

CORPORATE SUSTAINABILITY REPORTING IN CANADA

CFERF Executive Research Report

March 2009

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ACKNOWLEDGEMENTS

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Heightened concerns surrounding environmental issues across communities, government agencies, the capital markets and other stakeholders have focused attention on the sustainability accounting and disclosure practices of companies. Significant research has been undertaken over the past 20 years by professional accounting bodies and international standards setting organizations to develop best practices and meaningful, comparative disclosure and reporting of sustainability performance by companies. Against this backdrop, senior financial executives in Canada also recognize the need for enterprises to measure and report on their sustainability performance in a transparent manner. However, concerns remain over the comparability of disclosure between companies and industries as well as ongoing measurement challenges related to environmental and social responsibility in general.

The purpose of this report is to determine some of the major issues surrounding Corporate Sustainability Reporting (CS Reporting) in Canada, from the perspective of the senior financial executive, and to demonstrate what leaders in the area consider to be both the most beneficial and challenging aspects of environmental/sustainability management and disclosure in their companies. A Survey conducted by CFERF of 343 senior financial executives in conjunction with the conclusions reached through an Executive Research Forum held on May 28/ 2008 form the basis of this Report.

Many participants cited problems with measuring non-tangible components of sustainability performance such as social involvement as well as sector-specific factors that would render across-the-board sustainability reporting standards ineffective. Companies also felt challenged in compiling data in a cost-effective manner that would accommodate a broad spectrum of stakeholders, from employees, shareholders, customers, institutional investors, reporting regulators to environmental activist groups. Furthermore, companies are concerned with the costs associated with sustainability reporting, specifically for small to medium-sized enterprises (SMEs). The Survey results show that implementation of sustainability programs and the reporting thereof, are greater and more comprehensive among public companies with annual revenues of more than \$1 billion.

The banking industry is seen as the leading sector in Canada with regard to sustainability reporting, largely sparked by the introduction of the Public Accountability Statement (PAS) reporting requirement under Bill C-8 which came into effect in 2000. Other major sectors engaged in CS Reporting in Canada include Utilities, Mining, Oil & Gas Extraction, Manufacturing and Transport & Warehousing. The consensus of the Forum members is that CS Reporting in Canada is not only being driven by the regulators, but also by private investors, institutional investors and financial service organizations (banks and insurance companies) . Influences within the manufacturing supply-chain,





such as ethical product sourcing, were also identified as a driver behind the development of CS Reporting. The Forum concluded that leadership in CS Reporting in Canada is unlikely to come from governmental regulatory bodies and that accounting industry bodies should be encouraged to take up the mantle of standards setting.

While the great majority of survey respondents believed that it is important to consider the environmental and social impacts of operations, only half regarded their organizations as having implemented an effective strategy for managing sustainability issues. Again, although most of the financial executives we polled felt that management understood which sustainability issues were most relevant to their respective organizations' business goals, only one third, said that they had an effective system and process in place for reporting on sustainability to external stakeholders.

For those companies that do report, many agree that sustainability programs and their disclosure have to be linked to the corporate strategy of the enterprise in order to be effective. As such, commentary from the Forum stressed the importance for rigor and consistency in reporting processes which should identify targets and deliverables that are measured according to set metrics. Reporting and disclosure should also be conducted in a transparent manner and ensure that the performance information provided is relevant to all stakeholders.

Most companies in Canada that have formally implemented sustainability accounting and disclosure practices have focused on environmental statements, human resources and ethical product sourcing. The Forum participants recognized the difficulties in trying to quantify the corporate value of social involvement. The Forum urged the need for a standardized set of Key Performance Indicators to be developed by the accounting community to improve the consistency and transparency of reporting. However, the Forum members pointed out that such standardization would have to be industry-specific in order to be meaningful for stakeholders.

Although sustainability disclosure and reporting is currently a voluntary process, with the exception of securities regulations with respect to environmental liabilities, it is interesting to note that nearly three quarters of the Survey respondents are of the view that legislation relating to reporting and disclosure of sustainability performance will become more stringent over the next five years.

Furthermore, mainstream investment funds, banks and insurance companies have also become major driving forces behind CS Reporting by determining their investment, lending and/or coverage decisions based on an enterprise's "triple bottom line" (financial/social/environmental bottom line). Banking representatives who participated in the Forum discussion confirmed that environmental





assessments play a meaningful role in determining lending criteria: if a borrower faces any risk due to a negative environmental impact, the lender is therefore subject to those same risks. The Forum participants also noted that borrowing to acquire capital assets would also be influenced by the life of the asset in question. Banks and insurance companies are increasingly taking into consideration how the local environment might change over time and the resulting impact on the company.

The future development of CS Reporting in Canada depends on the establishment of a standardized reporting framework developed around industry-specific Key Performance Indicators (KPIs), the Forum concluded. Generic KPIs would be energy consumption and on the social front, possibly tracking company donations as a percentage of gross revenue. However, some members of the Forum expressed caution in moving ahead too aggressively on a standardized reporting initiative, pointing to the heavy workload and organizational changes brought about by the adoption of International Financial Reporting Standards (IFRS) in Canada and the current requirement to certify internal controls over financial reporting. International CS Reporting standards developed through the Global Reporting Initiative (GRI), the Greenhouse Gas (GHG) Protocol and the International Organization for Standardization (ISO) should be evaluated in determining KPIs appropriate to Canadian industries.

Forum members also concurred that any CS Reporting would have to be in line with international benchmarking. At present, only one in five companies in our survey benchmarked sustainability performance against peers or selected companies, compared to 64.4% that did not. One quarter of companies benchmarked sustainability disclosure and reporting against peers or selected companies. 23% of respondents stated that their companies endeavour to comply with external reporting standards such as the GRI and the GHG Protocol.

It was also concluded that companies should ensure that the disclosure and reporting of sustainability performance is subject to rigorous processes and scrutiny of disclosure committees, similar to the best practices applied to financial reporting. The role of the external auditor figured prominently in that process, with 43 of the 75 companies that had effective CS Reporting systems and process in place, engaging their auditors to provide assurances on the reported information.

The Chief Financial Officer (CFO) has a major role to play in driving the corporate sustainability agenda of the firm. While Survey results show that Chief Executive Officers (CEOs) and the Board are the main key management figures driving the corporate sustainability agenda in over 60% of companies, 42% of survey respondents indicated that the CFO was also a key driver of these types of initiatives.





Some CFOs (38%) were actively involved in reporting and disclosure, while 21% had ultimate accountability/oversight of sustainability management and reporting.

The Forum members noted that environment-related issues tend to be regarded as a risk management function which is generally centralized under the office of the CFO. As such, where companies have implemented sustainability disclosure and reporting programs, the logical accountability and management of the processes should reside with the CFO/Finance Department.

Furthermore, while non-financial experts may be engaged in the broader aspects of corporate social responsibility practices, the Forum agreed that sustainability disclosure and reporting should go through a financial reporting level of assurance, which is the purview of the finance function, audit committee and external auditor. Channelling sustainability performance information via the Finance Department not only ensures the validity of disclosures, but provides a means for more comparable reporting.



Since the early 1990s, when the Association of Chartered Certified Accountants (ACCA) published the poignant work of Rob Gray (1990) entitled *The Greening of Accountancy: The Profession After Pearce*, a substantial body of research and practice has emerged in the area of environmental and social accounting and disclosure. Almost twenty years since, environmental/social accounting and reporting, and more broadly -sustainability reporting - have become common components in annual reports or as stand alone Corporate Sustainability Reports. Disclosure of environmental and social impacts or Corporate Sustainability Reporting (CS Reporting) has become a generally accepted practice in many Canadian companies. Current research shows that 80% of companies comprising the Toronto Stock Exchange (TSX) composite index include some environmental or social information in their annual or stand-alone Corporate Sustainability Reports, up from 70% in 2005. While this reflects a general long run trend towards increased environmental and social accountability by public companies, concerns remain over the quality and comparability of these reports.

CANADA'S SCORECARD

In the last quarter of 2007, the Ontario Securities Commission (OSC) conducted a review of reporting issuers to determine whether companies were accurately disclosing environmental information as required by National Instrument 51-102 (NI-51-102) Continuous Disclosure (CD) Requirements.

The OSC reviewed 35 reporting issuers under its jurisdiction, of which 22 were TSX-listed issuers and 13 were venture exchange issuers. The issuers represented a cross section of Canadian industry including Environmental Services, Industrial Products, Mining, Oil & Gas Extraction, Steel, Transportation Services and Utilities.

In its environmental disclosure review, the OSC looked at the CD documents of each issuer, including the most recent annual financial statements, annual MD&A and annual information form (AIF). They also reviewed each issuer's website for disclosure of environmental matters to determine whether there was consistency with information disclosed in the CD documents. This included disclosure on: Environmental liabilities; Asset retirement obligations; Financial and operational effects of environmental protection requirements; Environmental policies fundamental to operations; and Environment risks. Under the category of "Environmental Liabilities", the OSC determined that many of the TSX-listed issuers had only included boilerplate discussion of environmental estimates in their MD&As with minimal or no analysis. Some issuers did not discuss environmental estimates at all. Under the category of "Environmental Risks", the OSC noted that only 18 of the 22 issuers required to file an AIF had provided disclosure on environmental risks. Four of the 22 issuers did not address environmental risks as a risk factor, despite being in industries where environmental risks appeared to be relevant.





Other issuers also used boilerplate language in describing their exposure to environmental risks, merely disclosing that they are subject to environmental laws and regulations and that they had established general provisions for expenses associated with these environmental obligations. The OSC observed, however, that there was no qualification of these expenses.

