September 12, 2022

Sent via electronic mail

Canadian Association of Pension Supervisory Authorities ESG Committee
C/O CAPSA Secretariat
100-25 Sheppard Avenue West
PO Box 21
Toronto ON M2N 6S6
capsa-acor@fsrao.ca

**Subject: Comments on CAPSA Guideline: ESG Considerations in Pension Plan Management**

To whom it may concern:

We have reviewed the draft CAPSA Guideline: Environmental, Social and Governance Considerations in Pension Plan Management. We thank you for the opportunity to provide our comments.

University Pension Plan Ontario (UPP) is a new jointly sponsored pension plan created by and for Ontario's university sector. UPP currently has 16 participating organizations, over 37,000 members, and more than $11 billion in assets under management. As a long-term investor, we seek to invest responsibly and promote the health of the financial, social, and environmental systems on which capital markets rely as a means for delivering strong, sustainable value to members today and tomorrow. For more information, please visit MyUPP.ca.

We commend the Canadian Association of Pension Supervisory Authorities ("CAPSA") for undertaking this important work and putting forward the draft Guideline. We have the following comments:

1. **Fiduciary duty clarification welcome**: The following clarifications on page 4 from CAPSA are welcome and should enable plan administrators to focus on considering ESG factors and taking appropriate actions rather than spending further time and effort deliberating on the suitability of considering ESG factors, "Using ESG factors to provide financial insight is consistent with an administrator's fiduciary duty. Conversely, ignoring or failing to consider ESG factors that may be potentially material to the fund's financial performance could be a breach of fiduciary duty."
2. **Enhance Principle 1 to include taking appropriate actions**: Rather than just having to "consider" ESG characteristics, it should be clearer that plan administrators should also take appropriate actions. Principle 1, on page 4, could be edited as follows: "Principle 1: Pension plan administrators (either directly or through their delegates) should consider ESG characteristics that may have material relevance to the financial risk-return profile of the pension fund's investments and take appropriate action based on those considerations."
3. **Deemphasize the term "ESG fund" and harmonize terminology with the CSA**: The term "ESG fund" should be removed from the body of the Guideline on pages 4 and 10 and only used in a footnote when it can be sufficiently explained (as it is in footnote 5) because there is no universally-accepted definition of what constitutes an "ESG fund". For example, CSA Staff Notice 81-334 – ESG-Related Investment Fund Disclosure refers to "ESG Funds" and "ESG Strategy Funds" and combines those with the term "ESG-Related Funds" while the CFA Institute in its Global ESG Disclosure Standards for Investment Products chose to focus on the "ESG approaches" that investment products employ rather than trying to define, "what is or is not an 'ESG investment product'". Harmonization with the CSA's and CFA Institute's terminology could provide greater clarity in the long term.
4. **Proportionate implementation makes sense**: The statement on page 3 that, "The principles identified in this Guideline … are intended to be applied by plans proportionately relative to their circumstances." is essential. Plans of different size, complexity, maturity and structure can, and should, apply the Guideline in a way that makes sense for them. For example, we are supportive of Office of the Superintendent of Financial Institutions

Draft Guideline B-15 *Climate Risk Management*, but recognize that, were the guideline to apply to pension plans, it would need to be applied by different plans in different ways depending on their circumstances.

5. **Enhance Principle 3 to broaden its applicability**: Disclosure need not be limited to SIPPs from a policy perspective, and stewardship from an implementation perspective, and Principle 3 can be enhanced accordingly: "Principle 3: Pension plan administrators should disclose ~~in their SIPP,~~ information about the pension fund's investment policies in relation to ESG considerations, including in their SIPP. Where appropriate, pension plan administrators should also provide reports on their ESG considerations and stewardship activities as well as request companies in which they invest, and their investment managers, to disclose their ESG-related policies." As suggested in the Guideline on page 11, we support the view that plan administrators should be encouraged to provide disclosure consistent with the current recommendations of the Task Force on Climate-Related Financial Disclosures.

Should you have any questions about the comments outlined above please do not hesitate to contact my colleague Brian Minns at brian.minns@universitypensionplan.ca or +1 416-417-2587.

Sincerely,

**Barbara Zvan**

CEO & President

University Pension Plan Ontario