

February 16, 2022

Sent via email to: comment@osc.gov.on.ca and consultation-en-cours@lautorite.qc.ca

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Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission, New Brunswick
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

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Dear Sirs and Mesdames,

RE: CSA Notice and Request for Comment on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*

BMO Global Asset Management (comprised of BMO Asset Management Inc. and BMO Investment Inc. (IFM), collectively termed BMO GAM or we) appreciates the opportunity to provide feedback on the Canadian Securities Administrators (CSA) Notice and Request for Comment on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (the Proposed Instrument).

BMO GAM is a Canadian portfolio manager with approx. CAD\$163 billion¹ in assets under management. We consider responsible investment to be core to our approach. Climate Action and Social Equality are our two key responsible investment themes. Climate-related data is used at various stages of our in-house investment processes across asset classes, including analysis and decision-making, monitoring,

¹ Canadian assets, as of September 30, 2021

fund construction, issuer engagement and proxy voting. We set out the further rationale and context for our feedback on the Proposed Instrument in detail below.

In summary, BMO GAM recommends

- **To align as closely as possible with widely accepted international standards and frameworks**, including those under development including the International Sustainability Standards Board (ISSB) to ensure Canadian issuer climate-related disclosure is not lagging other markets, and is consistent and comparable internationally.
- **A phased-in approach to scenario analysis disclosure** using a comply-or-explain mechanism from the onset, with the goal of moving towards mandatory reporting over time.
- **Mandatory Scope 1, Scope 2 and material Scope 3 reporting** for all reporting issuers, based on the GHG Protocol methodology. Preferably this reporting is independently assured.

General comments and context

We are generally supportive of the CSA's proposal to make disclosure of climate-related matters mandatory for Canadian listed issuers as covered under the Proposed Instrument and urge the CSA to move quickly towards its implementation. As an institutional investor we recognize climate change presents a key systemic and material financial risk.

As a founding signatory to the Net Zero Asset Manager Initiative (NZAMI)² BMO GAM has committed to a net zero by 2050 goal in our portfolios, starting with a percentage of our assets under management and increasing that percentage over time. The NZAMI currently has 236 institutional investor signatories globally with \$57.5 trillion in combined AUM. BMO GAM is also a contributor to and signatory to the 2021 Canadian Investor Statement on Climate Change³, signed by 36 Canadian institutional investors managing \$5.5 trillion AUM. We have developed an in-house methodology to track our progress towards our net zero commitment, which we are working to evolve over time. This methodology relies on corporate disclosures: robust and comparable climate-related corporate disclosures are essential for us to be able to measure and track progress at the issuer and portfolio levels. Such disclosure must be science-based and aligned with well-established global frameworks, such as the GHG Protocol and the Taskforce for Climate-related Financial Disclosures (TCFD), of which we are an official supporter.

We fully support mandating disclosures consistent with the recommendations of the Taskforce on Climate Change-related Financial Disclosures (TCFD).

We would also note significant recent developments shaping the global landscape of climate-related disclosure, including the IFRS Foundation's establishment of the International Sustainability Standards Board (ISSB)⁴ with a Canadian office in Montreal in November 2021, publishing its climate related disclosures prototype⁵.

² <https://www.netzeroassetmanagers.org/>

³ <https://www.riacanada.ca/investor-statement-climate-change/>

⁴ <https://www.ifrs.org/groups/international-sustainability-standards-board/>

⁵ <https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf>

We recommend harmonizing the CSA's requirements as much as possible with the eventual IISB. As these are still under development, we propose regular reviews of the Proposed Instrument, once it is finalized, to ensure it remains relevant and consistent with international standards. We believe consistent and comparable climate-related disclosures tailored for Canadian issuers that are in line with internationally recognized standards is critical for Canadian issuers to remain competitive in the global investment landscape.

Lastly, in line with the 2019 Final Report by the Expert Panel on Sustainable Finance and the 2021 Ontario Capital Markets Modernization Taskforce, we recommend that the CSA include a 'safe harbour' provision for climate-related disclosures to ensure that forward-looking information (FLI) disclosure regime requirements apply to material climate-related disclosures even if they are expected over the long term. This ensures issuers have shelter from liability arising from climate-related disclosures provided that such disclosures were made subject to transparent and adequate internal controls to prove rigour in reporting and ensures that investors receive disclosures that are useful and not 'boilerplate'.

Comments related to specific questions

BMO GAM addresses the following CSA questions in the following sections: 4, 5, 6, 7, 9, and 18.

4. Under the Proposed Instrument, scenario analysis would not be required. Is this approach appropriate? Should the Proposed Instrument require this disclosure? Should issuers have the option to not provide this disclosure and explain why they have not done so?

a. Is this approach appropriate?

No.

b. Should the Proposed Instrument require this disclosure?

Over time, using a phased-in approach. While we believe that scenario analysis forms the basis of credible climate strategies, targets and net zero pathways that help inform both issuers and their investors, we recognize there are still challenges related to the absence of standardization across methodologies and data. We expect scenario analysis tools to continue to evolve over time, at which point standards around their use are likely to converge. As such, we propose starting out with requiring scenario analysis disclosure on a comply-or-explain basis with the view of moving to mandatory disclosure over time.

We note that the ISSB's Climate-related Disclosures Prototype, the indication of an emerging international standard, includes mandatory scenario analysis.

c. Should issuers have the option to not provide this disclosure and explain why they have not done so?