“We are of the view that if any risks relating to environmental laws are material to an issuer’s operations, whether national or international, the issuer should include a detailed discussion of these laws. This discussion should provide meaningful information to investors. For example, it may include whether or not the issuer is in compliance with these laws and any costs of compliance. Boilerplate disclosure is insufficient to properly meet these requirements,” the OSC commented.

THE ROLE OF THE STANDARD SETTERS

The above example of the OSC environmental reporting review is a clear indicator that regulators are now paying greater attention to both the quality and quantity of reported information. Plus, the expected introduction by the federal government of the Offset System for Greenhouse Gases – which aims to encourage domestic greenhouse gas reductions through a program of tradable offset carbon credits – will further amplify the need for companies to introduce best practices in monitoring and reporting on environmental impacts of their activities. In addition, the increased demand by capital market participants for information

related to contingent liabilities, and socially ethical corporate behaviour, has increased the demand for meaningful and comparable reporting practices.

Corporate Sustainability Reporting has emerged as a formal way to communicate these impacts and international organizations and standard setting bodies have made significant inroads into developing common sustainability reporting indicators and uniform reporting frameworks.

Such efforts include the Global Reporting Initiative (GRI), Environment Australia – Public Environmental Reporting, United Nations Environment Programme (UNEP), U.S. Environmental Protection Agency (EPA), ISO 14000 standards, Dow Jones Sustainability World Index and the Greenhouse Gas Protocol (GHG Protocol). Accounting organizations engaged in developing common best practices include the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB) and the Canadian Institute of Chartered Accountants (CICA), to name but a few.



GUIDELINES AND TOOLS FOR SUSTAINABILITY REPORTING

1. The Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) 2006 (G3)
2. Framework for Public Environmental Reporting – Environment Australia 2000
3. General Guidelines on Environmental Reporting – UK Department for Environment, Food and Rural Affairs (DEFRA) 2001
4. Japanese Environmental Reporting Guidelines – Minister of the Environment, Government of Japan 2001
5. Der Leitfaden “Der Nachhaltigkeitsbericht” – German Guideline for sustainability reporting.
6. The CEFIC Responsible Care – Health, Safety and Environmental reporting guidelines – The European Chemical Industry Council.
7. The WICE Guidelines – The World Industry for the Environment 1995
8. CBI Guideline “Introducing Environmental Reporting” – Confederation of British Industries 1995
9. UNEP/Sustainability Reports – United Nations Environment Program
10. The Forum on Environmental Reporting (FEEM) Guidelines for preparation of company environmental reports - Fondazione Eni Enrico Mattei 1995
11. ACBE Guidelines “Environmental Reporting and the Financial Sector: An Approach to Good Practice - The Advisory Committee on Business and the Environment UK 1997
12. “Coming Clean” – International Institute for Sustainable Development, Deloitte Touche Tohmatsu International and Sustainability Ltd. 1993 (first ever guideline for environmental reporting)
13. Belaggio Principles - International Institute for Sustainable Development
14. GEMI tools and publications - Global Environmental Management Initiative
15. DIN Norm 33922 for an environmental report – The German Standardization Body DIN
16. Handreiking Maatschappelijke Verslaggeving en Richtlijn 400 – Dutch Advisory Board for Annual Reporting 2003
17. CMA Management Accounting Guideline “Writing and Evaluating Sustainable Development and Environmental Reports” - CMA Canada 1998
18. UNCTAD Report: “ Environmental Financial Reporting Accounting and Reporting at the Corporate Levels “ – The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting UNCTAD 1998
19. Guideline “Corporate Environmental Reporting. Why and How of the NSW EPA in Australia” - EPA Australia 1997
20. The ACCA Guide to environment and energy reporting – ACCA UK 1998
21. The INEM Sustainability Reporting Guide – International Network for Environmental Management 2001
22. INEM “Environmental Reports, Environmental Statements: Guidelines on Preparation and Dissemination 1998
23. CICA Guideline: Reporting on Environmental Performance – CICA 1994
24. Environmental Reporting: Getting Started – UK Department of the Environment, Transport and the Regions 1999.



MEASURING INTANGIBLES

Despite these inroads into developing a common framework for measuring and disclosing environmental and social impacts, challenges with measuring non-tangible components of sustainability performance remain. Not all sustainability indicators and reporting metrics are appropriate for all industries (i.e., the mining sector versus financial services), which has presented major challenges for companies in producing comparable data. Companies have called upon international standard setters and accounting bodies to develop sustainability reporting guidelines according to sector-specific Key Performance Indicators (KPIs). In addition, small to medium-sized enterprises (SMEs) are concerned with additional reporting costs associated with environmental disclosure and reporting, citing that there has to be a “business case” for the implementation of such initiatives. Environmental disclosure and reporting standards are often viewed as being too onerous and not sector-specific.

Our research attempts to gain a better understanding of the state of Corporate Sustainability Reporting in Canada, with particular emphasis on the environmental reporting aspects of overall corporate sustainability reporting. In so doing, we explore how companies manage and measure their environmental and social impacts and their views on the benefits of these activities to the firm, the investor community and other stakeholders. With the aim of providing valuable insights to Canadian

standard setters and regulators, we examine some of the salient difficulties in comparing environmental and social performance between firms and the some of the underlying challenges and best practices that emerge as common to companies from different industries. Ultimately, we hope this research helps senior financial executives understand their increasingly important role in corporate sustainability reporting, and more generally in ensuring environmentally and socially responsible practices within their companies. While we do periodically focus on industry-specific issues, our aim is to provide a more general perspective of financial professionals across many industry groups and companies of all sizes.

RESEARCH METHODOLOGY

The Corporate Sustainability Reporting – Executive Research Report was prepared by the Canadian Financial Executives Research Foundation (CFERF) and was sponsored by PricewaterhouseCoopers (PwC). It comprises the results of a survey conducted between July 28 and August 12, 2008 of 343 senior financial executives across Canada as well as the insights of individuals who participated in an Executive Research Forum held in Toronto on May 28, 2008.

The prime purpose behind the Survey and Forum was to identify the issues and best practices surrounding voluntary CS Reporting by Canadian companies. Significant attention





was also given to whether comparable reporting disclosure metrics have, or should be, adopted by companies in response to growing capital market and regulatory scrutiny of sustainability related corporate actions.

The Survey results were compiled and analyzed by industry classification, corporate structure (public versus private) and enterprise size (based on annual revenue). The respondents were also categorized by position title. Just under 50% of the survey respondents represent enterprises with annual revenue of \$250 million or less, with the remainder being companies with revenues ranging from \$250 to more than \$20 billion. The Forum was conducted to enable “free flowing dialogue” between various company

experts representing a wide spectrum of industries. Industry sectors represented at the Forum include Retail, Manufacturing, Technology, Telecommunications, Accounting Firms, Banking, Securities Regulation, Environmental, and Investment and Insurance Consulting (the companies who participated in the Forum are identified in Appendix A).

The following discussion will present the findings of the Survey along with significant reporting issues that were raised through the Forum.

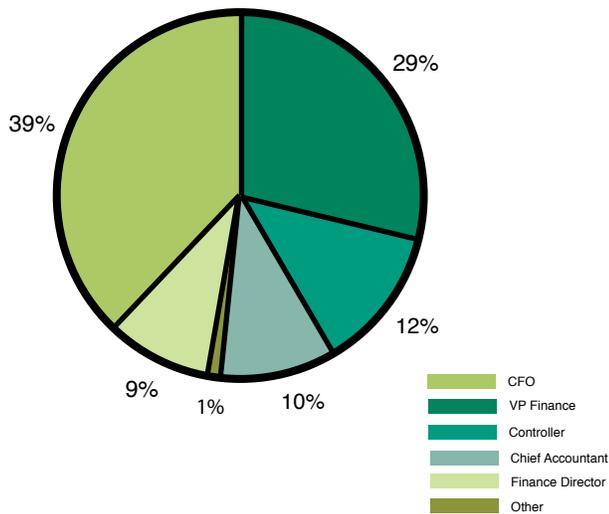


SURVEY DEMOGRAPHICS

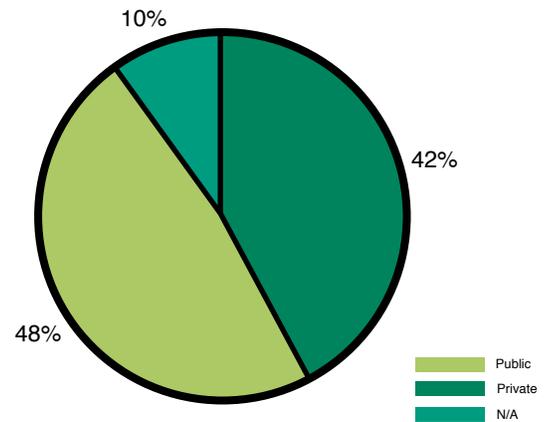
Of the 343 surveys that were completed by finance executives across Canada, Chief Financial Officers (CFOs) accounted for 29% of the responses, with Finance Directors and Vice Presidents of Finance representing 21% of the responses. The remaining 50% of the respondents were controllers, chief accountants and “others”. Public companies accounted for approximately 48% (144 responses) of the survey respondents and private companies for about 42% (165 responses). Other entities made up 10% (34 responses).

Companies across a broad range of industries were selected for participation in the Survey in order to determine if any differences existed in sustainability disclosure and reporting. Major industries included Finance & Insurance (53 responses), Manufacturing (35 responses), Mining, Oil & Gas Extraction (35 responses) and Professional, Scientific & Technical Services (30 responses). Other responses were widely distributed across industry groups.

