidence of the impact that this approach can have. The OSC's decision to mandate disclosure on the existence of a board diversity policy has already led to an improvement in corporate disclosure on board diversity. More importantly, our early impression is that it has already led to improved performance on actual board diversity. A similar mandate for climate disclosure could also lead to widespread performance improvements.

Utilize the Know-Your-Client expectations to support responsible investment
Under the Know-Your-Client expectations of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations,* dealers and advisers must ensure that they understand the needs and objectives of their clients in order to provide the best investment advice.[12] To date, the Know-Your-Client expectations do not place any onus on dealers or advisers to ask if the client has interest in a responsible investment solution. As such, investors are often not even aware that options exist to purchase investments from companies that are actively working to address issues such as climate change.

We recommend that Ontario ask the OSC to adapt the Know-Your-Client process to mandate that dealers and advisers ask their clients about their interest in responsible investment options. Specific mention could be made in regard to how different investment options are addressing the risks of climate change. We believe it is important to ensure that investors are getting accurate information on all of the issues they consider to be relevant to their investment decision, which often includes the real-world impact of their investments. We also believe that increasing the demand for responsible investment will lead to more investment institutions addressing the risks of climate change in their portfolios through increased engagement and targeted exclusions.

Continue to develop and promote the green bonds market
We note the growing market (and support) for green bonds and climate bonds, both within Canada and globally.[13] We believe there will be a growing role for green bonds in stimulating the energy transition and recommend the government of Ontario continue with its commitment to deepen its involvement in this area.[14] In 2014 Ontario showed leadership in issuing the first provincial green bond. This bond was strongly embraced by investors, with the issuance being more than four times oversubscribed. However, access to this offering was extremely limited for the retail

[11] http://www.sasb.org/
[12] CSA Staff Notice 31-336 provides a good overview and guidance of the Know-Your-Client expectations of NI 31-103: http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20140109_31-336_kyc-kyp-suitability-obligations_2.htm
[13] http://www.neiinvestments.com/documents/PublicPolicyAndStandards/2014/Investor%20Statement%20on%20Green%20Bonds%20and%20Climate%20Bonds%2020141211.pdf
[14] http://www.ofina.on.ca/greenbonds/greenbonds.htm

investor, which is consistent with the global trend for green and climate bonds. The secondary market for green bonds is decidedly shallow. Despite the rapid growth of the green and climate bond market, it is still relatively difficult for investors to get exposure to this asset class.

The Ontario government has a role to play in both increasing the access to high quality green bonds and in ensuring that standards around green bond issuance are credible, robust and transparent. The current Green Bond Framework is a good start. However, we encourage Ontario to work closely with international efforts to create a robust, global standard for green bonds and climate bonds. We would point to the International Capital Market Association's *Green Bond Principles* and the Climate Bonds Initiative's *Climate Bond Standard* as two efforts Ontario should be engaging with.[15] We would note that several Ontario-based financial institutions are already taking part in these efforts.

Support climate change research and share findings with companies, investors and the public
We note that while the scientific evidence of anthropomorphic climate change is overwhelming and to a large degree publicly available, there is less research available on the risks to corporations (and their investors) in regard to the expected outcomes of climate change and climate policy. We believe that companies and investors do not have an adequate amount of peer-reviewed research on this topic. As an economy that is heavily reliant on fossil fuels, there are clearly some unique risks facing Canadian companies and their investors that bear deeper investigation if we are to achieve a smooth transition to a new low-carbon economy. We would recommend that Ontario provide support for research and other forums that further our understanding of the risks and opportunities facing Canadian companies and investors specifically.

In conclusion, we commend the government of Ontario for its leadership in seeking to develop a robust and effective climate change strategy. We reiterate our support for the development of a robust and credible carbon policy framework that drives innovation and will benefit Ontario in the long term. We thank you for the opportunity to provide feedback and look forward to the outcomes of the consultation. For your further consideration, we have appended a copy of the *Canadian Investor Statement on Climate Change* from the Responsible Investment Association website. NEI is a supporter of this statement and believes that investor support for decisive government action on climate change has never been stronger.

If you have any questions regarding this letter please contact **Jamie Bonham, Manager, Extractives Research & Engagement, NEI Investments (jbonham@neiinvestments.com; +1-604-742-8328)**.