Yes. Scenario analysis should be required on a comply-or-explain basis. If an issuer complies with disclosing scenario analysis, it should include an explanation behind the assumptions made, the scenarios used and how its commitments align.

5. The TCFD recommendations contemplate disclosure of GHG emissions, where such information is material.

a. The Proposed Instrument contemplates issuers having the option to disclose GHG emissions or explain why they have not done so. Is this approach appropriate?

b. As an alternative, the CSA is consulting on requiring issuers to disclose Scope 1 GHG emissions. Is this approach appropriate? Should disclosure of Scope 1 GHG emissions only be required where such information is material?

c. Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?

Scope 1 and Scope 2 emissions disclosure should be mandatory for all reporting issuers under the Proposed Instrument. Such disclosure is critical to investors, including for understanding our own investment footprint, tracking progress on net zero goals and fund-level reporting. We note the risk that such data will be estimated for issuers if not provided by them, which leads to inaccurate data.

In addition, given that Scope 3 emissions are material for certain industries and constitute a significant amount of overall emissions, Scope 3 emissions disclosure should be mandatory when they represent a material portion. This is in line with the TCFD recommendations.

We recommend a comply-or-explain approach to Scope 3 emissions based on materiality, whereby issuers are required to disclose Scope 3 emissions when deemed material, or explain why Scope 3 is not material and as such not disclosed.

6. The Proposed Instrument contemplates that issuers that provide GHG disclosures would be required to use a GHG emissions reporting standard in measuring their GHG emissions, being the GHG Protocol or a reporting standard comparable with the GHG Protocol (as described in the Draft Policy Statement). Further, where an issuer uses a reporting standard that is not the GHG Protocol, it would be required to disclose how the reporting standard used is comparable with the GHG Protocol.

a. As issuers have the option of providing GHG disclosures, should a specific reporting standard, such as the GHG Protocol, be mandated when such disclosures are provided?

b. Is the GHG Protocol appropriate for all reporting issuers? Should issuers be given the flexibility to use alternative reporting standards that are comparable with the GHG Protocol?

Given that the intent of mandatory reporting is creating consistent and comparable disclosure, the Proposed Instrument should require GHG emissions to be calculated in line with the GHG Protocol methodology. The GHG Protocol methodology is the most widely used and recognised international standard for calculating GHG emissions. Allowing issuers to report according to a different standard would go against the intent of the Proposed Instrument to create comparable disclosures.

7. The Proposed Instrument does not require the GHG emissions to be audited. Should there be a requirement for some form of assurance on GHG emissions reporting?

Yes. Independent assurance of GHG emissions by auditors is becoming the norm and is beneficial to create reliability, consistency, and accuracy of emission data.

9. What climate-related information is most important for investors' investment and voting decisions? How is this information incorporated into these decisions? Is there additional information that investors require?

All climate-related information as set out in the TCFD recommendations is relevant for our investment and proxy voting decisions.

Proxy voting is integral to our stewardship and responsible investment approach, and is an important tool in our goal towards meeting net zero by 2050. While we expect our methodology to evolve over time, BMO GAM's proxy voting policy is based on a systematic process for identifying investee companies that have fallen behind in climate risk management based on a set of criteria, including emissions data disclosure. Where we judged these companies to be climate laggards, we vote against relevant management resolutions, such as the re-election of directors. All companies in our voting universe meeting a market capitalisation threshold across high-emitting sectors are assessed against minimum standards for 1) climate disclosure and 2) strategy. Our minimum standards are informed by the assessment results of the Transition Pathway Initiative (TPI) methodology⁶ and the Climate Action 100+ Net Zero benchmark⁷. The TPI is in line with the recommendations of TCFD and provides data for the Climate Action 100+ initiative.⁸

We note that BMO GAM is also a founding participant of Climate Engagement Canada, which aims to engage Canadian companies on their pathway to net zero, similar to the global Climate Action 100+.

18. In its comment letter to the IFRS Foundation's consultation paper published in September 2020, the CSA stated that developing a global set of sustainability reporting standards for climate related information is an appropriate starting point, with broader environmental factors and other 15 sustainability topics to be considered in the future. What broader sustainability or ESG topics should be prioritized for the future?

We recommend a set of sustainability reporting standards beyond climate requirements that is in line with the IFRS' IISB. Until specific ISSB standards are developed, Sustainable Accounting Standards Board (SASB) standards⁹, which will integrate into ISSB, are the most useful in determining financially-material ESG risks and opportunities.

ESG topics in the Canadian context that we believe should be prioritized in the future, and which BMO GAM focuses on through its key theme Social Equality, are: human capital management, pay equity, diversity, equity and inclusion, Indigenous reconciliation and basic respect for human rights as set out under the UN Guiding Principles for Business and Human Rights.

⁶ <https://www.transitionpathwayinitiative.org/>

⁷ <https://www.climateaction100.org/>

⁸ <https://www.transitionpathwayinitiative.org/publications/73.pdf?type=Publication>

⁹ <https://www.sasb.org/>

Conclusion

We thank you again for providing the opportunity to comment on the Proposed Instrument. Should you have any questions, please contact me .

Sincerely,



Rosa van den Beemt
VP Stewardship, Responsible Investment
BMO Global Asset Management

Cc Ross Kappelé, Ultimate Designated Person, BMO Asset Management Inc. and BMO Investment Inc. (IFM)
Denise (Fernandes) Carson, Chief Compliance Officer, BMO Asset Management Inc. and BMO Investment Inc. (IFM)