Position Title

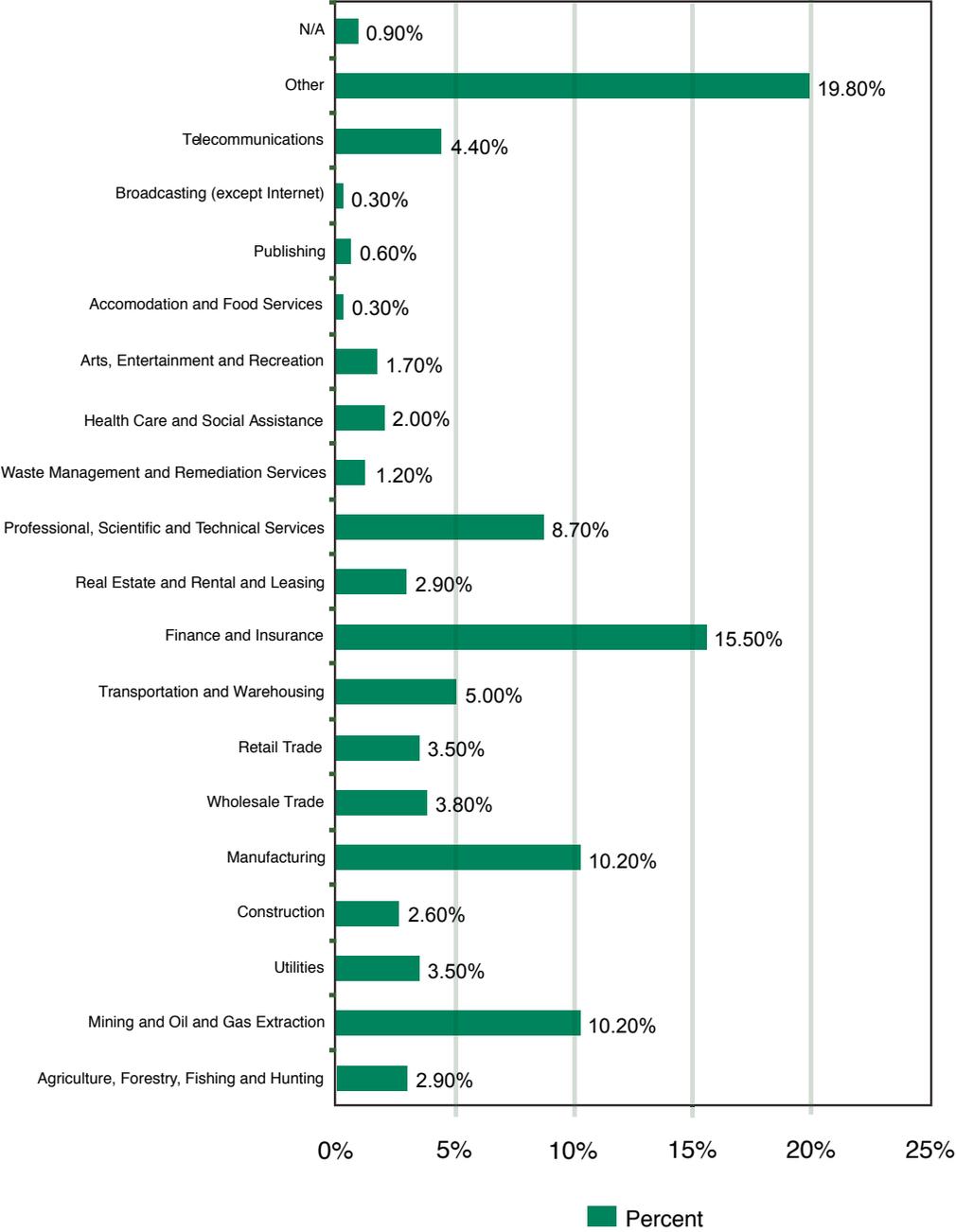


Corporate Structure



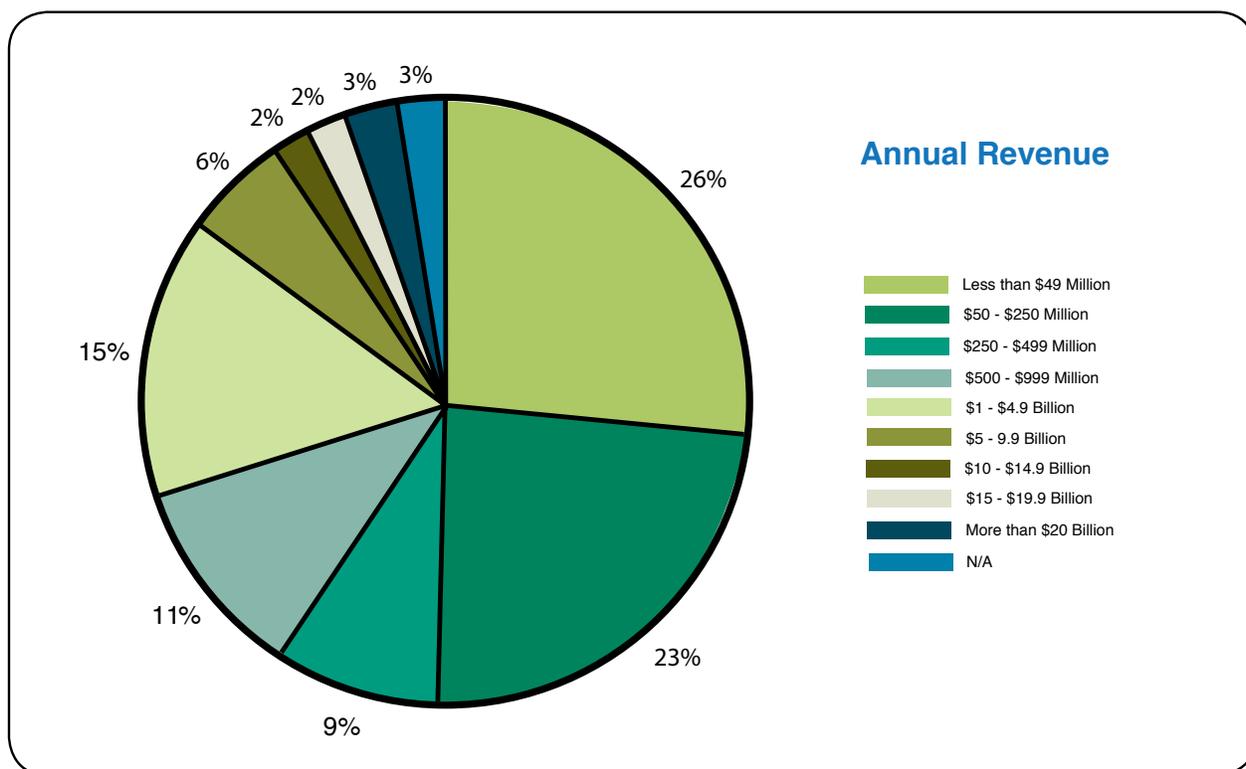


Industry Classification



Roughly one quarter of respondents, (26.5%) to the Survey represented companies with annual revenues of \$49 million or less—of which the Mining, Oil & Gas Extraction, Professional, Scientific & Technical Services and Finance and Insurance featured prominently. The second largest group (23.6%) are companies with annual revenue between \$50 million and \$250 million – of which the manufacturing and Finance & Insurance sectors provided the most responses. Companies with annual revenues of \$500-\$999 million and \$1-\$4.9 billion were the next largest rankings with 10.8% and 15.1% responses respectively – with the Finance & Insurance sector featuring strongest in both categories.

Nine respondents to the Survey represented companies with annual revenues exceeding \$20 billion (Mining, Oil & Gas Extraction, Retail Trade, Finance & Insurance and Utilities sectors). Of the 94 companies with annual revenues of \$1 billion or more, nearly 63% were public entities. As such, the Survey’s results for companies showing greater than \$1 billion in revenue are mainly applicable to Canadian public-listed enterprises.



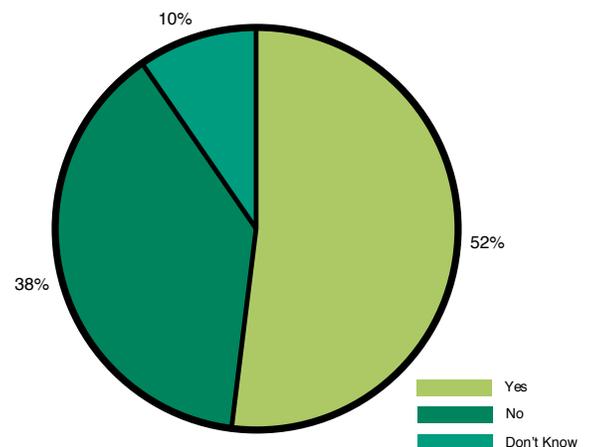
Finance executives recognize the importance of sustainable management and reporting practices. However, strategy, implementation, and reporting do not measure up. Larger, public-traded companies are more advanced in the application of environmental management and sustainability accounting and disclosure.

Companies concurred that corporate sustainability performance and reporting has to be linked to the corporate strategy of an enterprise in order to be effective. Commentary from the Forum also stressed the importance for rigor and consistency in disclosure and reporting processes which should identify targets and deliverables that are measured according to set metrics. Reporting and disclosure should also be conducted in a transparent manner and ensure that the performance information provided is relevant to all stakeholders. In essence, the broad consensus was that enterprise-wide risk analysis data (environmental factors) and social/community involvement should be subjected to applied metrics based on best practices.