Sincerely,
NEI Investments

John Kearns
Chief Executive Officer

Robert Walker
Vice President, ESG Services & Ethical Funds

[15] http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/; http://www.climatebonds.net/standards

CC:
Mr. Jamie Bonham, Manager Extractives Research and Engagement, NEI Investments
Ms. Michelle de Cordova, Director, Corporate Engagement and Public Policy, NEI Investments
Board of Directors, NEI Investments

Appendix

Canadian Investor Statement on Climate Change Policy[16]

We consider climate change to be one of the greatest threats facing the planet and the global economy. Climate change also poses significant financial risk to investors, especially institutional investors who have a responsibility to generate financial returns far into the future.

Investors face a range of risks relating to climate change. Financial losses from extreme weather events, and the risk that assets could be negatively impacted by future carbon constraints, are just two examples. Continued delay in climate policy action, both within Canada and internationally, will increase our exposure to climate-related impacts, which are predicted to cost investors trillions of dollars over the coming decades.[17]

Canadian investors and policy makers face formidable challenges in attempting to address climate change. Canada is a vast country with low population density and an extreme climate.
Our economy is highly dependent on resource industries, and Canada is a major producer and exporter of oil. However, we also have a unique responsibility because of our abundant resources. Canada's boreal forests and temperate rainforests are among the world's greatest intact forests and serve as some of its most important carbon sinks.

We believe that investors can and should play an important role in addressing climate change through investment decision-making and corporate engagement. However, current policies and regulations in Canada treat carbon emissions largely as an unpriced negative externality. As a result, markets do not provide adequate incentives to shift investment toward less carbon-intensive activities, which would be in the long-term interests of investors and the economy as a whole.

As investors who are concerned about long-term financial returns as well as the stability and predictability of financial markets, we put forward the following policy recommendations to the federal and provincial governments to encourage the transition to a low-carbon economy.

1. **Establish clear, meaningful greenhouse gas emissions reduction targets.**
    - Set clear short-term and long-term targets for the stabilization and absolute reduction of greenhouse gas emissions.
    - Ensure targets are based on the objective of limiting the rise in average global temperatures to levels determined by agreements under the United Nations Framework Convention on Climate Change.
    - Establish clear timelines and enforceable mechanisms for meeting the targets.

2. **Implement effective carbon pricing.**
    - Phase in economy-wide carbon pricing at a meaningful level that makes low-carbon investment more attractive over time, in the form of an emission tax, a cap-and-trade system, or a combination of mechanisms.

[16] http://riacanada.ca/can-investor-statement-on-climate-change-policy/
[17] Climate Change Scenarios – Implications for Strategic Asset Allocation. Mercer LLC. 2011.

3. **Put in place a clearly-articulated, comprehensive climate strategy.**
   The climate strategy should:
   - Encourage energy efficiency, including enhanced efficiency standards for buildings, vehicles and equipment.
   - Encourage the deployment of renewable energy and lower-carbon fuels.
   - Encourage the development of green infrastructure and low-carbon transportation.
   - Promote sustainable land use with a particular focus on preserving the ability of the boreal forest to act as a global carbon sink.
   - Promote adaptation to address physical risks from climate change that can no longer be avoided.
   - Ensure policies are equitable and seek to minimize adverse impacts for vulnerable groups and particular segments of society and the economy.
   - Respect Aboriginal rights and consider Aboriginal interests.
   - Enhance coordination of federal, provincial and territorial climate policies and targets.
   - Create certainty and ensure that climate change policies have a long-term horizon.

4. **Integrate climate risk considerations into government decision-making.**
   - Identify climate risk factors and integrate them into future policy, funding, and programming decisions.
   - Develop and mandate adaptation standards for projects exposed to physical risk from climate change.
   - Ensure that environmental permitting processes address physical risks from climate change, projected emissions and future carbon-constrained scenarios.

5. **Create an enabling environment for climate-friendly investment.**
   - Increase support for the development and commercialization of technologies that reduce emissions and increase energy efficiency.
   - Phase out fossil fuel production subsidies.
   - Increase support for climate change research and ensure that findings are available to companies, the investment community and the public.
   - Support carbon markets and enhance Canadian companies' access to these markets.
   - Mandate disclosure by companies on climate risk, emissions management systems, and emissions performance.
   - Mandate disclosure by fossil fuel companies of potential carbon emissions embedded in reserves.
   - Mandate the inclusion of a responsible investment query in “Know Your Client” questionnaires to ensure that retail investors are made aware of investment options that address climate change.

6. **Demonstrate Canadian climate policy leadership.**
   - Participate constructively in multi-stakeholder efforts to develop equitable strategies to address climate change.
   - Participate constructively in international climate policy activities, including United Nations negotiations, bilateral and multi-lateral agreements, and climate funding mechanisms.