Survey results reflect these views, showing that an overwhelming majority (90%) of senior financial executives consider reporting on the environmental and social impacts of their companies to be important. A large proportion of responding companies (72%) also claimed that the company understood which sustainability issues were most relevant to achieving their business goals. However, when asked if there was an effective strategy for managing these issues, only half of respondents reported that they had one in place.

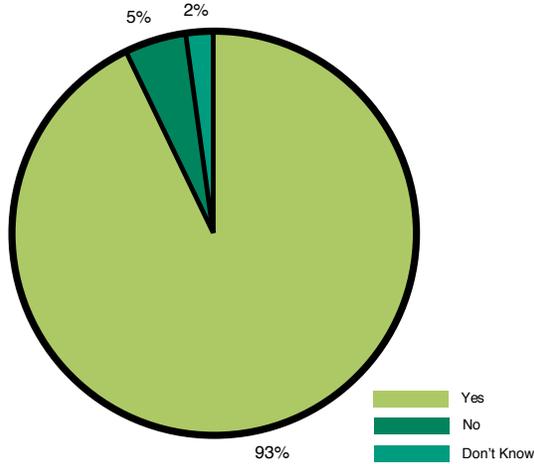
Similarly, almost all (92%) finance executives felt that it was important to communicate sustainability performance to senior management and the Board, while at the same time, over half admitted that they did not have an effective system and process in place for periodically measuring sustainability performance. Again, when asked if this same information should be periodically reported to shareholders, employees and external stakeholders, most agreed that this was important. However, over half (55%) admitted that their companies did not have an effective system in place to enable this type of reporting.

Has your company developed an effective strategy for managing the sustainability issues relevant to its business goals?

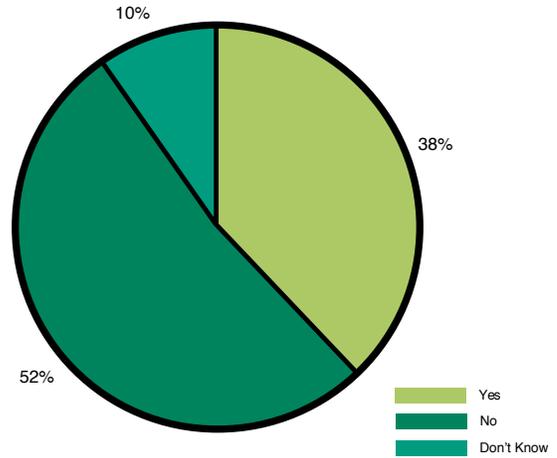




Do you believe it is important that companies periodically measure and report on their sustainability performance to senior management and/or the board of directors?



Does your company have an effective system and process for periodically measuring and reporting on its sustainability performance to senior management and/or the board of directors?



Larger companies were more likely to link the application of corporate sustainability practices to business goals. For instance, when asked “Does the management of your company understand which sustainability issues are most relevant to its business goals?” 79.8% of respondents from companies with revenues between \$1 billion to more than \$20 billion replied affirmative compared with 69.6% of

companies with revenues of less than \$1 billion. Furthermore, when asked if companies comply with external reporting standards such as the Global Reporting Initiative (GRI) and the Greenhouse Gas Protocol (GGP), nearly double (30.3%) of respondents representing public enterprises answered affirmative versus 17.4% of private companies.

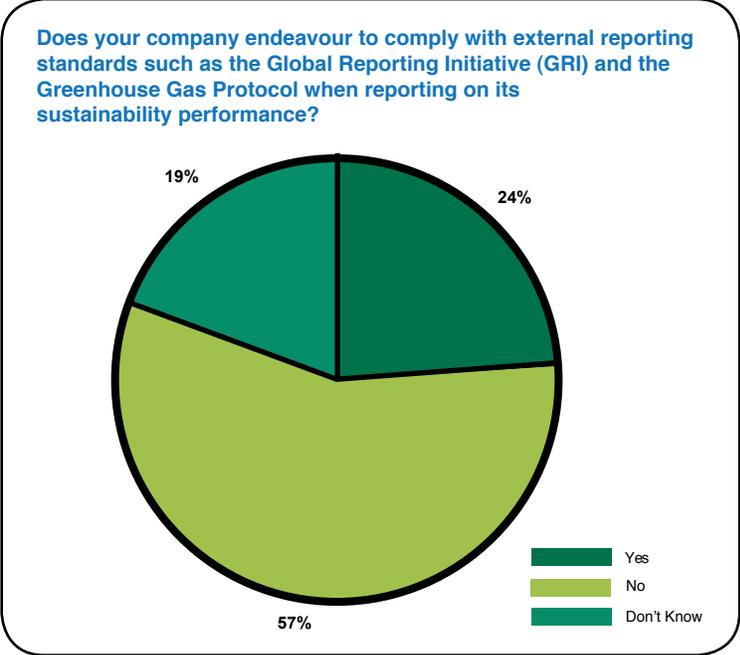
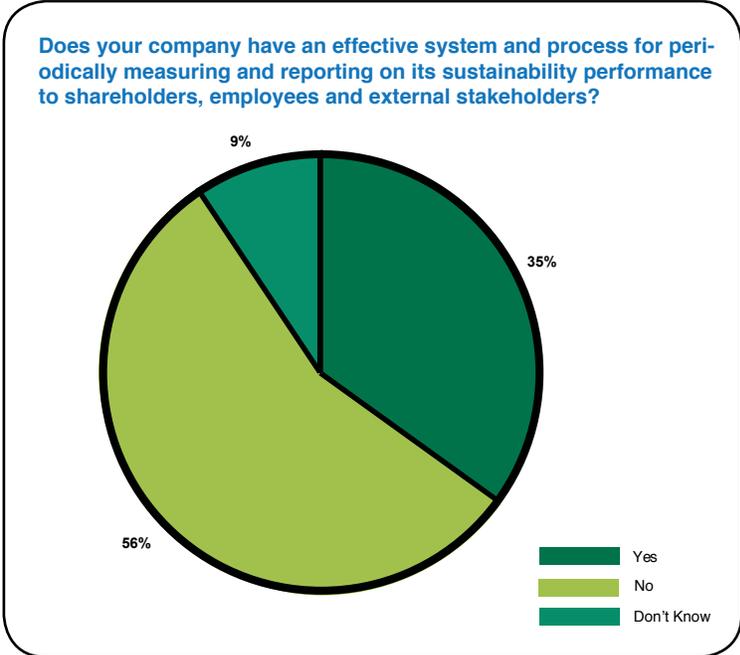
In the 1990’s, we focused more on environmental and community investment issues than the other aspects of sustainability reporting, although these other components are now included in our corporate responsibility report. The fact is, it’s more difficult to control and measure social issues. We have focused on areas which are more measurable like donations, employee community involvement, waste, emissions and spills. Our environmental management system was created in the early 1990s, long before most other companies. For the past five years, we have been working on applying the same rigor in accounting and reporting as we had with environmental issues to our social measurement process - to put all the risk analysis and the metrics together and tie them to corporate reputation and therefore financial value,” Marc Duchesne, Director of Corporate Responsibility at Bell Canada.





Established External Reporting frameworks are commonly used in Canadian companies for reporting sustainability performance. Public companies closely linked to the manufacturing sector are more likely to adopt the GRI or GGP than other companies.

Many Canadian companies in our survey are complying with external reporting standards such as the Global Reporting Initiative or the Greenhouse Gas Protocol. Companies in the manufacturing sectors, (31%) wholesale trade (38.5%) and transportation and warehousing (35.3%) were more likely to adopt an external reporting framework than companies in any other sectors. The banking industry was also identified as having made significant inroads in standardized reporting best practices following the introduction of Bill C-8 in 1999/2000 requiring the filing of Public Accountability Statements (PAS). The survey also found that public companies were more likely to adopt an external framework than private companies. However, it was also recognized that smaller private companies could attain new business opportunities by undertaking registered greenhouse gas reduction projects under the soon-to-be introduced federal Offset System for Greenhouse Gases (OSGG).



The Forum members also noted that, while social/environmental investment-based decisions were largely restricted to “green” or “ethical” type investment funds during the 1990s, recent years have seen an increasing number of capital market investment managers/funds requesting comprehensive sustainability related information. It was noted that at least two major pension plans representing multi-billions of dollars in assets, the Canadian Pension Plan (CPP) and the British Columbia Investment Corp., have adopted Socially Responsible Investment (SRI) mandates which take into account reporting on environmental, social and corporate governance issues which could impact on the financial performance/stability of their investment holdings.

Investment funds and pension plans currently applying SRI mandates represent about \$2.7 trillion in assets under management, in the U.S., approximately \$2 trillion within the European Union (EU) and about \$500 billion in Canada. Notably, the value of assets managed by Canadian investment funds/pension plans applying SRI mandates had risen from \$65 billion in 2006 to almost \$500 billion in 2008. Implementing a comprehensive and meaningful process of sustainability disclosure and reporting is becoming a necessity for companies operating in the public domain.

The Forum members also drew attention to the more exacting environmental reporting requirements of provincial and federal regulatory bodies. As previously mentioned, the expected introduction this fall by the federal government of the Offset System for Greenhouse Gases – which aims to encourage domestic greenhouse gas reductions through a program of tradable offset carbon credits – will add momentum to the need for rigorous sustainability reporting. The Survey results clearly indicate that the vast majority of financial executives polled believed that regulatory requirements pertaining to sustainability disclosure and reporting will increase in the years to come and nearly 75% of the survey respondents (74% of CFOs based on 74 responses) believed that legislation relating to disclosure and reporting of sustainability performance will become more stringent over the next five years.





“ It is a struggle for smaller enterprises to keep alive and keep up with new accounting reporting standards in order to get their financial statements out. Introducing new standards with respect to environmental reporting will make it even more difficult for smaller companies. There are cost and resource issues associated with sustainability reporting which are more pronounced for smaller organizations. ”

Vic Wells, Chief Financial Officer at Titanium Corp.

“ In the last two years in Canada we’ve gone from \$65.5 billion to over \$500 billion in investment funds with defined SRI mandates. So this is a growing segment of the investment market, and it’s largely driven by environmental issues ...Climate change has been the issue that’s opened the doors to the mainstream institutional investment community’s willingness to consider these types of issues. There’s no question, investors are demanding more material disclosure around climate change. How do you define materiality? I don’t know, except to say that, when the Canada Pension Plan Investment Board is knocking on your door asking about climate change, it becomes a material issue. ”

Michael Jantzi, Founder and President of Jantzi Research.

“ If you’re investing in something that’s going to be a capital asset for 20 or 30 years, what happens if the local environment changes? Does that affect the business? These are the kind of strategic reporting issues that I think insurers and banks are going to start looking at. ”

George Boire, Senior Vice President Environmental Practice at Marsh.

“ If borrowers face risks due to negative environmental impacts, a bank also faces those risks as a lender...Basically, any project finance deals that we do are subject to rigorous scrutiny on the environmental and human rights fronts, under the Equator Principles. ”

Lynn Patterson, Director of Corporate Responsibility at RBC.



IMPROVING DISCLOSURE

Discussion from the Forum component of this research suggested that the majority of companies are grappling with the means to measure sustainability performance in a cost-effective manner as well as implement best practices in disclosure and reporting. This challenge is particularly pronounced in the less tangible reporting areas of sustainability performance such as community involvement and social impacts. As such, most Canadian companies having formally implemented sustainability performance measurement accounting reporting practices and have focused their attention on environmental impacts, human resource programs and, where applicable, ethical product sourcing. Typically on the environmental front, companies have fixed their target and performance measurement and reporting attention on greenhouse gas and other air emissions, energy consumption, water and material use, waste generation, spills and other environmental incidents, and land reclamation.

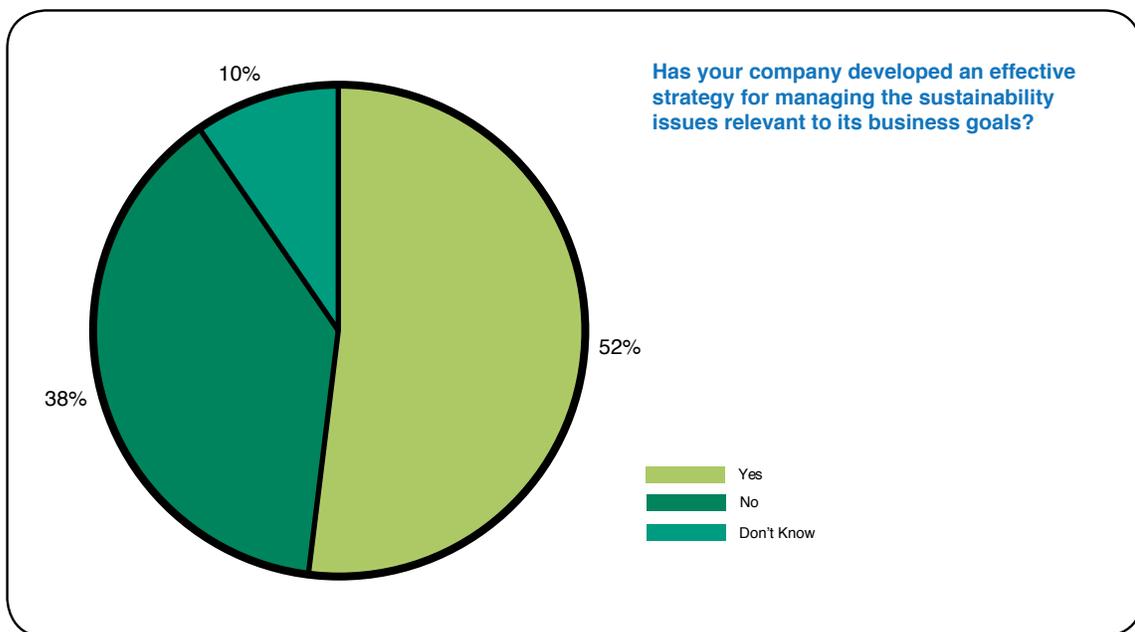
Discussion from the Forum suggested that companies having undertaken sustainability performance measurement and disclosure/reporting initiatives have experienced difficulties in applying the comprehensive standards/metrics thus far released by international bodies. Once again, cost has been a significant factor curtailing the full application of international benchmarking tools. Companies also seem concerned with the demanding and generic,

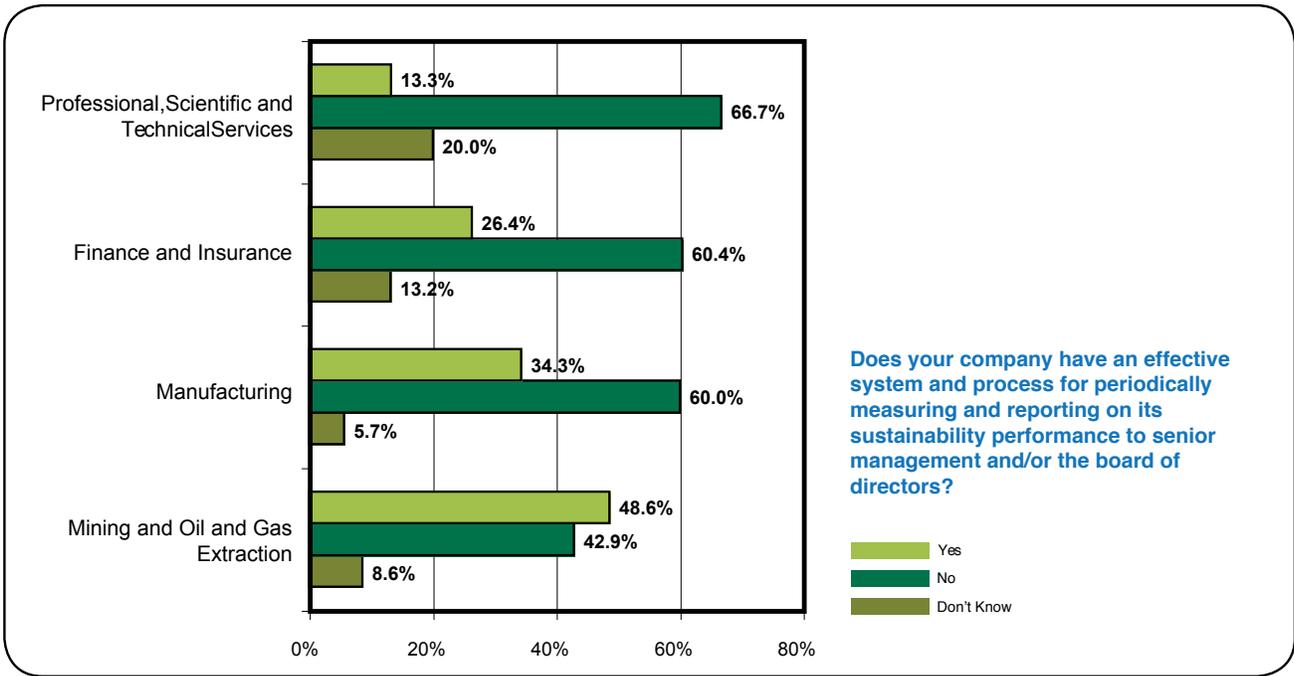
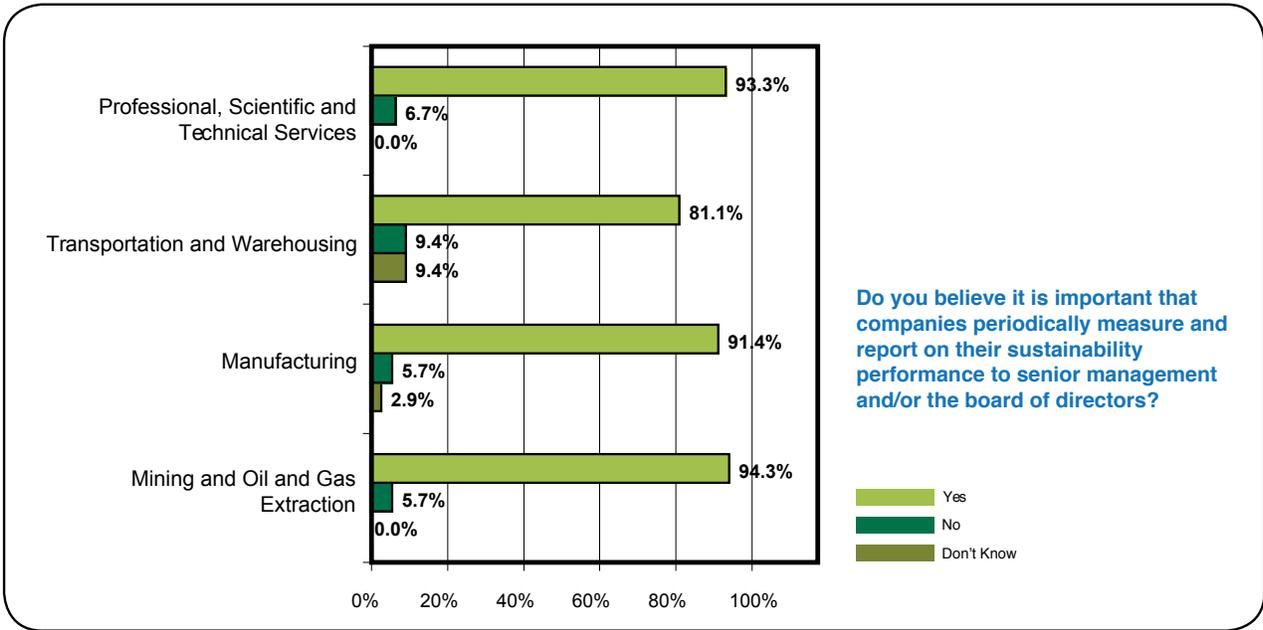
but all-encompassing nature of internationally-developed sustainability disclosure and reporting standards which are not necessarily applicable to all industries. While most members of the Forum concurred that establishing common sustainability indicators with regard to the disclosure and reporting of sustainability performance is critical toward achieving comparability of data, the vast majority believed that such a framework should enfold set parameters according to industry-specific criteria. Overall, it is clear from both the Survey results and consensus of opinion derived from the Forum that the demand for consistent and transparent sustainability based on comparable metrics is rising dramatically, largely driven by institutional investors such as pension plan fund managers and financial institutions in banking and property and liability insurance. There is also a heightened awareness by global reinsurance entities to the financial risk impacts of climate change on underwriting results.



Reporting practices will vary between sectors, by the extent to which each are locally and federally regulated and the extent to which they emit pollutants into the environment, such as oil and gas, or hydro-electric power generation. The four largest responding groups in our survey, professional and scientific and technical services, manufacturing, finance and insurance, and mining and oil and gas extraction demonstrate these differences. When asked if their companies had developed an effective strategy for managing sustainability issues relevant to their business goals, over 50% of respondents in the mining and oil and gas sector, as well

as the manufacturing sector said that they had, compared with 41.5% in finance and insurance and 33.3% in professional services. While many executives in these industries did not necessarily feel that their environmental strategies were fully developed, the vast majority felt that it was important to periodically measure and report on their sustainability performance to the board. This was true for over 90% of all respondents from the professional services, manufacturing and mining and oil and gas sectors. However, only 81% of senior finance executives from financial services felt that they should report on these matters to their board of directors.

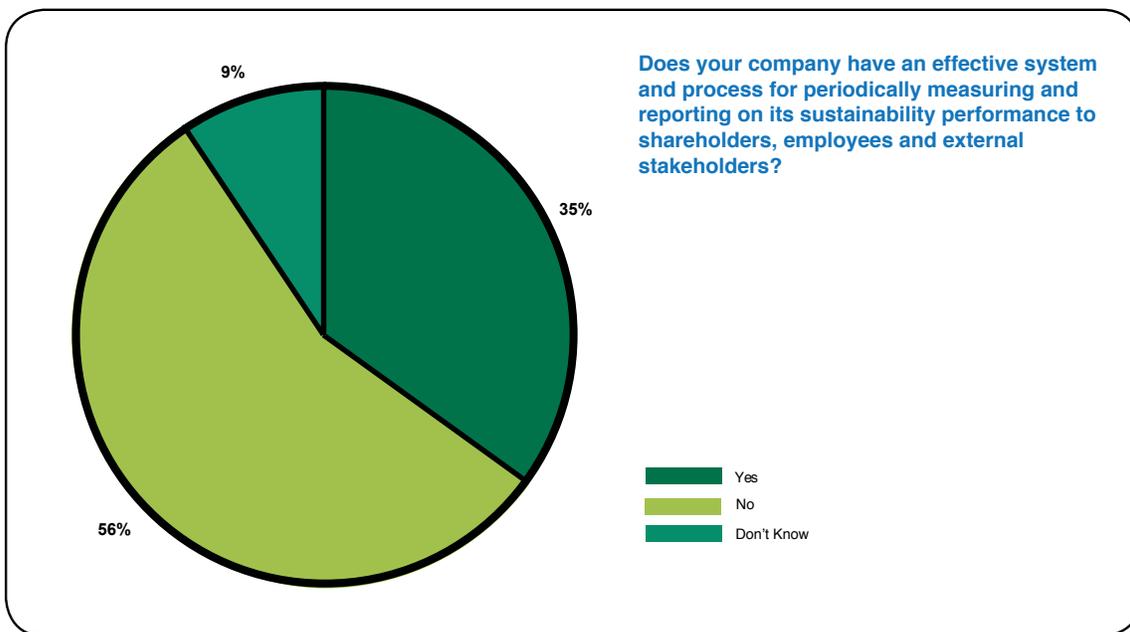






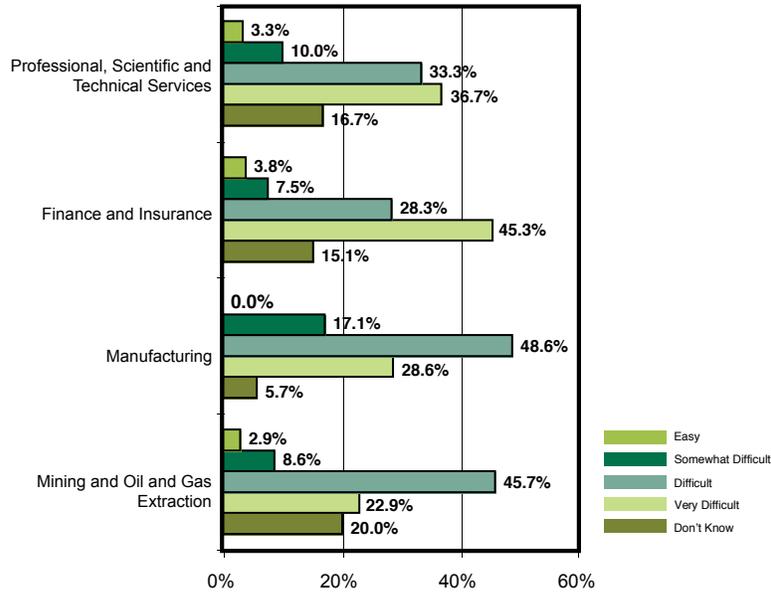
It is generally agreed upon that an environmental strategy is important and that sustainability performance should be measured and reported, regardless of the industry in question. However, the extent to which the major sectors represented by our study have the capacity to do so is surprisingly limited. Over 60% in professional services, finance and insurance and manufacturing said they did not have an effective reporting system or process in place to deliver periodic reports to company senior management or directors. This compares with roughly 50% in the mining sector. As expected, the same results hold when we asked our respondents if they had adequate systems and processes

in place to report externally. Again, the mining, oil and gas industries were more evolved in this area, with almost 43% of responding companies indicating that they had established effective systems and processes to report publically on their environmental impacts and sustainability as a whole. The extent to which companies felt that they were capable of reporting on their sustainability performance is also reflected in the complexity of the task. Most executives in our survey regardless of their industry, agreed that measuring the costs and benefits of sustainability activities was either difficult or very difficult.

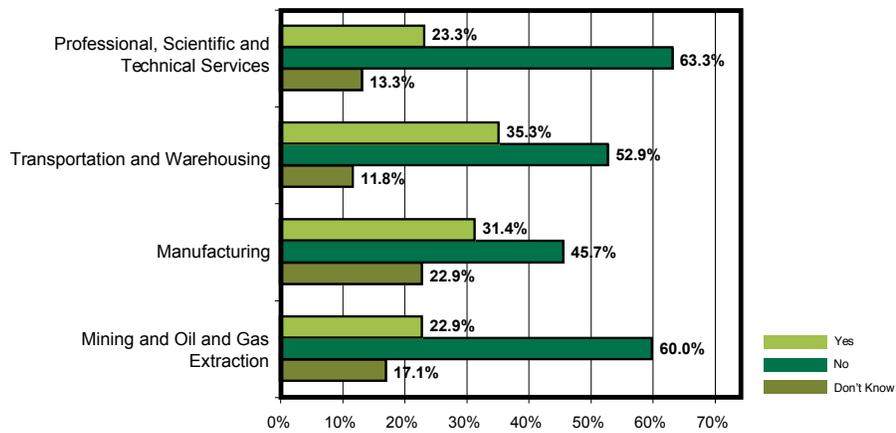




Measurement of cost/benefit of sustainability activities



Endeavor to comply with external reporting standards





SHARPEN STANDARDS FOR NON-FINANCIAL REPORTING

Despite the progress made by international accounting bodies in the area of environmental accounting and reporting, much remains to be done to improve disclosures to the general stakeholder community. According to Alister Cowan, former CFO of BC Hydro, one challenge going forward in reporting environmental indicators relates to the comparability of the data. Says Cowan, “Developing relevant metrics that are benchmarkable, and for which relevant targets can be developed is critical. Moving from qualitative to quantitative reporting is also critical.” In addition, says Cowan, some of the measures are difficult to interpret and have differing definitions depending on the country or sector of origin. Furthermore, the sheer volume of information required to be reported on an annual basis adds additional complexity to the management process, as well as to understanding what is actually being disclosed.

BC Hydro, one of Canada’s largest providers of hydro-electric power report in accordance with Canadian GAAP and are also required to comply with guidelines of the BC Transparency and Accountability Act, guidelines issued by the Crown Agency Secretariat, and in response to review comments by the Auditor General. They also report in accordance with the UNEP’s Global Reporting Initiative for sustainability reporting. In addition, environmental reporting of their environmental management system (EMS) is based on ISO 14001 requirements. Says Cowan, “A vast amount of data is generated that is difficult for users to understand and make meaningful decisions on...and a great deal of internal collaboration is required to collect and consistently report this information.” In his view, in order to make environmental/sustainability accounting reporting more relevant, comprehensive and uniform across industries, accounting bodies need to “sharpen standards for non-financial reporting, or refer to other reporting standards for other areas, like the IPCC for green house gas reporting, or the Global Reporting Initiative for sustainability reporting.’ Furthermore, he says, they should “provide more guidance on lifecycle reporting, which is especially relevant for companies with expensive, long-lived assets.



While it is generally agreed that evaluating the actual benefit of producing a corporate sustainability report is difficult (more than 80% of those surveyed said that it was somewhat to very difficult to measure the benefit of sustainability practices) the majority (65%) of financial executives in our survey also believed there is a link between a company's sustainability "reputation" and market value. However, the Forum members cautioned companies against attempting to link sustainability disclosure and reporting directly to ROI or the value of the enterprise's share price. Many of the business drivers of sustainability reporting are non-tangible although they can be highly beneficial to an organization in terms of human resource or customer interaction as well as competitive advantages. Conversely, some of the Forum members warned that establishing a formal sustainability process for disclosure and reporting can have negative implications if the organization fails to meet its objectives and reports poor performance. Furthermore, they noted, there is also the risk that information made public could be used for litigation purposes against the company.

The Forum also broadly agreed that, while a company may not pursue good sustainability practices directly to achieve a higher share price, the application of best practices is consistent with that objective, thus adding value which increases demand for a company's stock and boosts shareholder value. Furthermore, the Forum members concurred that, while sustainability reporting may not bring about an increase in a company's revenue stream, if sustainability practices result in a reduction of organizational risk, then ultimately this benefit should reflect positively in the company's price earnings ratio.



TELUS EMBRACES RIGOROUS REPORTING

“We’ve approached our sustainability reporting as a process, in a disciplined approach which replicates what we have done traditionally for financial reporting,” said Robert McFarlane, Executive Vice President & CFO at TELUS Corp. McFarlane explained that sustainability performance and reporting is linked to the company’s corporate strategy. “So, in our case, we say that being a leading corporate citizen is part of our fundamental strategy and that cascades down through the organization.” TELUS has developed a robust definition of what sustainability reporting means for its stakeholders, internal and external. The development of the company’s sustainability reporting has been driven not only at the top level of the organization, but incorporated the interests of employees from bottom up.

“When people inquire as to the basis of our sustainability reporting, we can tell them it is based on our external financial reporting approach and there is a lot of rigor in the process,” McFarlane commented. “We need to have rigor and consistency in our sustainability disclosure and reporting and we manage the process with targets and deliverables which are subject to transparent disclosure. This means everything, including being transparent in our targeted objectives as well as the sustainability metrics applied in measuring performance.”

McFarlane stated that TELUS had decided to adopt certain sustainability metrics under the Global Reporting Initiative (GRI) to gain external attestation and thereby ensure a degree of assurance for external use of the performance information disclosed. “We don’t report to every standard [under GRI], but we show how the performance data reconciles,” he added.

Most financial executives (78.4%) believe that the average investor does not have enough information about the sustainability performance of Canadian companies. This may explain why many (65%) also believe that investors do not consider sustainability performance in making investment decisions. Roughly half of financial executives also believe that Canadian investment managers/analysts do not take sustainability performance into account in their stock evaluations and investment advice. This compares with roughly 25% that think the professional investment community does indeed take sustainability performance into consideration.



REPORTING COMPARABILITY

The future development of CS Reporting in Canada depends on the establishment of a standardized reporting framework developed around industry-specific KPIs, the Forum concluded. However, the Forum members noted that there are likely to be relatively few companies in Canada that have implemented sustainability programs that reflect consistent and rigorous disclosure and reporting standards – of which only a fraction apply external guidelines such as the GRI. The survey confirmed that the majority (64%) of companies having implemented sustainability initiatives had not compared their disclosure and reporting against other enterprises. However, the likelihood of benchmarking against peers, varies with company size. 44.7% of survey respondents representing companies with annual revenues of more than \$1 billion said their enterprises did benchmark sustainability performance against peers/selected groups of companies compared to 12.5% from companies generating \$999 million or less in annual revenue. Approximately 26.5% of public companies applied external benchmarking to both sustainability performance and reporting compared with 15.3% of private companies that benchmarked sustainability performance and 22.2% that benchmarked sustainability reporting.

BELL CANADA REPLICATES ENVIRONMENTAL SYSTEM INTO SUSTAINABILITY REPORTING

“In our early days of reporting, we have focused more on environmental impact and community investment reporting than the other aspects of CR simply due to the fact that the disclosure and reporting requirements in these areas are a lot more mature in development. When you try to put controls around social issues, it’s a lot harder to establish quantitative targets and measurements,” said Marc Duchesne, Director of Corporate Responsibility at Bell Canada. Duchesne explained that Bell Canada has started a number of years ago to apply the same rigor in disclosure and reporting on the performance of all sustainability-related issues. “We’re now trying to link all the metrics we developed for the management of our corporate responsibility programs with our enterprise risk assessment methodology in order provide a more holistic view and improve decision making. But, it’s really a journey, and we’re certainly not there yet although we are pushing the envelope,” he commented.



CS Reporting is complex and external consultants are often used to facilitate the process. Large companies are more likely to use the services of their auditors than smaller companies.

Corporate sustainability management, measurement and reporting are highly specialized and most companies engage external experts to help them with the process. Eighty-nine of 100 companies that reported that they had an effective CS Reporting system in place indicated that they used the audit or advisory services of their external auditor in their sustainability management and disclosure process. More than double the number of companies with annual revenues exceeding \$1 billion sought external assurance of their sustainability performance results than organizations with annual revenues of less than \$999 million. 24.4% of respondents representing companies in the \$1 billion-above category confirmed external assurance compared with 10.8% of respondents from smaller enterprises. Similarly companies in the \$1 billion and higher revenue range were three times more likely to seek external assistance in the preparation of their sustainability reports, compared to companies with revenues of \$999 million or less.

Commentary from the Forum component of this research indicated that, in order to make sustainability reporting more relevant, comprehensive and uniform across industries, accounting bodies need to refine and develop non-financial sustainability auditing standards.

The Forum recommended that international standards developed through the GRI, GHG Protocol and the ISO should be evaluated in determining KPIs appropriate to Canadian industries. However, the Forum stressed that any form of Canadian reporting/auditing framework developed would have to be in line with international sustainability reporting benchmarking. Companies have to ensure that disclosure and reporting of sustainability performance is subjected to rigorous processes and scrutiny by disclosure committees. However, some members of the Forum also cautioned against moving too aggressively with the implementation of sustainability reporting standards in light of other pending Canadian accounting standards projects on the horizon such as the adoption of International Financial Reporting Standards (IFRS).





EDUCATION IS KEY

According to Frank D’Andrea, Director, Corporate Accounting and Reporting at Hydro One, (the owner of Ontario’s 29,000km high voltage transmission system) in order to improve the comparability, verifiability, and consistency of social and environmental reports, international accounting bodies need to take two critical steps. Says D’Andrea, “First, there needs to be an education outreach program for capital issuers to increase the understanding of the corporate sustainable reporting issues, and that should form part of the MD&A section of the financial reports. The program should be consultative and involve governments, regulators, academics and other interested parties. Second, says D’Andrea “is the step to develop a meaningful platform for comparisons of criteria other than financial performance.”

REPUTATIONAL TRUST

Canadian Tire Corp. is committed to expanding its corporate social responsibility reporting and has worked with PricewaterhouseCoopers to develop a three-year roadmap, said Caroline Casselman, Associate Vice President, Corporate Social Responsibility & Public Affairs. “We know that environmental sustainability is an important issue for the company,” Casselman commented, “but we also want to include community and social issues in our disclosure. Canadian Tire is considered the most trusted retailer in Canada, she noted, and this reputational trust factor is a strategic asset to the company. Much of this trust comes from Canadian Tire’s long-standing connection with communities and through its local dealers. “Our dealers are leaders in their communities and they play a major role in building the reputation of Canadian Tire. So, while it’s easy to track the value of charitable donations, the challenge is how do you quantify the value invested by dealers in the communities – their time, financial contributions and goods-in-kind? I think for our customers, this is where they see the real community impact,” Casselman observed. Another issue which Canadian Tire has paid close attention to is ethical global sourcing. A significant volume of products are sourced from abroad, Casselman said. As such, the retailer has established codes of business practice and formal social compliance programs, which include audits of supplier/manufacturing facilities. Furthermore, the retailer has also developed a line of eco-friendly products which it plans on expanding. “Canadian Tire has a Social Responsibility Committee of our Board of Directors, which includes our dealers. There is no doubt that interest in this issue is coming from all levels of our organization,” she explained in relation to how the retailer has approached corporate social responsibility and sustainability performance.



The CFO has a major role to play in driving the corporate sustainability agenda of the firm. While Survey results show that CEOs and the Board are the main management figures driving the corporate sustainability agenda in over 60% of companies, 42% of survey respondents indicated that the CFO was a key driver of these types of initiatives. Some CFOs (38%) were actively involved in reporting and disclosure, while 21% had ultimate accountability/oversight of sustainability management and reporting.

The Forum members noted that environment-related issues tend to be regarded as a risk management function which is generally centralized under the office of the CFO. As such, where companies have implemented sustainability disclosure and reporting programs, the logical accountability and management of the processes should reside with the CFO/Finance Department.

Furthermore, while non-financial experts may be engaged in the broader aspects of corporate social responsibility practices, the Forum agreed that sustainability disclosure and reporting should go through a financial reporting level of assurance, which is the purview of the finance function, audit committee and external auditor. Channeling sustainability performance information via the Finance Department not only ensures the validity of disclosures, but provides a means of more comparable reporting, the Forum members noted. When asked how important understanding corporate sustainability management and reporting was to their careers as financial executives, more than 42% of the Survey respondents indicated that it was either very important or important. This compares with 12.5% who said it was not important at all.



Measuring and reporting on corporate sustainability helps some companies manage risk, and others not. The larger the company, the more likely CS Reporting is integrated with risk management.

From an internal, organizational standpoint, 38.2% of the Survey respondents indicated that measuring and reporting on sustainability performance have not helped them to more effectively manage financial and operational risks while roughly another third could not say for sure. 28.6% of respondents did see sustainability performance measurement and reporting as being beneficial in managing financial and operational risks.

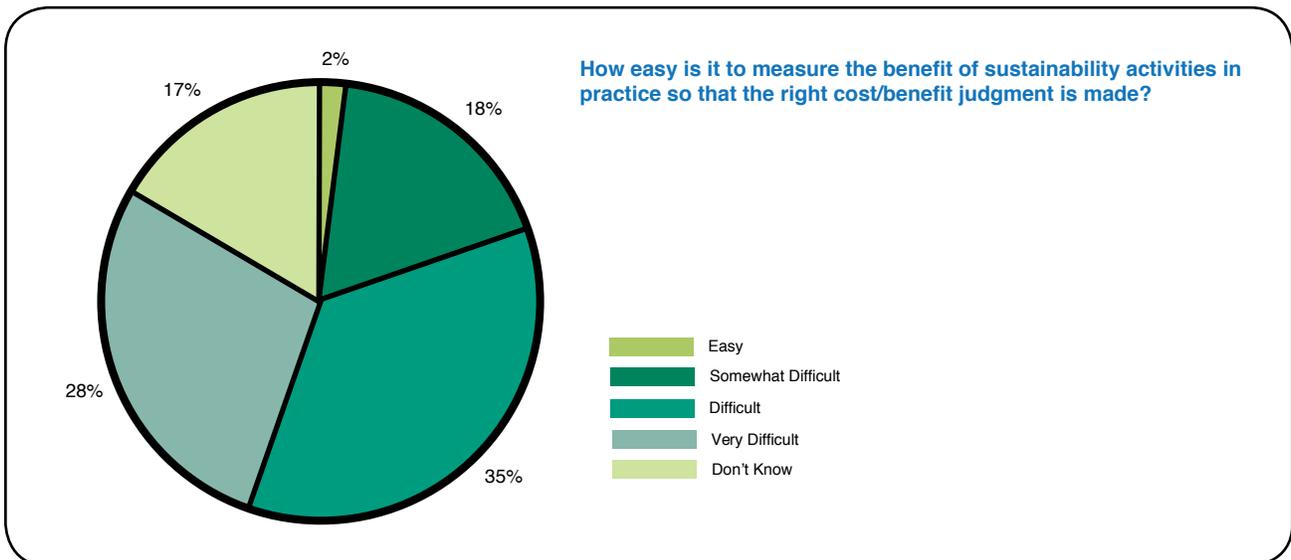
The number of respondents representing larger enterprises who replied affirmative jumped to 40.4% compared with 24.6% of those representing smaller enterprises. The respondents who replied affirmative detailed the following financial/operational risk management benefits:

- CS reporting provides a framework to assess risk on a regular basis – environmental, business process and financial risks.
- Measuring social and environmental impact performance highlights trends, areas of concern, and supports priorities.
- The foundation to corporate sustainability is a strong ethical culture and good corporate governance. Therefore a commitment to such a foundation and the tracking of progress are essential elements to both sustainability and enterprise risk assessment.
- Many risks (i.e., environmental) have both an efficiency gain (energy consumption) and a risk element so tracking these ensures strategies are in place and performance measured against plans to achieve desired objectives.
- Measurement allows for the identification of key opportunities to improve performance in areas such as energy consumption, waste, diversity, employee satisfaction, labour costs, etc.



“ The tire hits the road when a company has a performance objective which it didn't achieve. How do you write that up? How does that look, and how transparent and neutral was the assessment of the under-achievement...So when you have a negative issue, how do you discuss that in your sustainability disclosure and reporting, which is voluntary by nature. If I go to the next logical step in this line of thinking, I'd have to say that transparency can increase volatility. ”

Robert McFarlane, Executive Vice President & Chief Financial Officer of TELUS.



Although 67.1% of the Survey respondents stated that their companies do not employ specific return on investment (ROI) models in measuring output of sustainability initiatives (such as improved energy efficiency), a further 23.3% said that they simply did not know. More than 20% of the companies that

did report on sustainability metrics and employed specific ROI models for sustainable initiatives were enterprises with annual revenues of more than \$1 billion compared with 5.8% of smaller companies. The respondents who replied affirmative commonly detailed these ROI models as being:

- Relatively easily quantified ROI models;
- Other sustainability ROIs are not as easily quantifiable, for example, ROI for community charitable giving, volunteerism, etc;
- Metrics based on current benchmarks and GRI standards;
- We have sustainability metrics and we report on those quarterly (internally) and annually to the shareholders – the models are not elaborate;
- Environmental metrics for reduced waste, water, CO2 emissions, etc;
- Paper use, carbon emissions, waste production (recycle and not);
- Eco-efficiencies, fuel for transportation and heating/cooling, employee engagement, business opportunities;

“ The question is if you’re a better sustainability reporter than your competitor, does that improve your bottom line performance? I don’t think that link has been reviewed much at all, but what is clear is that if investors are going to make the best, most informed decisions that they can about your company, you had better report. ”

Michael Jantzi, Founder and President of Jantzi Research.



This study has shown that while Canadian financial executives believe their companies should have an effective way of managing, measuring and reporting their impacts on the environment and on society as a whole, the internal systems and processes required to do so are lacking.

Several forces may be working together to explain why this true. First, a general framework for measuring and reporting, and hence making comparisons between industries, does not exist. Second, the technology is either not available or hasn't been accessible in a way that makes efficient data collection possible. Third, most senior finance executives continue to focus on mandatory quarterly financial disclosures, out of necessity and time constraints. Finally, the cost/benefit of optional sustainability reporting does not provide support for the types of systems and process required to effectively implement it. Until such time as sustainability reporting is mandatory, this is likely to remain the norm. Although sustainability disclosure and reporting is currently a voluntary process, with the exception of securities regulations with respect to environmental liabilities, it is interesting to note that nearly three quarters of the survey respondents are of the view that legislation relating to reporting and disclosure of sustainability performance will become more stringent over the next five years.

Meanwhile, non-regulatory forces continue to increase the emphasis on corporate sustainability accounting. Capital market agents are asking for greater environmental and social disclosure relating to investments, particularly in the current climate of improving transparency in financial reporting. For those companies that do report, many agreed that sustainability programs and their disclosure have to be linked to the corporate strategy of the enterprise in order to be effective. Most companies in Canada that have formally implemented sustainability accounting and disclosure practices have focused on environmental statements, human resources and ethical product sourcing. For many executives participating in this research, the future development of CS Reporting in Canada depends on the establishment of a standardized reporting framework developed around industry-specific Key Performance Indicators (KPIs). Ultimately, the Chief Financial Officer (CFO) has, and will continue to have a major role to play in driving the corporate sustainability agenda of the firm.





Appendix A: Executive Research Forum Participants

Moderators:	Mel Wilson, Associate Partner, at PricewaterhouseCoopers Ramona Dzinkowski, Executive Director of CFERF
FEI Canada:	Michael Conway, Chief Executive Officer & National President Melissa Gibson, Research & Communications Associate at FEI Canada
Participants:	George Boire, Senior Vice President Environmental Practice at Marsh Caroline Casselman, Associate Vice President of Corporate Social Responsibility & Public Affairs at Canadian Tire Corp. Julie Desjardins, President of Desjardins & Associates (Advisor to the CICA) Mark Duchesne, Director of Corporate Responsibility at Bell Canada Brain Fiedler, Vice President, CTC, Finance & Administration at Canadian Tire Corp. Michael Jantzi, Founder & President of Jantzi Research Peter Johnson, Vice President – PricewaterhouseCoopers Paulette Kennedy, former Chief Financial Officer of Aegon, currently Commissioner at OSC Jo-Anne Matear, Assistant Manager, Corporate Finance Branch at the OSC Robert McFarlane, Executive Vice President & Chief Financial Officer at TELUS Susan McGeachie, Manager at PricewaterhouseCoopers Lucio Milanovich, Director of Finance at Marsulex Inc. Lynn Patterson, Director of Corporate Responsibility at RBC Frank Pizzolato, Chief Executive Officer at Clarity Systems Kasey Reese, Vice President of Risk Management & Chief Internal Auditor at TELUS Darla Sycamore, President of Sycamore Management Consultants Neeti Varma, Senior Accountant of Corporate Finance at the OSC Vic Wells, Chief Financial Officer at Titanium Corp. Alan Willis, Founder & President of Alan Willis & Associates



